

Exhibit No.:

Issues: Depreciation

Witness: Jolie Mathis

Sponsoring Party: MO PSC Staff

Type of Exhibit: Direct Testimony

Case No.: WR-99-326

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JOLIE MATHIS

FILED³

JAN 23 2004

UNITED WATER MISSOURI, INC.

**Missouri Public
Service Commission**

CASE NO. WR-99-326

**Jefferson City, Missouri
June 1999**

Exhibit No. 126
Case No(s). 1016-2003-0500
Date 12-23-03 **Rptr** FL

DIRECT TESTIMONY
OF
JOLIE MATHIS
UNITED WATER MISSOURI, INC.
CASE NO. WR-99-326

Q. Please state your name and business address.

A. Jolie Mathis, P.O. Box 360, Jefferson City, Missouri, 65102.

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

A. I am employed by the Missouri Public Service Commission
(Commission) as an Engineering Specialist III in the Depreciation Department.

Q. What are your duties as an engineer in the Depreciation Department?

A. I am responsible for conducting depreciation studies and recommending
appropriate depreciation rates for the utility companies regulated by the Commission.

Q. Would you please state your qualifications, educational background and
experience?

A. I graduated from Prairie View A&M University of Texas in August 1993,
with a Bachelor of Science degree in Electrical Engineering. During my college years, I
had three internships: Allied Signal Aerospace Co., Missouri Public Service, and Sprint
United Telephone Co., Midwest Division. In 1994, I accepted my current position.

I have also received four weeks of formal depreciation training from
Depreciation Programs, Inc., Kalamazoo, Michigan. The topics I studied in that training
included actuarial and simulated service life analysis and techniques, forecasting life,

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

3 Q. What is the purpose of your testimony for this case?

4 A. The purpose of my testimony is to present the Commission Staff's
5 (Staff's) recommended depreciation rates for the water utility plant accounts of United
6 Water Missouri (UWM or Company), which are shown in Schedule 1.

7 Q. Have you completed a study of UWM's plant data and arrived at your
8 proposal for appropriate depreciation rates?

9 A. Yes I have. Upon reviewing the historical depreciation data provided by
10 the Company, plus information gathered during discussions with Company personnel, I
11 have conducted a full depreciation study for the following plant accounts: 325 - Electric
12 Pumping Equipment; 332 - Water Treatment Equipment; 343 - Transmission and
13 Distribution Mains; 348 - Hydrants; and 391.A - Terminal Equipment. These plant
14 accounts represent approximately 86% of the Company's depreciable plant.

15 Q. Does your study show a need for changes to the depreciation rates for any
16 of the referenced plant accounts?

17 A. Yes. My study shows that changes are needed in the rates for two of these
18 accounts, namely 325 - Electric Pumping Equipment and 391.A - Terminal Equipment.
19 My study does not show a need for changes in the rates for the remaining three accounts.

20 Q. Would implementation of your recommended depreciation rates result in a
21 change in depreciation expense accrual for the Company?

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1 A. Yes. Based on December 31, 1998 plant balances, use of my
2 recommended rates would increase the Company's annual depreciation expense accruals
3 by \$86,555.

4 Q. Why do you believe your figures are a good representation of the
5 Company's plant average service life (ASL) and net salvage figures?

6 A. I conducted a thorough study of the Company's historical data using the
7 Gannett Fleming computer based depreciation software system. By analyzing various
8 bands of data and studying charts of the data for quality of curve fit, my analysis results in
9 ASLs and net salvage values that fairly represent the plant in service.

10 Q. Did you study salvage data?

11 A. Yes, the Company's salvage data was of adequate history to determine net
12 salvage values to use in calculating my recommended depreciation rates.

13 Q. Do you have a summary of your recommended depreciation rates on an
14 account-by-account basis?

15 A. Yes, Schedule 1 includes an account-by-account presentation of my
16 recommended depreciation rates. The plant accounts in bold type are those with
17 depreciation rates revised from those currently approved. These changes are supported
18 by my work papers, which include the printouts of the Gannett Fleming programs that I
19 used to analyze the historical data. Non-bolded accounts have no changes from the
20 existing rates.

21 Q. Is the Company data adequate to allow a thorough study in a majority of
22 those non-bolded accounts?

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1 A. No. Some accounts have not had enough retirement activity to calculate
2 historical characteristics of the account's retirements. For those accounts, I propose that
3 the currently prescribed rates be retained. It is my position that prescribed rates should be
4 changed only when there is a sound and logical reason to do so. If the historical data
5 does not support a reason to change the ASL or net salvage of the plant in service, or if
6 there is no other information to support a change to the ASL or net salvage of any
7 particular account, then my recommendation is that the prescribed rate be retained.

