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Witness: Dane A. Watson
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Sponsoring Party: Liberty Utilities
(Missouri Water) LLC d/b/a Liberty
Case No.: WR-2024-0104
Date Testimony Prepared: October 2024

**Before the Public Service Commission
of the State of Missouri**

Surrebuttal Testimony

of

Dane A. Watson

on behalf of

Liberty Utilities (Missouri Water) LLC d/b/a Liberty

October 24, 2024



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LIBERTY UTILITIES (MISSOURI WATER) LLC D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Dane A. Watson. My business address is 101 E. Park Blvd, Suite 220,
4 Plano, TX, 75074.

5 **Q. Are you the same Dane A. Watson, who provided direct and rebuttal testimony in**
6 **this matter on behalf of Liberty Utilities (Missouri Water) LLC d/b/a Liberty**
7 **(“Liberty” or the “Company”)?**

8 A. Yes.

9 **Q. What is the purpose of your surrebuttal testimony in this proceeding before the**
10 **Missouri Public Service Commission (“Commission”)?**

11 A. I address certain rebuttal testimony statements made by Office of the Public Counsel
12 (“OPC”) witness John Robinett with which I disagree.

13 **Q. With what aspects of OPC witness Robinett’s rebuttal testimony do you disagree?**

14 A. I disagree with the following items:

- 15 • The recommendation to retain Liberty’s current depreciation rates based on a whole
16 life depreciation system. OPC and Staff discount the depreciation study presented
17 in my Direct Schedule DAW-2.
- 18 • OPC disregards specific net salvage recommendations that are supported by
19 Company experience.

- 1 • OPC ignores my proposed life recommendations that are supported by Company
2 experts, in favor of the generic lives (i.e., not based on analytics or company
3 specific information) that have been approved for several years.
- 4 • OPC mischaracterizes my testimony as “the standard boiler plate testimony that
5 describes the processes he (Dane Watson) traditionally uses in these cases”¹ when,
6 in fact, my study (which he notes is not boilerplate) is filed as part of my testimony.
7 Some of these issues have been previously discussed in my direct and rebuttal
8 testimonies, and I will address each point below.

9 **II. OPC’S RECOMMENDATION**

10 **Q. What is OPC witness Robinett’s recommendation for depreciation rates?**

11 A. Mr. Robinett proposes to retain existing depreciation rates, based on the “whole life
12 depreciation system.” He corrects some rates that were omitted from Staff’s testimony
13 and continues to recommend existing depreciation rates, which were not created based
14 on any specific Liberty information (i.e., no consideration of the operational
15 characteristics for Liberty or any analytics) to determine life and net salvage
16 parameters. My recommended lives and net salvage are specific to Liberty’s unique
17 circumstances.²

18 **Q. What are your proposed depreciation rates based on?**

19 A. My proposed depreciation rates are based on the remaining life depreciation system. In
20 my rebuttal testimony, I discuss the remaining life depreciation system extensively³
21 and why I believe it is superior to the whole life depreciation system.

¹ Robinett Rebuttal 6:2-3.

² Watson Rebuttal, 10:20 – 11:16.

³ Watson Rebuttal, 5:17 – 8:3.

1 **Q. Has Mr. Robinett discussed the remaining life depreciation system in another case**
2 **before this Commission?**

3 A. Yes. In Case No. GR-2024-0106, which is pending before the Commission at the time
4 this testimony is written, Mr. Robinett recommends the remaining life depreciation
5 system.⁴ However, in this proceeding, he proposes retention of depreciation rates that
6 I believe are no longer applicable to Liberty.

7 **Q. Why do you believe those depreciation rates are no longer applicable to Liberty?**

8 A. Many of the current water and wastewater depreciation rates being used by Liberty
9 were authorized through tuck-in acquisitions which kept the depreciation rates in place
10 from the previous system owner or the Company received authorization to use
11 depreciation rates authorized by the Commission for other systems owned by Liberty
12 and are not necessarily based on actual depreciation studies of the specific system
13 assets. In contrast the depreciation rates being proposed by the Company is based on
14 a much more recent study on specific assets and the proposed rates are more fully
15 supported. Additionally, Liberty is undergoing several system upgrades that have been
16 noted by Commission Staff witness Darron Williams in his direct testimony.⁵ Mr.
17 Williams further discusses the need to upgrade sewer systems, tanks, meters, leaks in
18 water lines and wells. As I state in my rebuttal testimony, "...updating the current
19 depreciation rates is important given that the capital spending which is needed to
20 replace the aging infrastructure."

⁴ Id. 8:4-15.

