Exhibit No.:

Issues: Amortization of

Premature Retirement

Witness:

Jolie Mathis

Sponsoring Party:

MoPSC Staff
Direct Testimony

Type of Exhibit: Case Nos.:

WR-2000-281

SR-2000-282

MISSOURI PUBLIC SERVICE COMMISSION UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JOLIE MATHIS

FILED

APR 3 2000

Service Commissi

MISSOURI-AMERICAN WATER COMPANY
CASE NOS. WR-2000-281 AND SR-2000-282

Jefferson City, Missouri March 2000

1	DIRECT TESTIMONY	
2	OF	
3	JOLIE MATHIS	
4	MISSOURI-AMERICAN WATER COMPANY	
5	CASE NOS. WR-2000-281 AND SR-2000-282	
6		
7	Q. Please state your name and business address.	
8	A. Jolie Mathis, P.O. Box 360, Jefferson City, Missouri 65102.	
9	Q. By whom are you employed and in what capacity?	
10	A. I am employed by the Missouri Public Service Commission (Commission)	
11	as an Engineer in the Engineering and Management Services Department.	
12	Q. What are your duties as an Engineer in the Engineering and Management	
13	Services Department?	
14	A. I am responsible for depreciation calculations and studies of companies	
15	regulated by the Commission.	
16	Q. Would you please state briefly your qualifications, educational	
17	background, and experience?	
18	A. I graduated from Prairie View A&M University of Texas in August of	
19	1993, with a Bachelor of Science degree in Electrical Engineering. During my college	
20	years I had internships with Allied Signal Aerospace Company, Missouri Public Service	
21	Company and Sprint United Telephone Co Midwest Division. In 1994 I accepted my	
22	current position. I have received four weeks of formal training from Depreciation	
23	Programs, Inc., Kalamazoo, Michigan. Topics included actuarial and simulated service	

A.

life analysis and techniques, forecasting life, forecasting salvage and cost of removal, and models for analyzing both aged and unaged data.

The purpose of my testimony is to present the Commission Staff's

3

Q. What is the purpose of your testimony in this docket?

4

5 (Staff's) position regarding the amortization of unrecovered investment after premature 6 retirement of the "old" St. Joseph Water Treatment Plant at Missouri-American Water

7

Company (MAWC or Company).

8

Q. Did Staff intend to prepare a depreciation study on the Company?

9

A. Yes. It was anticipated that a depreciation study would be prepared based

10

on Company records reflecting data up to year-end 1998. However, the Company was

1112

unable to provide updated actuarial data based on year-end 1998 plant balances for all

related accounts, requested in Data Request No. 4701, in a timely manner.

13

Q. Did you take a tour of the facilities at the St. Joseph Water Treatment Plant?

14

15

A. Yes. Staff conducted a field inspection and discussed plant operations and plans for retirement with local operators.

16

Q. What does the Company estimate the cost of retirement and demolition of the plant to be, and what is entailed?

18

17

A. MAWC estimates cost to total approximately \$500,000. This includes

20

19

cutting and capping discharge pipelines, removing treatment residuals, removing an

emergency intake from the Missouri River and demolishing a steel wash water tank.

21

Q. Do you agree with this number?

22

4

3

6

5

7

8

9

10 11

12

13

14 15

16

17

18

19 20

21

22

23

This estimate seems reasonable, as there are environmental and other A. regulatory mandates associated with proper disposal of various types of water plant and this can be costly. In some instances, retired plant will have asbestos, lead or petrochemical remediation costs associated with the retirement.

- Q. What is the Company's proposed remaining unrecovered investment after retirement April 30, 2000?
 - A. \$2,832,906.
 - Q. What are the major components this \$2,832,906 is attributed to?
- Approximately \$1.8 million can be attributed to a modified intake A. structure and hydraulic pumping added in 1990. The flood of 1993 also required the building of steel structures to lift motors above the flood plane at a cost of roughly \$.5 million.
 - Q. What is the total number the Company is proposing to amortize?
- The \$2,832,906 in proposed unrecovered investment, plus the \$500,000 A. for cost of removal and demolition. This equals a total of \$3,332,906.
 - Q. Do you agree with that number?
- A. The \$3,332,906 is an estimate because the St. Joseph treatment plant is not The retirement has not actually happened, so these numbers cannot be retired. determined on an actual basis. It is reasonable to assume that the number can be attributed to those issues discussed earlier but can only be approximate in nature. Data has not been thoroughly studied to determine the correctness of the unrecovered plant or the final cost of removal.
 - Q. What amount of amortization do you propose?

τ

5

6

3

9

10

11

12

13

14

15

16

18

17

19

20 21

22

23

I propose that the Company not amortize either its estimated unrecovered A. investment of \$2,832,906 or the estimated \$500,000 in removal and demolition costs at this time.

- Q. When would it be appropriate to propose an amortization of the 'old' St. Joseph treatment plant?
- Not until a depreciation study is performed to evaluate the accuracy of the A. majority of the reserve and depreciation rates for the major accounts of Missouri-American, will it be appropriate to propose an amortization for a single account.
 - Q. What are your recommendations regarding depreciation in these areas?
- A. 1. I recommend that the plant account and depreciation reserve account be reduced by the original cost of the 'old' St. Joseph plant when the plant is actually retired. These account adjustments will preserve the estimated unrecovered investment of \$2,832,906 until a depreciation study is performed.
- 2. I also recommend that the cost to remove the 'old' St. Joseph plant (\$500,000) reduce the depreciation reserve account when actually incurred.
- 3. I further recommend that a depreciation study be initiated as soon as possible. The Company should supply the Staff, in a manner as expedient as possible, with the actuarial retirement histories in the Gannett-Fleming format and provide cost of removal and gross salvage data for, at a minimum, the most recent 15 years, along with the related cost of plant removal.
- Q. Could the depreciation study that Missouri-American filed in a previous rate case contain data that could be used to develop an accurate depreciation study in WR-2000-281?

Direct Testimony of Jolie Mathis

A. No. The most recent depreciation study, which was filed in MAWC in Case Nos. WR-97-237 and SR-97-238, did include depreciation and salvage data up to year-end 1995. The data, however, was flawed. The data used in the study contained property retirements for plant that was not recorded as placed into service and the translation of data to the format requested by the Depreciation Department contained coding errors, which distorted Staff calculations. Data for 1922-1956 had stair-step survivor curves, as property had no retirements for 40 plus years of aged data.

- Q. Does this conclude your testimony?
- A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the matter of Missouri-American Water Company's Tariff Sheets Designed to Implement General Rate Increases for Water and Sewer Service provided to Customers in the Missouri Service Area of the Company.) Case No. WR-2000-281) Case No. SR-2000-282)		
AFFIDAVIT OF JOLIE MATHIS			
STATE OF MISSOURI)) ss COUNTY OF COLE)			
Jolie Mathis, of lawful age, on her oath states: that she has participated in the preparation of the foregoing written testimony in question and answer form, consisting of			
	Jolie Mathis		
Subscribed and sworn to before me this	day of March, 2000.		
	Son' (Talker a un)		