

Exhibit No.:
Issue: Depreciation
Witness/Type of Exhibit: John J. Spanos/Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2007-0216
Date: July 13, 2007

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2007-0216

Rebuttal Testimony of

JOHN J. SPANOS

on Behalf of

MISSOURI-AMERICAN WATER COMPANY

Jefferson City, Missouri

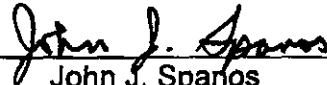
MAWC Exhibit No. 19
Case No(s). WR-2007-0216
Date 8-14-07 Rptr PR

**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-2007-0216
RATES FOR WATER AND SEWER)	CASE NO. SR-2007-0217
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 "Rebuttal Testimony of John J. Spanos"; that said testimony were 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 are 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 9th day of July 2007.**



Notary Public

My commission expires: February 20, 2011

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Cheryl Ann Rutter, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Feb. 20, 2011
Member, Pennsylvania Association of Notaries

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MISSOURI-AMERICAN
DIRECT TESTIMONY OF
JOHN J. SPANOS

Line No.

- 1 Q. Please state your name and address.
- 2 A. John J. Spanos. My business address is 207 Senate Avenue, Camp Hill,
3 Pennsylvania.
- 4 Q. Have your previously submitted testimony in this proceeding?
- 5 A. Yes, I have. My direct testimony and Exhibit No. JJS-1 were submitted with the
6 rate filing of Missouri-American Water Company (referred to herein as "the
7 Company") on December 15, 2006.
- 8 Q. What is the purpose of your rebuttal testimony?
- 9 A. The purpose of my rebuttal testimony is to respond to the direct testimony of
10 Gregory E. Macias of the Missouri Public Service Commission Staff and Michael
11 Gorman of the Missouri Industrial Energy Consumers.
- 12 Q. What are the subjects of your rebuttal testimony?
- 13 A. The subjects of my rebuttal testimony are the use of life spans of major facilities,
14 the remaining life method, the implementation of general plant amortization and
15 the life estimates of Accounts 340.20 and 340.30.
- 16 Q. What is the impact of these subjects?
- 17 A. The difference between Staff's proposal and my depreciation study is
18 approximately \$4 million in annual depreciation expense. However, the
19 Company has decided to mitigate the impact of the proposed increase of
20 depreciation expense over time, so the pro forma difference as of December 31,

1 2006 between the two sides is \$593,111. This amount is not the primary concern
2 of this rebuttal. The concepts, methods and parameters of how depreciation is
3 being calculated is the issue.

4 THE LIFE SPAN PROCEDURE

5 Q. Explain the importance of the life span procedure.

6 A. The use of the life span procedure is the most appropriate method for matching
7 recovery of plant in service to the life characteristics of assets at major
8 structures. For example, the life characteristics of assets at a treatment plant will
9 experience some interim retirements over the life of the facility and then many
10 assets will be concurrently retired at final retirement. Therefore, capital recovery
11 should reflect these life characteristics, which can only be accomplished with a
12 life span component in the depreciation parameters. In many cases, the life span
13 is an estimate far into the future until management determines the facility needs
14 to be replaced or retired. If you wait until management determines the actual
15 date, then intergenerational inequities will occur over the last few years when
16 depreciation is drastically increased to obtain full recovery at the time of
17 recovery. The lack of a life span and consequential depreciation recovery flaw is
18 quite obvious if we review the history of the St. Joe treatment plant.

19 Q. Are there any other issues relating to Staff's proposal relating to accounts you
20 have utilized the life span approach?

21 A. Yes, there are. Staff's proposal of calculating rates with the use of my interim
22 survivor curve without the use of the life span approach is inaccurate, because
23 Staff has ignored the many retirements associated with final retirement of a
24 facility. Therefore, if you eliminate the life span approach, you must analyze life

1 characteristics as though all plant in service is part of a mass account.
2 Consequently, the proposed life for Accounts 304.20, 304.30, 305 and 306 must
3 be shorter than what Staff has proposed.