8 Q. In your review and study of UWM's information, did you calculate a
9 theoretical reserve balance for each account?

10 A. Yes I did.

11 Q. What was the result of your study of theoretical reserve balance when
12 compared to actual reserve balance?

13 A. The cumulative theoretical reserve balance for the five accounts I studied
14 was greater by \$605,253 than the actual reserve balance. This indicates that, at the
15 current time, using my recommended ASL and net salvage results, the Company's
16 reserve balance is under-recovered by about \$600,000.

17 Q. Is this a significant difference for this Company?

18 A. No.

19 Q. Why not?

20 A. The accuracy of the numbers that depreciation professionals work with
21 and the accounting methods used to record the data inherently cause depreciation life and
22 salvage parameters to be reasonable within a range, not correct to a specific amount. A

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Jolie Mathis

1 recalculation of the same accounts for the same Company at another time may result in
2 different ASL and net salvage values and, in turn, a different theoretical reserve value. A
3 \$600,000 shortfall in theoretical reserve is small for this Company

4 Q. How do you arrive at that conclusion?

5 A. By looking at the magnitude of the \$600,000 in comparison to plant in
6 service. The \$600,000 is only 5% of the plant in service. This value is relatively small
7 and a future study could result in a reversal of the under-recovery. Changes, including
8 management decisions, may affect plant life and net salvage. This, in turn, could cause
9 the relatively small value of \$600,000 to then calculate to zero or to a negative reserve
10 imbalance.

11 Q. Is it your conclusion that there should be no adjustment to the current
12 reserve balance because the theoretical imbalance you calculated is relatively small?

13 A. That is correct. The theoretical reserve imbalance I calculated is too
14 small, on a relative basis, to justify any change to the current reserve balance.

15 Q. What is your recommendation to the Commission?

16 A. It is my recommendation that the Commission order the Company to use
17 the depreciation rates presented in Schedule 1, with those rates to be put in use on the
18 effective date of the final Report and Order in this case.

19 Q. Does this conclude your testimony?

20 A. Yes it does.

**UNITED WATER MISSOURI
DEPRECIATION RATES
WR-99-326**

Account Number	DESCRIPTION	Iowa Curve Type	Net Salvage	Average Service Life	Depreciation Rate
<u>Source of Supply Plant</u>					
311	Structures and Improvements	*****	0%	50.0	2.00%
313	Lakes, River & Intake	R1	-54%	49.0	3.14%
<u>Pumping Plant</u>					
321	Structures and Improvements	R4	-115%	48.0	4.47%
325	Electric Pumping Equipment	L0.5	-5%	37.5	2.80%
<u>Water Treatment Plant</u>					
331	Structures and Improvements	S0	-18%	50.0	2.36%
332	Water Treatment Equipment	R2	-5%	35.0	3.00%
<u>Transmission and Distribution Plant</u>					
341	Structures and Improvements	L5	0%	34.0	2.94%
343	Transmission and Distribution Mains	R1	-10%	82.0	1.34%
346	Meters	L4	25%	23.0	3.26%
347	Meter Installation	L4	25%	23.0	3.26%
348	Hydrants	R3	-28%	60.0	2.13%
<u>General Plant</u>					
390	Structures and Improvements	L4	-44%	41.0	3.51%
391	Office Furniture and Equipment	L1	2%	29.0	3.37%
391A	Terminal Equipment	L2	0%	8.9	11.24%
392	Transportation Equipment	L0	29%	9.0	7.88%
394	Tools, Shop and Garage Equipment	L0	32%	13.0	5.23%
395	Laboratory Equipment	L1	0%	22.0	4.54%
396	Power Operated Equipment	L2	22%	8.0	9.75%
397	Communication Equipment	L5	5%	17.0	5.58%
398	Miscellaneous Equipment	S4	0%	22.0	4.54%

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

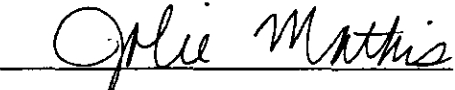
In the matter of United Water Missouri)
Inc.'s Tariffs Designed to Increase Rates)
for Water Service.)

Case No. WR-99-326

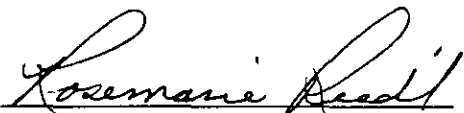
AFFIDAVIT OF JOLIE MATHIS

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 5 pages and 1 schedule to be presented in this case; that the answers in the foregoing testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Jolie Mathis

Subscribed and sworn to before me this 18th day of June 1999.


Notary Public

My commission expires June 1, 2001