

Exhibit No.:
Issue: *Depreciation*
Witness: *Gregory E. Macias*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *IR-2004-0272*
Date Testimony Prepared: *March 11, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

GREGORY E. MACIAS

FIDELITY TELEPHONE COMPANY

CASE NO. IR-2004-0272

Jefferson City, Missouri
March 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Fidelity)
Telephone Company for Authority to File,)
Establish, and Put into Effect New, Increased,)
or Revised Rates and Charges for Telephone)
Service.)

Case No. IR-2004-0272

AFFIDAVIT OF GREGORY E. MACIAS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

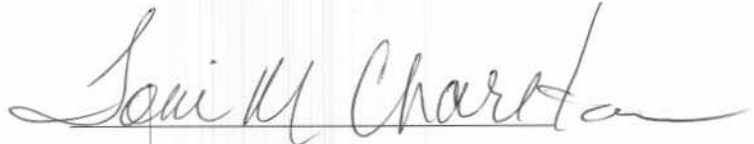
Gregory E. Macias, being of lawful age, on his oath states: that he has participated in the preparation of the following direct testimony in question and answer form, consisting of 2 pages to be presented in the above case; that the answers in the following direct testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Gregory E. Macias

Subscribed and sworn to before me this 10th day of March 2004.





TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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A. Gregory E. Macias, P.O. Box 360, Jefferson City, MO 65102.

A. I am employed by the Missouri Public Service Commission (PSC or Commission) as a Utility Engineering Specialist II in the Engineering and Management Services Department.

A. I earned a Bachelor of Science degree in Civil Engineering from the University of Missouri - Columbia.

A. I began working for the Commission in September 1997 as an Engineering Specialist in the Gas Safety Department. In December 2001 I joined the Engineering and Management Services Department in my current position.

A. I am responsible for depreciation calculations and studies of companies regulated by the Commission.

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Direct Testimony of
Gregory E. Macias

1 A. Yes. See Schedule 1 for a list of cases in which I have previously filed
2 testimony.

3 Q. What matters will you address in your testimony?

4 A. I will address the Commission Staff's (Staff's) recommendation regarding
5 depreciation rates.

6 Q. What knowledge, skill, experience, training or education do you have in these
7 matters?

8 A. I have made on-site visits to several Missouri-regulated telephone companies
9 including Fidelity Telephone Company (Company). I have gained work related experience
10 and training from the Engineering and Management Services department's engineering staff
11 regarding concepts of depreciation. I have completed the National Association of Regulatory
12 Commissioners (NARUC) Utility Rate School administered by the University of Florida and
13 the NARUC Water Committee. I have also completed the New Mexico State University
14 Basic NARUC Course. I have reviewed prior Commission decisions and portions of the
15 testimony regarding this issue in previous cases.

16 Q. What is the purpose of your testimony?

17 A. The purpose of my testimony is to propose depreciation rates that will allow
18 the Company to collect the original cost of capital investments over the life of its assets. The
19 proposed depreciation rates are presented in Schedule 2.

20 Q. What is the definition of depreciation?

21 A. Depreciation is the loss, not restored by current maintenance, which is due to
22 all factors causing the ultimate retirement of the property. These factors embrace wear and
23 tear, decay, inadequacy and obsolescence. Annual depreciation is the loss which takes place

1 in a year. [Source: In Re: Lindheimer v. Illinois Bell Telephone Company, 292 U.S. 151,
2 167 (1934).]

3 Q. How does this definition of depreciation apply in a regulatory environment?

4 A. In a regulatory environment, annual depreciation, or depreciation expense, is
5 the full recovery of the original cost of utility plant assets distributed over the life of the
6 assets.

7 Depreciation expense is determined from a depreciation rate. The deprecation rate is
8 calculated as a ratio of the original cost of plant in service to the expected average service life
9 (ASL) of that plant. This ratio is simply 100 percent (or one) divided by the ASL.
10 Depreciation rates are determined on an account-by-account basis. An account's
11 depreciation rate is multiplied by its plant balance, to calculate the account's annual
12 depreciation accrual. The depreciation expense used in the revenue requirement is the sum
13 of the individual plant accounts' annual accruals for the test year.