4 Q. Has the life span approach been in effect for some of the assets?

5 A. Yes, it has. The life span approach was utilized and approved for some of the
6 facilities in the St. Louis County Division.

7 REMAINING LIFE METHOD

8 Q. Does the Depreciation Study JJS-1 present remaining life rates?

9 A. Yes, it does.

10 Q. Why are remaining life rates better than whole life rates?

11 A. The remaining life rates are developed to assure full recovery, no more and no
12 less. There is no need to compare the theoretical reserve to the actual book
13 reserve because it is already factored into the rate, and the remaining life rate of
14 all surviving assets compensate for over or under recovered assets of the past.
15 None of the past recovery issues are considered in the whole life method.

16 GENERAL PLANT AMORTIZATION

17 Q. Is the implementation of General Plant Amortization recommended in your
18 depreciation study?

19 A. Yes, it is.

20 Q. Is general plant amortization widely utilized among utilities?

21 A. Yes, it is. General plant amortization was first implemented in 1991 in Florida.
22 Since that time, almost all utilities across the United States and Canada have
23 received approval and begun implementation of the methodology.

24 Q. What is the advantage of the implementation of general plant amortization?

1 A. There are two primary benefits to general plant amortization. First, the accrual
2 rate will remain constant over time and thus, annual expense will be constant.
3 Second, the need for continual asset inventories and extensive record keeping
4 for many assets with little plant value will be gone. The assets that are
5 considered for general plant amortization represent less than four percent of the
6 plant in service.

7 LIFE ESTIMATES OF ACCOUNTS 340.20 AND 340.30

8 Q. Is there a difference between the life estimates you have proposed for Account
9 340.20, Computer Hardware and Account 340.30, Computer Software, than the
10 other parties?

11 A. Yes, there is. Staff has proposed a 7-year life for both accounts with retirement
12 dispersion. Staff's proposed 7-R3 survivor curve for Account 340.20, Computer
13 Hardware, and 7-R5 survivor curve for Account 340.30, Computer Software are
14 reasonable, however, these estimates do not eliminate the need to keep detailed
15 records of each asset.

16 Mr. Gorman has estimated 10 years based on inaccurate information.
17 First, Mr. Gorman establishes an existing life of 23 years which relates to all
18 Office Furniture and Equipment, not just computer hardware and software. I do
19 not know anyone who could comfortably recommend 23 years as an average
20 service life for computer hardware and software. Second, Mr. Gorman states in
21 his testimony that I do not have justification for a 5 or 6 year service life.
22 However, support of a 5 or 6 year service life can be found by reviewing almost
23 every utility across the United States and Canada as to the service life in place
24 for the subaccount related to computer equipment. Third, the case in which Mr.

1 Gorman refers to in his testimony that states I recommended a 10 year life was
2 actually CenterPoint Energy-Houston Electric, and once again Mr. Gorman is
3 comparing apples to oranges. The 10-year amortization period recommended in
4 that case is for all office furniture and equipment, not just computer hardware. In
5 this proceeding, I am recommending amortization periods of 20, 6, 5 and 15
6 years for the four subaccounts of office furniture and equipment.

7 SUMMARY

8 Q. Can you summarize your opinions regarding the depreciation issues?

9 A. Once the mitigation process is taken into consideration, the difference between
10 Staff and the Company is small, however, deviation from my study to Staff's study
11 must include a few revisions. First, if the life span procedure is not used then life
12 estimates must include the appropriate data for Account 304.20, 304.20, 305 and
13 306. Second, the implementation of general plant amortization is a necessity for
14 the property accounting department as the personnel cannot accurately keep
15 track of all those small assets and complete their other duties. Third, Mr.
16 Gorman has based his life estimates for computer equipment on inaccurate
17 information so it should not carry any weight in this case.

18 Q. Does this conclude your rebuttal testimony?

19 A. Yes, it does.