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Depreciation
Robinett/Surrebuttal
Public Counsel
WR-2017-0285

SURREBUTTAL TESTIMONY

OF

JOHN A. ROBINETT

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

February 9, 2018

**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 and Sewer)
Service Provided in Missouri Service Areas.) Case No. WR-2017-0285

AFFIDAVIT OF JOHN A. ROBINETT

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

John A. Robinett, of lawful age and being first duly sworn, deposes and states:

1. My name is John A. Robinett. I am a Utility Engineering Specialist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal 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.




John A. Robinett
Utility Engineering Specialist

Subscribed and sworn to me this 9th day of February 2018.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

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**SURREBUTTAL TESTIMONY
OF
JOHN A. ROBINETT
MISSOURI AMERICAN WATER COMPANY**

CASE NO. WR-2017-0285

1 **Q. What is your name and what is your business address?**

2 A. John A. Robinett, P.O. Box 2230, Jefferson City, Missouri 65102.

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

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility Engineering
5 Specialist.

6 **Q. Are you the same John A. Robinett that filed direct and rebuttal testimony on behalf of
7 the OPC in this proceeding?**

8 A. Yes.

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. In this testimony, I respond to Missouri American Water Company’s (MAWC or
11 Company) depreciation rate recommendation for the Business Transformation (BT)
12 System. Additionally, I will address MAWC’s request to recover replacement of customer-
13 owned lead-service lines in rates, as discussed by MAWC witnesses Mr. James M. Jenkins
14 and Mr. Brian W. LaGrand.

15 **Business Transformation (BT) System Depreciation**

16 **Q. What is MAWC’s request for the BT system depreciation rate?**

17 A. MAWC is asking the Commission to order a 14.3 percent depreciation rate with a 7 year
18 life for the BT system. MAWC’s request is a change from the currently ordered 5 percent
19 depreciation rate with a 20 year life.

20 **Q. Is MAWC’s request appropriate in this case?**

21 A. No.

1 **Q. Why is MAWC's request inappropriate in this case?**

2 A. MAWC's request is a change from the currently ordered 5 percent depreciation rate with a
3 20 year life. OPC shares Staff witness Keenan Patterson's concerns voiced in his rebuttal
4 testimony in which Mr. Patterson raised six concerns related to the BT system.

5 **Q. Are there any other reasons why the Commission should not change the depreciation**
6 **rates for the BT system?**

7 A. Yes. As stated in my rebuttal testimony, MAWC failed to analyze all changes that may
8 have needed to be made to depreciation expense by recommending only the change for the
9 BT system. At the hearing in WU-2017-0296, during which Mr. LaGrand testified as
10 follows:

11
12 **Q. I guess, just in general, what amortization period are you proposing?**

13 A. We propose the same amortization as in the services account, which I believe is
14 consistent with my direct testimony in the direct case.

15
16 **Q. Okay. And how many years is that amortization or that services account?**

17 A. I don't, -- I don't have that number right in front of me, but I believe the services
18 -- the Commission-approved services depreciation rate is 2.92 percent. I may be not exactly
19 right there. But it's approximately there.

20
21 **Q. And -- and so that -- that equates to, I guess, an approximate 65-year**
22 **average service -- service life?**

23 A. If it's 3 percent, it would be closer to, you know, 30 to 35 years.

24
25 **Q. And -- and so that 2.92 percent for the services account is a remaining**
26 **depreciation life rate, which includes salvage, cost of removal and salvage?**

27 A Yes. I believe so.

28
29 **Q. However, if you agree that the company isn't proposing to own the lines**
30 **that it's replacing for customer-owned lead service lines; is that correct?**

31 A. Yes. The customer would still own the line.

32
33 **Q. So have you made any proposal to change that depreciation rate**
34 **percentage? Because if the customer owns it, the company wouldn't be able to receive**
35 **salvage on that property; is that correct?**

1 A. Well, I'm sure not an depreciation expert, but that -- yes, the company -- if it as
2 salvage, the company would not get any funds from that.

3 **Q. So that if there is an order granting deferral, that depreciation rate applied,**
4 **would you agree that that should be different than the 9.2992 that's currently**
5 **proposed? 2.92. Sorry.**

6 A. We could -- we would certainly be only to looking at alternatives.
7

8 **Q. Would you agree that the average service life attributed to Customer**
9 **Services Account 345 is 65 years?**

10 A I believe in our depreciation order, I believe that that is the number.¹

11 As quoted above, other depreciation rates may need to change. Furthermore, as to the
12 weight the Commission gives Mr. LaGrand's testimony, it should be noted that even
13 though Mr. LaGrand is MAWC's depreciation witness in *this* case, Mr. LaGrand provided
14 sworn live testimony that he is not a depreciation expert.¹

15 **Customer owned lead service lines**

16 **Q. What account is MAWC requesting that the lead services lines be placed in?**

17 A. MAWC is requesting to use National Association of Regulatory Utility Commissioners
18 (NARUC) Uniform System of Accounts (USoA) account 345 Services, as MAWC witness
19 Mr. Jenkins describes at page 37 of his rebuttal testimony.

