# Exhibit No. 3

Confluence Rivers – Exhibit 3
Allis Surrebuttal
File No. WR-2023-0006

Exhibit No. _____
Issues: Depreciation
Witness: Ned W. Allis
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Confluence Rivers Utility Operating Company, Inc.
File Nos.: WR-2023-0006 / SR-2023-0007
Date: July 21, 2023

**Missouri Public Service Commission**

# Surrebuttal Testimony

**of**

**Ned W. Allis**

**On Behalf of**

**Confluence Rivers Utility Operating Company, Inc.**

**July 21, 2023**

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## I. INTRODUCTION

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

A. My name is Ned W. Allis. My business address is 207 Senate Avenue, Camp Hill, Pennsylvania 17011.

**Q. Are you associated with any firm?**

A. Yes. I am associated with the firm of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming").

**Q. How long have you been associated with Gannett Fleming?**

A. I have been associated with the firm since 2006.

**Q. What is your position with the firm?**

A. I am Vice President.

**Q. On whose behalf are you testifying in this case?**

A. I am testifying on behalf of Confluence Rivers Utility Operating Company, Inc. ("Confluence Rivers" or the "Company").

**Q. Are you the same Ned W. Allis who previously filed direct and rebuttal testimony in this proceeding?**

A. Yes. I have provided my qualifications in my direct testimony.

## II. PURPOSE OF TESTIMONY

**Q. What is the purpose of your surrebuttal testimony in this proceeding?**

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Missouri Public Service Commission Staff ("Staff") witness Amanda Coffer and Office of the Public Counsel ("OPC") witness John Robinett. I have already responded to Mr. Robinett in my rebuttal testimony, in which I have also discussed the depreciation study process at length. Ms. Coffer did not provide direct

testimony supporting her recommended depreciation rates and instead did so in rebuttal testimony. Much of my surrebuttal, therefore, addresses her proposals and explains the issues with using both Staff's and OPC's recommended depreciation rates.

## III. RESPONSE TO OPC AND STAFF PROPOSALS

**Q. What have Staff and OPC proposed?**

A. Both Staff and OPC have proposed to continue to use the current depreciation rates for most accounts, although Staff proposes different depreciation rates for certain accounts that do not currently have depreciation rates.

**Q. What is the impact of their proposals?**

A. Due primarily to their recommendations for shorter lives for many accounts than I have proposed, both Staff and OPC's proposed depreciation rates would increase depreciation for water and wastewater plant (excluding general plant) when compared to the depreciation rates I have proposed in the depreciation study. Further, with the exception of Account 397, Communication Equipment, depreciation would increase for the remaining general plant accounts. Effectively, for all accounts except one (Account 397), Staff and OPC's proposals would, in the aggregate, increase depreciation expense by $57,954 per year as of December 31, 2021.

**Q. Why do their proposals result in increases in depreciation for most accounts?**

A. Generally, in the depreciation study I have recommended longer lives for most of the accounts and subaccounts studied and, for those for which I have not recommended increases in average service lives, my recommendations are for the same average service life estimate as currently used for all accounts except one. These recommendations are the result of the analysis in the study, including not only field reviews and other discussions with the Company, but also our efforts in

estimating the vintage years of assets the Company has acquired through the years. In my judgment, the recommended service lives in the Depreciation Study provide a more reasonable representation of the expected service lives of the Company's assets. Similarly, the net salvage estimates I have recommended are a more reasonable representation of future net salvage characteristics for the Company's assets. Staff and OPC's proposals are not based on a current depreciation study of the Company's assets[1] and are instead based on the currently adopted estimates for the Company or on depreciation studies for other utilities. As a result, the service life and net salvage estimates recommended by Staff and OPC are not as reflective of the Company's current asset base or expectations of the service lives that will be experienced by these assets.

