

*Exhibit No.:*  
*Issue:* Depreciation  
*Witness:* Rosella L. Schad, PE, CPA  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case Nos.:* WR-2006-0425 and SR-2006-0426  
(Consolidated)  
*Date Testimony Prepared:* December 28, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**ROSELLA L. SCHAD, PE, CPA**

**FILED<sup>2</sup>**

FEB 08 2007

Missouri Public  
Service Commission

**ALGONQUIN WATER RESOURCES OF MISSOURI, LLC**

**CASE NOS. WR-2006-0425 AND SR-2006-0426**  
**(Consolidated)**

Jefferson City, Missouri  
December 2006

Staff Exhibit No. 21  
Case No(s). WR-2006-0425  
Date: 2-2-07 Rptr XS

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

In the Matter of the Tariff Filing Algonquin Water )  
Resources of Missouri, LLC to Implement a )  
General Rate Increase for Water and Sewer Service )  
Provided to Customers in Its Missouri Service )  
Areas.

Case No. WR-2006-0425

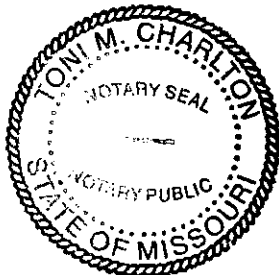
AFFIDAVIT OF ROSELLA L. SCHAD, PE, CPA

STATE OF MISSOURI       )  
                                  )       ss.  
COUNTY OF COLE       )

Rosella L. Schad, PE, CPA, 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 4 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, PE, CPA  
Rosella L. Schad, PE, CPA

Subscribed and sworn to before me this 27<sup>th</sup> day of December 2006.



Toni M. Charlton  
Notary Public

TONI M. CHARLTON  
Notary Public - State of Missouri  
My Commission Expires December 28, 2008  
Cole County  
Commission #04474301

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**TABLE OF CONTENTS**  
**REBUTTAL TESTIMONY**  
**OF**  
**ROSELLA L. SCHAD, PE, CPA**  
**ALGONQUIN WATER RESOURCES OF MISSOURI, LLC**  
**CASE NOS. WR-2006-0425 AND SR-2006-0426**  
**(CONSOLIDATED)**

EXECUTIVE SUMMARY ..... 1  
DEPRECIATION ..... 2

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
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- 12
- 13
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**DEPRECIATION**

Q. Does the Company's witness, Larry W. Loos, indicate his calculations as of 9/30/06 of the dollars of plant to depreciate and the dollars in the accumulated depreciation reserve?

A. Yes. On Schedule LSL-3 line 28 of his Direct Testimony, he shows adjusted book plant of \$6,310,970, and on the same schedule, line 29, he shows a depreciation reserve balance of \$2,533,870.

Q. What is Staff's level of dollars of plant to depreciate, the accumulated depreciation reserve on plant to depreciate, and the annual depreciation expense on plant to depreciate?

A. According to Staff's accounting schedules filed with its Direct Testimony, there is \$2,063,148 of plant to depreciate, \$925,509 of accumulated depreciation reserve, and \$108,705 of annual depreciation expense.

Q. Do these dollar levels represent Staff's total plant amounts, less the amounts Staff has identified with respect to contributed plant?

A. Yes.

Q. What is the major reason that the Company's and Staff's balances are different?

A. The Company has derived its 2006 plant balances by making adjustments for unrecorded plant to 2005 plant balances. The Company witness then makes corresponding adjustments to the accumulated depreciation reserve. Staff auditors have derived their plant balances from their original audit, which was conducted in 1993-1994, when the predecessor utility company, Silverleaf Resorts, Inc. filed for its certificate of convenience and necessity.

Q. Do you agree with the Company's witness' assumptions of adjusted plant balances?

1 A. No. Staff has disallowed a considerable amount of contributed plant in its  
2 determination of the appropriate level of plant balances. For further discussion on this matter  
3 see the Direct Testimony of Staff witness Graham A. Vesely.

