

Exhibit No.:
Issues: Amortization of
Premature Retirement
Witness: Jolie Mathis
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case Nos.: WR-2000-281
SR-2000-282

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JOLIE MATHIS

MISSOURI-AMERICAN WATER COMPANY

CASE NOS. WR-2000-281 AND SR-2000-282

**Jefferson City, Missouri
March 2000**

FILED
APR 3 2000
Missouri Public
Service Commission

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23

2

3

4

5

7

8

9

10

11

12
13

14

15

16

17

18
19
20
21
22
23

Direct Testimony of
Jolie Mathis

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

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

4 A. The purpose of my testimony is to present the Commission Staff's
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
11 unable to provide updated actuarial data based on year-end 1998 plant balances for all
12 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
14 Plant?

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

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

19 A. MAWC estimates cost to total approximately \$500,000. This includes
20 cutting and capping discharge pipelines, removing treatment residuals, removing an
21 emergency intake from the Missouri River and demolishing a steel wash water tank.

22 Q. Do you agree with this number?

Direct Testimony of
Jolie Mathis

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

5 Q. What is the Company's proposed remaining unrecovered investment after
6 retirement April 30, 2000?

7 A. \$2,832,906.

8 Q. What are the major components this \$2,832,906 is attributed to?

9 A. Approximately \$1.8 million can be attributed to a modified intake
10 structure and hydraulic pumping added in 1990. The flood of 1993 also required the
11 building of steel structures to lift motors above the flood plane at a cost of roughly \$.5
12 million.

13 Q. What is the total number the Company is proposing to amortize?

14 A. The \$2,832,906 in proposed unrecovered investment, plus the \$500,000
15 for cost of removal and demolition. This equals a total of \$3,332,906.

16 Q. Do you agree with that number?

17 A. The \$3,332,906 is an estimate because the St. Joseph treatment plant is not
18 retired. The retirement has not actually happened, so these numbers cannot be
19 determined on an actual basis. It is reasonable to assume that the number can be
20 attributed to those issues discussed earlier but can only be approximate in nature. Data
21 has not been thoroughly studied to determine the correctness of the unrecovered plant or
22 the final cost of removal.

23 Q. What amount of amortization do you propose?

Direct Testimony of
Jolie Mathis

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

4 Q. When would it be appropriate to propose an amortization of the 'old' St.
5 Joseph treatment plant?

6 A. Not until a depreciation study is performed to evaluate the accuracy of the
7 majority of the reserve and depreciation rates for the major accounts of Missouri-
8 American, will it be appropriate to propose an amortization for a single account.

9 Q. What are your recommendations regarding depreciation in these areas?

10 A. 1. I recommend that the plant account and depreciation reserve
11 account be reduced by the original cost of the 'old' St. Joseph plant when the plant is
12 actually retired. These account adjustments will preserve the estimated unrecovered
13 investment of \$2,832,906 until a depreciation study is performed.

14 2. I also recommend that the cost to remove the 'old' St. Joseph plant
15 (\$500,000) reduce the depreciation reserve account when actually incurred.

16 3. I further recommend that a depreciation study be initiated as soon
17 as possible. The Company should supply the Staff, in a manner as expedient as possible,
18 with the actuarial retirement histories in the Gannett-Fleming format and provide cost of
19 removal and gross salvage data for, at a minimum, the most recent 15 years, along with
20 the related cost of plant removal.

21 Q. Could the depreciation study that Missouri-American filed in a previous
22 rate case contain data that could be used to develop an accurate depreciation study in
23 WR-2000-281?

Direct Testimony of
Jolie Mathis

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

8 Q. Does this conclude your testimony?

9 A. Yes it does.