14 Q. How did you determine the depreciation rates proposed in this case?

15 A. The majority of the depreciation rates were determined using Staff's
16 standardized ASLs. Fidelity does not have the mortality data necessary to perform a
17 Company-specific life analysis. The standardized ASLs were developed from observations
18 of the lives of telephone plant at Missouri telephone companies that maintained enough
19 mortality data for a life analysis. Fidelity's plant is similar to the plant of other Missouri
20 telephone companies and can reasonably be expected to experience similar ASLs.

21 For several accounts, the depreciation reserve has grown to an inordinate level.
22 Where appropriate, accounts with high depreciation reserves have been adjusted from the
23 standardized depreciation rate to reduce the annual accrual to the depreciation reserve. These

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1 adjustments are intended to distribute the assets' costs more evenly over the customers that
2 will consume them. A detailed description of the adjustments is presented in Schedule 3.

3 Q. Do you have an additional revenue requirement issue to address in your
4 testimony?

5 A. Yes. I would like to address the net salvage of capital plant, which Staff is
6 treating as an annual expense. Net salvage is the gross salvage, or recovered marketable
7 value, minus the cost of removal of retired plant. The Company has not booked any costs
8 associated with the removal of retired plant [Data Request No. 44], therefore, only gross
9 salvage will be combined with other annual expenses in this case.

10 Q. What is the annual net salvage for this Company?

11 A. The annual net salvage is \$25,368. A four-year normalization was used to
12 determine net salvage amounts.

13 Q. How is the net salvage included in this case?

14 A. Net salvage will be included with other annual expenses determined by the
15 Commission's Auditing Staff.

16 Q. Does Staff include net salvage in the depreciation determination?

17 A. No. Staff's annual accrual covers only the original capital cost of plant.

18 Q. What is the annual accrual amount for the Company based on January 31,
19 2004 plant balance?

20 A. The annual accrual based on January 31, 2004 plant balance is \$1,713,726.
21 This is the annual amount that will be used to determine what the Company will collect from
22 customers in utility rates as the depreciation expense portion of the Company's revenue
23 requirement.

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Gregory E. Macias

1 Q. Please summarize your proposal in this case?

2 A. The Staff proposes that:

3 1) The Commission order the depreciation rates provided in Schedule 2;

4 2) The net salvage amounts, as explained in my testimony, be ordered

5 and included with annual expenses determined by Staff auditors.

6 Q. Does this conclude your direct testimony?

7 A. Yes it does.

CASE PROCEEDING PARTICIPATION

STAFF WITNESS GREGORY E. MACIAS

<u>Company Name</u>	<u>Case Number</u>	<u>Testimony Filed</u>	<u>Issue(s)</u>
Missouri American Water Company	WR-2003-0500	Direct, Rebuttal, Surrebuttal	Depreciation
Osage Water Company	ST-2003-0562 WT-2003-0563	Direct	Depreciation