**Q. If the Commission were to conclude that the service life and net salvage estimates proposed by Staff and OPC were more reasonable than those you recommend, would the result be the depreciation rates Staff or OPC propose?**

A. No. As discussed in my direct[2] and rebuttal[3] testimonies, there are two phases to a depreciation study. The first is to estimate service lives and net salvage. The second is to use those service life and net salvage estimates to calculate depreciation rates that are appropriate to apply to the Company's current plant balances. Typically, these calculations are performed using the remaining life technique, which incorporates the current level of accumulated depreciation into the calculations in order to ensure that the full depreciable cost of each account is recovered over its service life.[4] Thus, if the Commission were to decide that the

[1] Indeed while Staff members inspected Company systems to determine the prudency of capital investments, it is my understanding that neither Staff or OPC witnesses inspected these systems for the purpose of determining useful life or the age and condition of the facilities.

[2] *See* my direct testimony starting on page 4.

[3] *See* my rebuttal testimony starting on page 4.

[4] It is uncommon for any utility that the book accumulated depreciation would match its theoretical reserve based on current life and net salvage estimates (the theoretical reserve is the level of accumulated depreciation that results from applying the current life and net salvage estimates to the current balances. Thus, the theoretical reserve effectively assumes the current depreciation rates have been in place since the account's inception and experience has matched these life and net salvage estimates. For example, a five-year old asset with a 10-year life and no net salvage would have a theoretical reserve of 50% of the original cost). The

service life and net salvage estimates recommended by Staff or OPC were most reasonable, then depreciation rates should be calculated by applying those lives and net salvage to the Company's current plant and accumulated depreciation balances.

**Q. Would applying Staff or OPC's life and net salvage estimates to the current plant balances produce their recommended depreciation rates?**

A. No. The depreciation rates OPC and Staff recommend are not based on the Company's current plant and accumulated depreciation balances and applying their estimates to the current balances would result in higher depreciation expense. As an example, if OPC's recommended service life and net salvage estimates were used, then the calculated annual depreciation expense would be approximately $340,000 higher than OPC's proposal (and approximately $300,000 higher than recommended in the Depreciation Study).

**Q. You indicated that with the exception of Account 397, your Depreciation Study recommends a net reduction in depreciation expense. Is the increase in depreciation for Account 397 due to a recommendation of a shorter service life?**

A. No. The recommendation in the depreciation study is to use the same 15-year service life for Account 397 as currently used. However, while the assets in the account are, on average, 8.5 years of age (and, therefore more than halfway through their useful lives), the accumulated depreciation balance is only 18% of the original cost (*i.e.*, the account is only 18% depreciated because there is no net salvage for the account). For this reason, to account for the resultant theoretical reserve deficiency, a higher depreciation rate was calculated using the remaining life technique. However, while this higher depreciation rate is reasonable for the assets

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remaining life technique (for which depreciation is calculated as the original cost less net salvage less the book accumulated depreciation, divided by the remaining life) calculates depreciation so that 100% of the service value of the asset is recovered over the remaining life. For example, if the five-year old asset above had an original cost of $100 and an accumulated depreciation balance of $30, then the annual depreciation would be $14 per year -- ($100-$30)/5 --- rather than $10 per year that would result from $100 divided by the 10 year life.

current in service, I have recommended a 6.67% depreciation rate based on the 15-year life – consistent with the current depreciation rates.

Generally, this account is a unique circumstance and the low level of accumulated depreciation will need to be addressed at some point (whether this study or a future study). Staff and OPC's proposals do not account for the reserve imbalance associated with this account.

**Q. Are there examples of other issues with the proposals made by Staff and OPC.**

A. Yes. Another example is Account 325, Electric Pumping Equipment. This account includes various types of pumps of different ages. Overall, estimates in the industry for pumping equipment most commonly range from 20 to 50 years. However, differences in sizes, type and cost of pumping equipment can result in different life expectations. Based on my field reviews and other data provided by the Company, the Company's assets are likely to be closer to the lower end of the range. The current estimate of 12 years – which is the estimate Staff and OPC recommend – is at the shorter end of the industry range.

As with each account, as part of the depreciation study, my team reviewed the vintage years of the Company's pumping equipment assets and, for those in which the vintage years were unavailable, estimated the vintage years and incorporated those into calculations of remaining useful lives. A review of the vintage balances for the study (which are those to which the depreciation rates apply), as shown on page VIII-10 of Schedule NWA-2, shows that the majority of assets are 12 years of age or older.[5]

Combined, these factors and analyses support that a longer service life is reasonable for this account. The recommended 20-S0.5 incorporates the factors discussed above and has a fairly wide distribution of lives, accounting for the fact that there are a variety of ages (and lives) of the assets in the group.