20 **Q. Do customer owned service lines qualify for NARUC USoA account 345?**

21 A. No.

22 **Q. Why do customer-owned service lines not qualify for NARUC USoA account 345?**

23 A There are multiple reasons why it does not qualify for NARUC USoA account 345. First,
24 these customer owned service lines fail to meet the definition of services.

25 345. Services.

26 A. This account shall include the cost installed of service pipes
27 and accessories leading to the customers' premises.

28 B. A complete service begins with the connection on the

¹ Case No. WU-2017-0289 Tr. P. 159 line 24-P 161 line19.

1 main and extends to but does not include the connection with the
2 customer's meter. A stub service extends from the main to the
3 property line, or the curb stop.

4 C. Services which have been used but have become inactive
5 shall be retired from utility plant in service immediately if there is
6 no prospect for reuse, and, in any event, shall be retired by the end
7 of the second year following that during which the service became
8 inactive unless reused in the interim.²

9 As shown above, the customer-owned lines fail to fit the criteria of account 345 because
10 “this account shall include the cost installed of service pipes and accessories *leading to the*
11 *customers’ premise.*” MAWC’s requests to shoehorn costs into this account that don’t
12 belong by asking for cost recovery of customer-owned lines that are on the customers’
13 premise rather than “leading to the customers’ premise” should be denied.

14 Secondly, and of fundamental importance, the customer-owned service lines fail to qualify
15 for NARUC USoA account 101.

16 **Q. Why is account NARUC account 101 important?**

17 A. In order for MAWC to book an asset into the 300 series of utility plant accounts the asset
18 must first qualify under NARUC USoA account 101 Utility Plant in Service.

19 **Q. Do Customer owned service lines meet the account 101 definition of allowable costs?**

20 A. No. Utility plant account 101 Utility Plant in Service, clearly defines what costs are allowable:

21 **101. Utility Plant in Service.**

22 *A. This account shall include the original cost of utility plant, included in the plant*
23 *accounts prescribed herein and in similar accounts for other utility departments, owned*
24 *and used by the utility in its utility operations, and having an expectation of life in service*
25 *of more than one year from date of installation, including such property owned by the*
26 *utility but held by nominees. Separate subaccounts shall be maintained hereunder for each*
27 *utility department.*³ (Emphasis added).

² NARUC USoA Water Utilities Class A and B 1973 1976 revisions Utility Plant Accounts. Utility Plant p.87-88.

³ NARUC USoA Water Utilities Class A and B 1973 1976 revisions Balance Sheet Accounts 1. Utility Plant p.44.

1 **Q. If MAWC replaces customer-owned lines who will own those replaced service lines?**

2 A. At page 39 of his rebuttal testimony, MAWC Witness Jenkins describes ownership:

3 The resulting replaced portions of the service line owned by the Company will
4 belong to the company, and the portions owned by the customer will still belong to the
5 customer. Ongoing responsibility for repairs and maintenance of the customer owned
6 portion of the lines remains with the customer. Similar to repaving roads or restoring
7 sidewalks, MAWC would not own the asset when the work is done, but the investment is
8 a part of a prudent expenditure incurred on behalf of MAWC's customers for the purpose
9 of maintaining safety and public health.⁴

10 **Q. Has the Commission issued any orders related to plant in service and account 101?**

11 A. Yes. Just this week the Commission issued an order in Case No. WR-2017-0259, Indian
12 Hills Utility Operating Company, Inc. (Indian Hills) water rate case. In that rate case, in its
13 Report and Order, the Commission made its position regarding ownership very clear:

14 Account 101's plain language requires ownership for capitalization. Account 101
15 extends capital treatment to things possessed by another entity, but not to things owned by
16 another entity, and bases capitalization squarely on ownership. Ownership of the electrical
17 extension is in the Cooperative. Indian Hills does not own the electrical extension. As OPC
18 argues, "The Company has no right to earn a return on the electric plant of another utility
19 [.]"²¹⁰

20 In favor of capitalizing the electrical extension, Indian Hills and Staff cite USoA
21 Account 325, Electrical Pumping Equipment:

22 [T]his account shall include the cost installed of pumping equipment driven
23 by electric power . . .

24 * * *

25 6. Electric power lines and switching. [211]

26 None of those words in Account 325 negates Account 101's basic requirement of ownership.⁵

27 **Q. What is OPC's position in this case?**

28 A. OPC's position is that the Commission correctly analyzed Account 101 and Account 325
29 in the Indian Hills rate case and the Commission should use a similar analysis and come

⁴ WR-2017-0285, Jenkins Rebuttal testimony, P.39 lines 1-7.