⁵ Watson Rebuttal, 11:5-16.

1 **III. NET SALVAGE ESTIMATE PROPOSALS**

2 **Q. What are OPC's critiques regarding net salvage for Liberty's assets?**

3 A. Mr. Robinett is concerned about the use of an external consultant in proposing net
4 salvage parameters for Liberty's water and wastewater assets. Mr. Robinett does note
5 there is historical data available for some of Liberty's accounts.⁶

6 **Q. Did you utilize the consultant's net salvage recommendations without examining
7 the results?**

8 A. No. I examined the results shown in my Direct Schedule DAW-2. I have also discussed
9 these in my rebuttal testimony, pages 13-20. In cases where there was sufficient
10 experience, I compared the consultant's recommendation to Company experience and
11 my 39 years of experience in performing depreciation studies, and my professional
12 judgment in recommending various net salvage parameters proposed in this
13 proceeding.

14 **Q. Does Mr. Robinett have another comment on net salvage?**

15 A. Yes. Mr. Robinett claims that the data is very limited. He also states, "There are also
16 multiple instances in the data where salvage and cost of removal values are being
17 displayed and calculated net salvage is being calculated without an associated
18 retirement for that account in that year."⁷

19 **Q. Is that a concern?**

20 A. No. Some projects have construction and/or removal periods. At times, gross salvage
21 and removal cost will occur in different transaction years. In such cases, depreciation
22 experts rely on moving averages to combine experience over different periods. It does

⁶ Robinett Rebuttal 4:21- 5:2.

⁷ Robinett Rebuttal 5:18-21.

1 not undermine the integrity of the data or the quality of the Company's evidence.
2 Detailed transactional information is shown in Direct Schedule DAW-2 and my rebuttal
3 testimony.

4 **Q. What is the impact of the OPC recommendations on Liberty's largest plant**
5 **accounts?**

6 A. Many of the largest plant accounts are in the Transmission and Distribution function:
7 Account 343 Mains, 345 Services, 346 and 346.1 Meters, 347 Meter Installations, and
8 348 Hydrants. OPC (and Staff in its direct testimony) recommend zero percent net
9 salvage for those accounts. Those accounts make up nearly 65% of the Company's
10 water plant at year end 2022.⁸ Given the process of removing pipe and other assets
11 from service, there should be no question that there will be costs related to removing
12 those assets from service (i.e., removal cost). Any labor costs or special equipment
13 needed to remove an asset from service (even if it is left in the ground, there are costs
14 related to cutting and capping the old pipe) generate removal cost that should be
15 recovered through the Company's depreciation rates. It is not logical or appropriate to
16 ignore the significant negative net salvage⁹ the Company has been and is experiencing
17 for a large portion of its assets.

18 **IV. LIFE ESTIMATE PROPOSALS**

19 **Q. What criticism does OPC make regarding your proposed life recommendations?**

20 A. Mr. Robinett criticizes the lack of actuarial data to analyze the Company's historical
21 experience. I address those concerns in my rebuttal testimony.¹⁰

⁸ Sum of 343-348 investment / Water Plant = \$28,472,008/\$43,946,947= 64.79%.

⁹ Watson Rebuttal, pages 13-20.

¹⁰ Id, 10:1 – 12:19.

1 **Q. Were there any accounts that had sufficient data to analyze historical life**
2 **experience?**

3 A. I examined life characteristics at year end 2021 to determine if there was enough data
4 to analyze. Since the Liberty system has grown substantially since 2018 through
5 acquisitions¹¹, I had a concern as to whether there would be enough historical
6 experience for actuarial analysis. Only two accounts had enough data: 325.1
7 Submersible pumps; and 346 & 346.1 Meters. I did not incorporate any analysis from
8 those accounts, because discussions with subject matter experts (SMEs) revealed other
9 factors that would influence the life of these accounts.¹²

10 **Q. Were your interview notes with Company experts provided to the parties?**

11 A. Yes. The notes were contained in my electronic workpapers and were provided in
12 response to Staff data request (“DR”) 0195 and OPC DR 8520. The summaries of
13 those conversations are shown as Surrebuttal Schedule DAW-1.

14 **Q. Were the Company SMEs identified in your interview notes?**

15 A. Yes. The Company SMEs were identified by name and title in the OPC DR 8522
16 response. That DR response is attached as Surrebuttal Schedule DAW-2.

