**Exhibit No.:** _____
**Issue(s):** Depreciation Study/Depreciation Reserve
**Witness/Type of Exhibit**: Robinett/Cross-Rebuttal
**Sponsoring Party**: Public Counsel
**Case No**.: WR-2024-0320

# CROSS-REBUTTAL TESTIMONY

# OF

# JOHN A. ROBINETT

Submitted on Behalf of the Office of the Public Counsel

## MISSOURI-AMERICAN WATER COMPANY

FILE NO. WR-2024-0320

January 10, 2025

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**CROSS-REBUTTAL TESTIMONY**
**OF**
**JOHN A. ROBINETT**
**MISSOURI AMERICAN WATER COMPANY**

**CASE NO. WR-2024-0320**

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

A. John A. Robinett, PO Box 2230, Jefferson City, Missouri 65102.

**Q. Are you the same John A. Robinett who filed direct testimony on behalf of the Missouri Office of the Public Counsel ("OPC") in this proceeding?**

A. Yes.

**Q. What is the purpose of your cross-rebuttal testimony?**

A. The purpose of my cross-rebuttal testimony is to respond to the recommendations of Staff Witness Mr. Malachi Bowman, and to the direct/rebuttal testimony of Staff Witness Alexis L. Branson and Staff's accounting schedules for Account 346 Meters.

**Q. What is Staff's position related to depreciation?**

A. Staff recommends continued use of the currently ordered depreciation rates from Case Number WR-2022-0303. Staff further recommends that the Commission order Missouri American Water Company ("MAWC") to perform a depreciation study as part of their next rate case filing.

## Depreciation Study

**Q. Do you agree that the Commission should order MAWC to file a depreciation study with the filing of their next general rate increase request?**

A. Yes, however, I further request this requirement be codified in a Commission rulemaking.

**Q. Can you please explain?**

A. I agree that the Company should include a depreciation study with the filing of its next general rate increase; but having the Commission continue to order this to occur in future

rate cases is not an ideal solution to meeting this need. The best way to guarantee that this information will be provided is instead for Commission Staff or the Commission itself to start a rulemaking docket to make the large water companies of the State be required to file these as part of the minimum filling requirements for rate increase requests just as the electric and natural gas utilities are required to do. The electric utilities' rule related to filing requirements for general rate requests are found in 20 CSR 4240-3.160 (1)(A). In addition, the electric utilities have Commission Rule 20 CSR 4240-3.175 which specifically lays out what is expected for a depreciation study, the data base and the property record catalog. Similarly, the natural gas companies have rules related to depreciation expense; they are as follows: 20 CSR 4240-40.040 Uniform System of Accounts—Gas Corporations and 20 CSR 4240-40.090 Submission Requirements for Gas Utility Depreciation Studies. The Commission does not have rules currently in place requiring depreciation studies, data bases, or property catalogs to be filed for large water and wastewater utilities as part of the minimum filing requirements for a general rate increase request.

**Q. Is it important to periodically get a depreciation study, data base, property unit catalog, and continuing property record from the utilities?**

A. Yes. The submission of these items allows for review by depreciation experts to examine the assets in the accounts and how small of a unit may be recorded on the utility's books and records. Additionally, it allows the depreciation experts to perform field inspections and verification of assets at a specific facility to verify that records of additions and retirements are being properly recorded. Historically, depreciation rates from Missouri American Water Company studies have been used as a baseline to develop the generic set

of depreciation rates in combination with recorded historical replacements of equipment seen across many of the small water and wastewater utilities that are used for the small water and wastewater facilities in the State.

**Q. Do you support Staff's request for the Commission to order a depreciation study for Missouri American Water Company's next general rate case?**

A. Yes, however, as I explained above, I believe there is a better course of action. While I agree that this information is important, the best course of action is to open a rule making docket and create rules that require the large water and wastewaters to perform and present depreciation studies, depreciation data bases, property unit catalogs, and continuing property records as minimum filing requirements just as the Commission requires the electric and natural gas utilities to perform and provide as minimum filing requirements for their general rate increase requests.

## Meter Reserve

**Q. Do you have concerns about the accumulated depreciations reserves proposed by Staff in their direct accounting schedules?**

A. Yes, there are multiple accounts in Staff's direct accounting schedules where negative reserve exists.

**Q. What do you mean by negative reserve?**

A. Negative reserve is when a utility retires original cost of assets that exceed the accumulated depreciation reserve for an account. This is usually associated with premature retirements of assets that have not been fully accrued.