⁵ Report and Order WR-2017-0259 P.43.

1 to the same conclusion in this case for account 345. The customer-owned service line
2 replacements fail to qualify for inclusion as plant in service in account 101.

3 **Q. Does OPC agree that the customer-owned lead service lines should be depreciated?**

4 A. No. The customer-owned lead service lines fail the ownership test required by account
5 101 utility plant in service. If it is not plant in service, it cannot be depreciated.

6 **Q. Does OPC support the depreciation rate of 2.92% for the customer-owned lead lines
7 Mr. Jenkins suggests in his rebuttal testimony?**

8 A. No. The Company made it very clear that customers are still responsible for the service line
9 once it is replaced. The Company's request to include cost of removal for an asset the
10 Company does not own or have any responsibility for repairing should be rejected. The
11 Company states is not responsible for repairs or removal of these lines. By approving the
12 2.92% depreciation rate for customer-owned lead service lines the Commission would be
13 allowing MAWC to collect funds for net salvage it would never have to expend. Attached as
14 Schedule JAR-S-1 is the ordered depreciation schedule for water assets from Case No. WR-
15 2015-0301. This schedule clearly indicates that the average service life assigned to account
16 345 services is 65 years.

17 **Q. On page 40, lines 18-24 of his rebuttal testimony Mr. Jenkins discusses his
18 understanding of depreciation in Missouri. Do you agree?**

19 **“Q. If negative net salvage is included in the depreciation rate, will this
20 lead to different recovery rates?**

21 A. No, only one rate should be applied, and if net negative salvage is
22 included in the depreciation rate, then the combined depreciation rate
23 should be applied including both the service life and net salvage value (cost
24 of removal) rate. This is the normal practice and in Missouri this translates
25 into these expenditures collected in rates over approximately 34 years on a
26 levelized basis.”

1 A. No. The first issue is the net salvage. Net salvage is defined by the NARUC USoA as the
2 salvage value of property retired less the cost of removal⁶. Please note, however, that in
3 many cases cost of removal is more than gross salvage for retired assets. For account 345
4 services the ordered depreciation rate from Case No. WR-2015-0301, the depreciation rate
5 is based on negative 100% net salvage and 65-year average service life. Mr. Jenkins is
6 incorrect that the expenditure will be collected over 34 years on a levelized basis. At year
7 34, the original cost, if it were included in plant in service, would be just over 50 percent
8 accrued. Additionally, the reserves would reflect approximately 50 percent recovery of the
9 net salvage value as well. What that means is that at year 34 it may appear that reserves
10 and plant in service will approximately be equal but that does not mean the asset is fully
11 collected in approximately half the time of the average service life. If the item needed to
12 be removed from service and replaced, the net salvage collection would be used for that
13 expense.

14 **Q. What is OPC's recommendation regarding customer-owned lead service lines?**

15 A. If the Commission rules against OPC, it should not allow for net salvage to be collected from
16 rate payers for MAWC for assets owned or controlled by MAWC. Further, if the Commission
17 rules that customer-owned service lines are plant in service, a separate sub account should be
18 set up and be depreciated in line with the 65 year average service life which would be a
19 depreciation rate of 1.54% with no net salvage considerations since the plant is not MAWC's
20 responsibility. As previously stated in Ms. Keri Roth's rebuttal testimony, OPC proposes zero
21 recovery of the dollars booked to account 186 – Miscellaneous Deferred Debits, due to OPC's
22 opposition to the lead service line replacement program which has been discussed extensively
23 throughout OPC witness Dr. Geoff Marke's direct, rebuttal, and surrebuttal testimonies.

24 **Q. Does this conclude your surrebuttal testimony?**

25 A. Yes, it does.

⁶ NARUC USoA Water Utilities Class A and B 1973 1976 revisions, Definitions #15. p.13.