IR-2004-0272

Fidelity Telephone Company

Schedule 2. Depreciation Rate Determination and Corresponding Annual Accrual

Account Number	Description	Original Cost	Jurisdictional Factor	Proposed Life	Staff Proposed Depreciation	Staff Proposed Annual	Company Proposed Depreciation	Company Proposed Annual	Accumulated Reserve
		1/31/2004			Rate	Accrual	Rate	Accrual	
(1)	(2)	(3)	(4)	(5)	(6) = 100%/(5)	(7) = (3)*(4)*(6)	(8)	(9) = (3)*(4)*(8)	(10)
2112	Vehicles*	1,543,302	0.68773	*	10.23%	108,579	10.23%	108,579	952,461
2116	Other Work Equipment	1,600,863	0.68773	13	7.69%	84,664	6.71%	73,875	824,696
2121	Buildings	2,611,193	0.68773	35	2.86%	51,360	2.80%	50,282	1,177,521
2122	Furniture*	191,263	0.68773	*	4.55%	5,985	4.55%	5,985	80,778
2123	Office Equipment*	109,565	0.68773	11*	9.09%	6,849	9.70%	7,309	79,374
2124	General Purpose Computers*	3,946,500	0.68773	*	13.59%	368,850	13.59%	368,850	2,711,781
2125	Communications Equipment*	71,160	0.68773	*	5.00%	2,447	11.55%	5,652	64,076
2212	COE Digital	5,528,474	0.63946	15	6.67%	235,800	6.67%	235,800	2,664,152
2232	COE Toll Circuit	322,573	0.64002	10	10.00%	20,645	10.30%	21,265	252,160
2233	COE Subscriber Circuit	4,223,554	0.64002	10	10.00%	270,316	10.30%	278,425	2,714,731
2234	COE Fiber Circuit	1,128,248	0.64002	10	10.00%	72,210	10.30%	74,376	938,914
2411	Poles*	407,254	0.71599	*	1.00%	2,916	1.00%	2,916	397,060
2421	Aerial Cable - Metallic	1,300,564	0.71599	21	4.76%	44,325	5.52%	51,402	1,105,781
2422	Underground Cable - Metallic	1,042,964	0.71599	26	3.85%	28,750	4.04%	30,169	494,136
2423	Buried Cable - Metallic	10,170,723	0.71599	24	4.17%	303,665	4.29%	312,404	5,951,260
2431	Aerial Wire*	171,902	0.71599	*	0.00%	-	0.00%	-	171,786
2441	Conduit Systems	1,373,668	0.71599	50	2.00%	19,671	2.00%	19,671	226,066
2451	Aerial Cable - Fiber	135,744	0.71599	21	4.76%	4,626	5.24%	5,093	47,457
2452	Underground Cable - Fiber	977,642	0.71599	28	3.57%	24,989	3.75%	26,249	238,114
2453	Buried Cable - Fiber	1,124,665	0.71599	28	3.57%	28,747	3.68%	29,633	716,207
2461	Aerial Cable - Drop	199,689	0.71599	21	4.76%	6,806	6.76%	9,665	160,167
2463	Buried Cable - Drop	720,978	0.71599	24	4.17%	21,526	4.86%	25,088	223,125
Column Totals		38,902,488				1,713,726		1,742,688	22,191,803

* Account has been adjusted from the standardized ASL, see Schedule 3.

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Fidelity Telephone Company
Schedule 3. Depreciation Rate Adjustments

Account Number	Description	Original Cost 1/31/2004	Accumulated Reserve	Reserve Ratio	Standardized Depreciation Rate	Adjusted Depreciation Rate	Detailed Explanation
2112	Vehicles	1,543,302	952,461	61.7%	11.63%	10.23%	Proposing Company's recommended depreciation rate, effectively adjusting ASL from 8.6 to 9.8 years.
2122	Furniture	191,263	80,778	42.2%	7.14%	4.55%	Proposing Company's recommended depreciation rate, effectively adjusting ASL from 14 to 22 years.
2123	Office Equipment	109,565	79,374	72.4%	10.00%	9.09%	Adjusted standardized ASL from 10 years to 11 years.
2124	General Purpose Computers	3,946,500	2,711,781	68.7%	15.63%	13.59%	Proposing Company's recommended depreciation rate, effectively adjusting ASL from 6.4 to 7.4 years.
2125	Communications Equipment	71,160	64,076	90.0%	11.90%	5.00%	Adjusted deprecation rate to 5.0% to prevent account from being fully depreciated within one year.
2411	Poles	407,254	397,060	97.5%	4.76%	1.00%	Proposing Company's recommended depreciation rate to prevent account from being fully depreciated within one year.
2431	Aerial Wire	171,902	171,786	99.9%	8.33%	0.00%	Account is fully depreciated. No new plant will be added in the future.