**Q. Based off Staff's filed accounting schedules which accounts currently have negative reserve?**

A. Account 324 Steam pumping equipment -$21,367

Account 328 Other Pumping Equipment -$2,471,040

Account 346 Meters -$36,856,697

Account 391.3 Other Office Equipment -$15,729

Account 399 Other Tangible Property -$140,199

**Q. Does Staff witness Ms. Branson discuss these negative reserves in her direct testimony discussion of plant-in-service and accumulated depreciation reserve at page 2 line 16 through page 3 line10?**

A. Not specifically. Ms. Branson discusses the timing of Staff's plant-in-service and accumulated depreciation reserves and discusses the removal of accumulated reserve for land accounts which are non-depreciable.

**Q. Which account or accounts concern you the most?**

A. The accounts that cause me the most concern are accounts 328 other pumping equipment and account 346 meters.

**Q. Have your previously discussed concerns related to the premature retirement of existing meters as part of a replacement by advanced metering infrastructure ("AMI")?**

A. Yes. Dr. Geoff Marke and I have written about stranded assets in several cases related to the conversion to AMI metering from utilities' existing metering infrastructures.

**Q. What do you recommend the Commission do related to the negative reserves present if Staff's accounting schedules for account 346 meters?**

A. Based on Staff's accounting schedules, captive customers have found themselves in a position where they are paying for multiple meters with all of the ancillary service costs when all they need is one meter to tell them how much water they consumed in a month. MAWC should not be allowed to charge customers for two meters, yet now they effectively are. Customers are paying for the new meters that are included in the Company's plant accounts but are also now effectively paying for the old, retired meters because the depreciation reserve for the meter accounts is now negative, which increases rate base. This means the customers are paying a return on assets that are no longer in-service and therefore no longer used and useful. This results in rates that are neither just nor reasonable.

I do not believe customers should be paying excess profits on and remaining book value of the stranded meter assets. One meter for one customer. The Commission should therefore disallow the unrecovered balance of the meters account as of December 31, 2023. According to Staff accounting schedules that value is $36,856,697 of negative reserve. Currently I am uncertain of what will happen to this value at the time of true-up, as depreciation accrual may or may not outpace the amounts being retired before true-up. This would mean a write off would need to occur of the unrecovered reserve for meters that are being retired that has not exceeded the average service life and has thus not been fully recovered. This method would allow for the new meters to be placed into plant-in-service and would allow for a write off of the unrecovered portion of the retired meter, which would solve the problem of driving the depreciation reserve negative for the existing meters.

**Q. You explained that the issue with the negative reserve for meters arose from the pre-mature retirement of MAWC's existing meter infrastructure. Can you elaborate on how that occurs?**

A. The problem is the mass asset form of accounting for the meters that requires removing original cost from both plant-in-service and accumulated reserves at the time of retirement regardless of whether the plant balance has been fully accrued. So for the individual asset, say one meter that costs $100, at the time of retirement one would remove $100 from plant-in-service and $100 from accumulated depreciation reserves. Let us assume, however, that the meter did not reach the end of its average service life, having been removed only halfway through. This means that only a portion of the original cost would have been recovered. As such, the asset would only have accrued half, or $50 worth, of its expected depreciation. Despite this, one would still subtract $100 from both plant-in-service and accumulated depreciation reserves, leaving $0 for that asset's entry in the plant-in-service account and ($50) for the accumulated reserve account. Because net plant, on which the utility earns its return, is defined as plant-in-service less accumulated depreciation reserve, this would result in $50 worth of net plant that still needs to be recovered ($0 - -$50). This is the "false increase" in rate base and allows the utility to earn a return on assets that are no longer used and useful.

**Q. What is the revenue requirement impact of your recommendation?**

A. Utilizing Mr. Murray's pre-tax rate of return and multiplying it by the negative reserve present in account 346 meters, the revenue requirement of Staff would decrease by $2,852,708 annually by setting the depreciation reserve to zero for account 346 meters and writing off the negative reserve.

**Q. Does this conclude your cross-rebuttal testimony?**

A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas | ) ) ) ) | Case No. WR-2024-0320 |

**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 cross-rebuttal 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 January 2025.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.