[5] With an average service life of 12 years, we would expect perhaps half the assets to live more than 12 years. However, the age distribution for this account is not consistent with a 12-year average service life.

**Q. On page 3 of his testimony, Mr. Robinett implies you have limited experience with water and wastewater utilities. Please address Mr. Robinett's testimony.**

A. Mr. Robinett questions my experience by observing that only two of the cases in which I have testified on depreciation involved water or wastewater utilities. However, the list of cases does not provide all of my experience nor does it reflect the experience of my firm, Gannett Fleming. First, while Schedule NWA-1 lists 62 cases in which I have testified,[6] I have worked on hundreds of depreciation studies throughout my career – I just was not the witness on most of these. These include studies for utilities in Missouri.

My experience also includes depreciation studies for additional water and wastewater utilities as well as original cost studies for smaller water systems. Further, as Mr. Robinett acknowledges, my firm has performed depreciation studies for many other water and wastewater utilities. Even for those for which I did not work on the depreciation study, I regularly discuss depreciation matters with my Gannett Fleming colleagues who performed the study and we often review the results and judgments in each others' work. For example, my colleague John Spanos, who has previously testified in Missouri for many years (including for water depreciation studies), reviewed the results of CSWR's study and agrees with my conclusions.

Finally, my firm, Gannett Fleming, is a large engineering consulting firm that does work beyond depreciation studies. As an example, we design and build various types of water infrastructure across the country. In my role at Gannett Fleming, I interact with engineering experts across our firm and am able incorporate information from these experiences into my depreciation studies as well.

In summary, the experience and judgment incorporated into a depreciation study are not limited to the cases in which the depreciation expert has testified. All of that person's experience, plus the experience of their colleagues and subject matter experts from the company studied, provide knowledge from which the

[6] I note that I have submitted testimony in at least 10 cases since filing my direct testimony for Confluence Rivers.

expert can draw to develop the most reasonable service life and net salvage estimates. As I discuss above, based on this experience and judgment, I believe Ms. Coffer's and Mr. Robinett's proposals are not reasonable to use for Confluence Rivers.

**Q. Should the Commission adopt Mr. Robinett and Ms. Coffer's recommendations?**

A. No. The depreciation rates in the Company's depreciation study are the proposals that are based on a depreciation study and calculated using the Company's plant and accumulated depreciation balances. Neither Staff nor OPC's proposals are based on balances or expectations for the Company's current asset base and, as discussed above, produce unreasonable results in some instances. The depreciation rates I have recommended, which – except for the unique case of Account 397 – result in a net decrease in depreciation expense, are the most reasonable to use for Confluence Rivers' assets.

**Q. Does this conclude your surrebuttal testimony?**

A. Yes.

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

| | | |
|---|---|---|
| In the Matter of Confluence Rivers Utility Operating Company, Inc.'s Request for Authority to Implement a General Rate Increase for Water Service and Sewer Service Provided in Missouri Service Areas. | ) ) ) ) ) | **File No. WR-2023-0006** |

## VERIFICATION OF NED W. ALLIS

STATE OF PENNSYLVANIA )
)
COUNTY OF CUMBERLAND )

I, Ned W. Allis, of lawful age, under penalty of perjury, and pursuant to Section 509.030, RSMo, state as follows:

1. My name is Ned W. Allis. I am associated with the firm of Gannett Fleming Valuation and Rate Consultants, LLC. I have been retained by Confluence Rivers Utility Operating Company, Inc. to provide testimony in this case.

2. My Surrebuttal Testimony on behalf of Confluence Rivers Utility Operating Company, Inc. is attached to this verification.

3. My answers to each question in the attached surrebuttal testimony are true and correct to the best of my knowledge, information, and belief.

/s/ Ned W. Allis
Ned W. Allis

July 21, 2023
Date