17 **Q. OPC witness Robinett suggests that there is information in your Depreciation**
18 **Study, Direct Schedule DAW-2, that needs to be corrected.¹³ Was there a**
19 **misstatement in Direct Schedule DAW-2, regarding meter testing/ replacement**
20 **intervals?**

21 A. Yes. Page 83 of Direct Schedule DAW-2 specifies the timetable the Commission has
22 set for meter testing and/or replacement. The period for 5/8” meters should be 10 years

¹¹ Watson Direct Schedule DAW-2, page 6-8.

¹² Watson Rebuttal, 10:1 – 12:19.

¹³ Robinett Rebuttal 7:6-12.

1 not 8 years as stated in the depreciation study. All other information by meter size is
2 correct.

3 **Q. Does OPC have another concern regarding the Company's meters?**

4 A. Yes. Mr. Robinett notes in his Schedule JAR-R-4 that the Company has been installing
5 AMI meters in Bolivar and Taney County¹⁴ and, as a result, he perceives there is an
6 inconsistency in my depreciation study.¹⁵ That is not the case. At the time the study
7 was completed, Bolivar had been recently acquired. In the intervening period between
8 the study's completion and September 27, 2024, when Mr. Robinett filed his rebuttal
9 testimony, there have been efforts to replace meters in Bolivar and Taney County. It
10 is not an error or omission, but rather a result of the passage of time.

11 **Q. What does meter data show given the replacement periods prescribed by**
12 **Commission rule?**

13 A. I have performed two analyses based on December 2022 and March 2024.¹⁶ I have
14 used quantity by size and meter replacement or testing period. At December 2022, the
15 weighted average is **8.32** years, as shown in Surrebuttal Schedule DAW-3. I
16 performed a second weighted average based on meter counts as of March 2024, that
17 produced a weighted average of **8.33** years. Both periods show a composite life that is
18 in the same range as my recommended 8 years for this account. This is contrasted by
19 OPC and Staff's recommendations of 20 years for account 3460 and 10 years for
20 account 346.1,¹⁷ which clearly would be longer than the practical impact of the

¹⁴ Robinett Rebuttal 7:14-18.

¹⁵ Id.

¹⁶ Source data: Staff Data request 0026. Meter Count As noted in the response, some data was missing in April 2024. For that reason, March 2024 was used for comparison.

¹⁷ Coffey Direct, Schedule AC-d2.

1 Commission's rule. At year end 2022, account 346 had \$5,062,950 in plant and
2 account 346.1 had \$461,389.¹⁸

3 **V. "BOILER PLATE TESTIMONY"**

4 **Q. Did you use "standard boiler plate testimony"¹⁹ as alleged by OPC witness**
5 **Robinett?**

6 A. No. However, each of my depreciation studies do begin with a description of the
7 methodology and process that I employ, as well as including the specific explanation
8 for setting lives and net salvage for each account. I discuss my depreciation study
9 process in Direct Schedule DAW-2²⁰ and my rebuttal testimony.²¹

10 **Q. Are there examples of parts of the process that are unique to each depreciation**
11 **study?**

12 A. Yes. One example would be the interviews conducted with subject matter experts
13 (SMEs).

14 **Q. What is the role of interviews with Company SMEs?**

15 A. Interviews with Company SMEs is a cornerstone of the depreciation study process as
16 articulated by *Depreciation Systems*²² and *Public Utility Depreciation Practices*²³. I
17 conduct interviews in each study I undertake and use that valuable information to
18 understand the specific assets for which I am recommending life and net salvage
19 characteristics.

20 **Q. Do you have any final remarks?**

¹⁸ Watson Direct Schedule DAW-2, Appendix A.

¹⁹ Robinett Rebuttal 6:2-3.

²⁰ Direct Schedule DAW-2, p.9-22.

²¹ Watson Rebuttal 2:13-5:16.

²² *Depreciation Systems*, by Drs. F.K. Wolf and W.C. Fitch, Iowa State Press, 1994, p. 285-293.

²³ Watson Rebuttal, 4:21-5:9.

1 A. Yes. The depreciation study and analysis performed under my supervision fully
2 supports setting depreciation rates at the levels I have indicated in my direct testimony.
3 The depreciation study describes the extensive analysis performed and the resulting
4 rates that are now appropriate for Company property. The Company's depreciation
5 rates should be set at my recommended amounts to recover the Company's total
6 investment in property over the estimated remaining life of the assets. In my direct and
7 rebuttal testimonies, and in this testimony, I have addressed the issues raised by various
8 stakeholders.

9 **Q. Does this conclude your surrebuttal testimony at this time?**

10 A. Yes.

VERIFICATION

I, Dane A. Watson, under penalty of perjury, on this 24th day of October, 2024, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Dane A. Watson