MISSOURI-AMERICAN WATER COMPANY - Water
 OPC RECOMMENDED SCHEDULE of DEPRECIATION RATES
 DIVISIONS: ALL
 WR-2017-0285

| NARUC USOA ACCOUNT NUMBER | ACCOUNT DESCRIPTION | Remaining Life Depreciation Rate % | AVERAGE SERVICE LIFE (YEARS) | IOWA CURVES | % NET SALVAGE |
|--|---|--|------------------------------------|----------------|------------------|
| SOURCE OF SUPPLY | | | | | |
| 311 | Structures & Improvements | 1.97% | 60 | R4 | -25% |
| 312 | Collecting & Impoundment Reservoirs | 0.35% | 85 | R3 | 0% |
| 313 | Lake, River & Other Intakes | 3.57% | 70 | S0.5 | -10% |
| 314 | Wells & Springs | 2.52% | 55 | R1.5 | -5% |
| 315 | Infiltration Galleries and Tunnels | 1.77% | 60 | R2.5 | 0% |
| 316 | Supply Mains | 1.45% | 80 | R3 | -25% |
| 317 | Miscellaneous Source of Supply - Other | 4.97% | 25 | SQ | 0% |
| PUMPING PLANT | | | | | |
| 321 | Structures & Improvements | 3.95% | 75 | R2.5 | -15% |
| 322 | Boiler Plant Equipment | 3.05% | 37 | R3 | -5% |
| 323 | Power Generation Equipment | 3.05% | 37 | R3 | -5% |
| 324 | Steam Pumping Equipment | 1.89% | 47 | R1 | -10% |
| 325 | Electric Pumping Equipment | 1.89% | 47 | R1 | -10% |
| 326 | Diesel Pumping Equipment | 1.89% | 47 | R1 | -10% |
| 327 | Hydraulic Pumping Equipment | 1.89% | 47 | R1 | -10% |
| 328 | Other Pumping Equipment | 1.89% | 47 | R1 | -10% |
| WATER TREATMENT PLANT | | | | | |
| 331 | Structures & Improvements | 2.34% | 80 | R2.5 | -15% |
| 332 | Water Treatment Equipment | 2.18% | 48 | R1.5 | -20% |
| 333 | Miscellaneous Water Treat, Other | 3.33% | 30 | SQ | 0% |
| TRANSMISSION & DISTRIBUTION | | | | | |
| 341 | Structures & Improvements | 1.49% | 55 | R2.5 | -20% |
| 341.1 | Structures & Improve - Special Crossing | 1.49% | 55 | R2.5 | -20% |
| 342 | Distribution Reservoirs & Standpipes | 1.70% | 65 | R2.5 | -25% |
| 343.0,1,2,3 | Transmission & Distribution Mains | 1.39% | 90 | R2.0 | -30% |
| 344 | Fire Mains | 1.56% | 85 | S1 | -30% |
| 345 | Customer Services | 2.92% | 65 | R2.0 | -100% |
| 346 | Customer Meters | 2.40% | 42 | R1.5 | -10% |
| 347 | Customer Meter Pits & Installation | 2.40% | 42 | R1.5 | -10% |
| 348 | Fire Hydrants | 1.85% | 65 | R1.5 | -30% |
| 349 | Misc Trans & Dist - Other | 2.96% | 50 | R3 | 0% |
| GENERAL PLANT | | | | | |
| 390 | Structures & Improve - Shop & Garage | 3.02% | 55 | R2.5 | -20% |
| 390.1 | Structures & Improve - Office Buildings | 2.09% | 47 | S0 | -20% |
| 390.3 | Structures & Improve - Miscellaneous | 3.72% | 55 | R2.0 | -20% |
| 390.9 | Structures & Improve - Leasehold | 2.75% | 25 | R4 | 0% |
| 391 | Office Furniture | 3.49% | 20 | SQ | 0% |
| 391.1 | Computer & Peripheral Equipment | 19.06% | 5 | SQ | 0% |
| 391.2 | Computer Hardware & Software | 19.06% | 5 | SQ | 0% |
| 391.25 | Computer Software | 5.00% | 20 | SQ | 0% |
| 391.26 | Personal Computer Software | 10.00% | 10 | SQ | 0% |
| 391.3 | Other Office Equipment | 10.46% | 15 | SQ | 0% |
| 391.4 | BTS Initial Investment | 5.00% | 20 | | 0% |
| 392.1 | Transportation Equipment - Light trucks | 5.57% | 9 | L1.5 | 15% |
| 392.2 | Transportation Equipment - Heavy trucks | 0.00% | 10 | L1.5 | 15% |
| 392.3 | Transportation Equipment - Autos | 0.00% | 6 | L1.5 | 15% |
| 392.4 | Transportation Equipment - Other | 6.15% | 15 | S3 | 5% |
| 393 | Stores Equipment | 3.88% | 25 | SQ | 0% |
| 394 | Tools, Shop, Garage Equipment | 3.73% | 20 | SQ | 0% |
| 395 | Laboratory Equipment | 3.90% | 15 | SQ | 0% |
| 396 | Power Operated Equipment | 3.79% | 12 | L1 | 20% |
| 397.1 | Communication Equip - Non Telephone | 5.76% | 15 | SQ | 0% |
| 397.2 | Communication Equip - Telephone | 8.94% | 10 | SQ | 0% |
| 398 | Miscellaneous Equipment | 6.48% | 15 | SQ | 0% |
| 399 | Other Tangible Equipment | 2.43% | 20 | SQ | 0% |