4 Q. What is the overall depreciation expense rate and the depreciation reserve  
5 ratio based on Staff's level of plant?

6 A. The overall depreciation expense rate is approximately 5% and the  
7 depreciation reserve ratio is approximately 45%.

8 Q. Are these calculations based on aggregated levels of the five systems  
9 involved?

10 A. Yes.

11 Q. Do you agree with the Company's witness' recommended reduction of some  
12 depreciation rates?

13 A. No. Staff's depreciation rates reflect the average service lives that water and  
14 sewer plant assets in the respective functions experience.

15 Q. Does Staff have other concerns regarding the witness' characterization of  
16 depreciation expense rate and depreciation reserve ratio?

17 A. Yes. First, as stated earlier Staff has disallowed a considerable amount of  
18 contributed plant. This contributed plant consists of "mains" and "services", both of which  
19 are relatively longer lived plant assets than, for example, pumping equipment. With the  
20 exclusion of a substantial amount of longer lived plant assets, the overall depreciation  
21 expense rate for the Company is higher. Second, Staff has identified instances where plant  
22 has been physically retired but not removed from the books. The result is that depreciation  
23 continues and that the accumulated depreciation reserve continues to grow and increases the  
24 depreciation reserve ratio.

25 Q. Has Staff addressed these concerns with the Company?

1 A. Yes.

2 Q. What are Staff's recommendations for depreciation rates?

3 A. Staff recommends the depreciation rates shown in Schedule 1, which are the  
4 same depreciation rates provided in Direct Testimony, except for the addition of Accounts:  
5 Water- 394, "Tools, Shop & Garage Equipment", and Sewer-393, "Stores". In addition,  
6 Staff recommends monitoring the level of depreciation reserve in future rate cases.

7 Q. Does this conclude your Rebuttal Testimony?

8 A. Yes it does.

**ALGONQUIN WATER RESOURCES OF MISSOURI, LLC - (WATER)**  
**DEPRECIATION RATES**

(WATER)

WR-2006-0425

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT</u>	<u>DEPRECIATION RATE %</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>
314	Wells & Springs	2.0%	50
316	Supply Mains	2.0%	50
321	Structures & Improvements	2.5%	40
325	Electric Pumping Equipment	10.0%	10
325.2	High Service or Booster Pumping Equipment	6.7%	15
332	Water Treatment Equipment	2.9%	35
341	Structures & Improvements	2.5%	40
342	Distribution Reservoirs & Standpipes	2.5%	40
343	Transmission & Distribution Mains	2.0%	50
345	Services	2.5%	40
346.1	Meters	3.3%	30
348	Hydrants	2.0%	50
390	Structures & Improvements	2.5%	40
391	Office Furniture & Equipment	5.0%	20
391.1	Office Computer Equipment	14.3%	7
394	Tools, Shop, Garage Equipment	5.0%	20
397	Communication Equipment	6.7%	15



# **ALGONQUIN WATER RESOURCES OF MISSOURI, LLC - (SEWER)** **DEPRECIATION RATES**

**(SEWER)**

**WR-2006-0425 (SR-2006-0426)**

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT</u>	<u>DEPRECIATION RATE %</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>
351	Structures & Improvements	2.5%	40
352.1	Collection Sewers (Force)	2.0%	50
352.2	Collection Sewers (Gravity)	2.0%	50
353	Services	2.0%	50
354	Flow Measurement Devices	3.3%	30
362	Receiving Wells	4.0%	25
363	Electric Pumping Equipment	10.0%	10
372	Treatment & Disposal Facilities	5.0%	20
373	Plant Sewers	2.5%	40
374	Outfall Sewer Lines	2.0%	50
391	Office Furniture & Equipment	5.0%	20
391.1	Office Computer Equipment	14.3%	7
393	Stores Equipment	4.0%	25
397	Communication Equipment	6.7%	15