

FILED³

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**Missouri Public
Service Commission**

Exhibit No.:

Issue: Depreciation

Witness: Arthur W. Rice

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: WR-2013-0461

Date Testimony Prepared: January 10, 2014

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES

REBUTTAL TESTIMONY

OF

ARTHUR W. RICE, PE

LAKE REGION WATER & SEWER COMPANY

CASE NO. WR-2013-0461

Staff *Exhibit No.* 6
Date 2/18/14 *Reporter* PSG
File No. WR-2013-0461

*Jefferson City, Missouri
January 2014*

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OF
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ARTHUR W. RICE, PE**

4 **LAKE REGION WATER & SEWER COMPANY**

5 **CASE NO. WR-2013-0461**

6 Q. Please state your name and business address.

7 A. My name is Arthur W. Rice, and my business address is Missouri Public Service
8 Commission, P.O. Box 360, Jefferson City, MO 65102.

9 Q. What is your position with the Staff ("Staff") of the Missouri Public Service
10 Commission ("Commission")?

11 A. I am a Utility Regulatory Engineer I in the Engineering and Management Services
12 Unit of the Utility Services Department of the Regulatory Review Division.

13 Q. Would you please describe your educational background and other qualifications?

14 A. A copy of my work and educational experience was provided in Appendix 1,
15 page 24 of the Staff's Report in this case.

16 Q. Have you previously testified before the Commission?

17 A. Yes. The cases in which I have filed testimony before the Commission are listed
18 in Appendix 1, pages 25 and 26 of the Staff's report in this case.

19 Q. With reference to Case No. SR-2013-0459 and WR-2013-0461, have you
20 participated in Staff's audit of Lake Region Water & Sewer Company ("Company" or
21 "Lake Region") concerning its request for a rate increase in this proceeding?

22 A. Yes.

1 **EXECUTIVE SUMMARY**

2 Q. What is the purpose of this testimony?

3 A. The purpose of my testimony is to provide the findings of further investigation on
4 two items noted in the depreciation section of the Staff Report filed November 15, 2013 as
5 requiring further investigation.

6 Q. What two items required further investigation?

7 A. One is the 2012 retirement of the Shawnee Bend waste water treatment lagoon
8 discussed on pages 32 and 33 of the Staff Report. The other is the recording of developer
9 contributions in aid of construction (CIAC) associated with the \$38,535 of plant in the
10 Horseshoe Bend sewer plant accounts that is actually installed in the Shawnee Bend
11 sewer system.

12 **SHAWNEE BEND LAGOON RETIREMENT**

13 Q. What is the issue related to the Shawnee Bend waste water treatment
14 lagoon retirement?

15 A. Staff's further investigation concludes that the cost of land placed in utility
16 service in 1998 for the Shawnee Bend waste water treatment lagoon was included in plant in
17 service as depreciable plant. The Company's 1998 annual report shows an addition of land
18 recorded as a non-depreciable asset in Account 370.1, Oxidation Lagoon Land and Land Rights,
19 at an amount of \$135,756. But, Lake Region's General Ledger and asset records show this
20 \$135,756 was entered as a "Deposit – Account Opening Balance" journal entry on January 1,
21 1999 in depreciable Account 372, Treatment and Disposal Equipment. Staff's concludes that the
22 \$135,756 is the total original cost of both the land and the treatment plant equipment, and
23 starting January 1, 1999 the original cost of the land was included by Lake Region as
24 depreciable plant.

1 Q. Do the Staff work papers and accounting schedules for Shawnee Bend sewer, in
2 prior rate case, Case No. SR-2010-0110, show this \$135,756 treated as depreciable plant in
3 Account 372 and include accumulated depreciation for the total \$135,756 starting in 1999?

4 A. Yes.

5 Q. Did Staff determine the original cost of the land?

6 A. Yes. First, as an engineer familiar with construction cost for a similar waste
7 treatment system built in 1997, I estimated a cost for the installation of the Lake Region
8 equipment at \$35,000. Thus the rest of the \$135,756, or approximately \$100,000, is a reasonable
9 estimate for the land cost. An entry relevant to this issue was found in a Lake Region consultant
10 accountant's work paper related to the retirement of the lagoon system in 2012. Within a journal
11 entry support paper, labeled MBC-13 for the lagoon system retirement, a line item was found
12 showing the original cost of the lagoon site land at \$101,799. Thus Staff concluded that the
13 original cost of the land is \$101,799.

14 Q. What adjustments does Staff recommend to correct for the Company's treatment
15 of this land as a depreciable asset?

16 A. Staff recommends that the following two adjustments to the Accounting
17 Schedules filed with the Direct Testimony Staff Report.

18 1. Reverse \$101,799 of the retirement entry in the accumulated reserves for
19 the Shawnee Bend waste water treatment equipment Account 372, thus increasing
20 reserves by \$101,799.

21 2. Enter an adjustment of \$61,830 to reverse the depreciation accrued in
22 Account 372 reserves for **land** depreciated at a 4.5% depreciation rate over a
23 162 month period from January 1999 through June 2012, thus reducing reserves
24 by \$61,830.

1 These two adjustments result in a reduction of net plant (rate base) for Shawnee Bend sewer by
2 \$39,969 as compared to the amount shown in the Staff Report filed November 15, 2013.

3 **CIAC ASSOCIATED WITH THE \$38,535 PLANT TRANSFER**

4 Q. What is the issue related to CIAC associated with the Staff recommended account
5 transfer of \$38,535 of Horseshoe Bend plant piping to the Shawnee Bend accounts?

6 A. In the Staff Report depreciation section pages 35 and 36, Staff recommended
7 correcting an accounting recording error in plant that occurred in 2007. That error is the
8 recording of \$38,535 of original cost sewer Force Mains in the Horseshoe Bend accounts that
9 was actually installed in the Shawnee Bend system. Staff's recommendation in the Staff
10 accounting schedules filed November 15, 2013, did not recognize that CIAC and CIAC
11 amortization was associated with the \$38,535 in plant. The November 15th accounting schedules
12 show a transfer of \$35,535 of plant in service and a transfer of \$9,537 in associated depreciation
13 reserves, but no transfer of associated CIAC or associated CIAC accumulated amortization.

14 Q. What are the adjustment amounts Staff recommends for CIAC and the associated
15 CIAC accumulated amortization?

16 A. Staff recommends a transfer of \$38,535 of CIAC and \$1,506 of accumulated
17 CIAC amortization from Horseshoe Bend Sewer to Shawnee Bend Sewer.

18 **STAFF'S CONCLUSION**

19 Staff would make the following adjustments to its accounting schedules to account for
20 the 2012 retirement of the Shawnee Bend waste water treatment lagoon and the recording of
21 certain developer contributions in aid of construction:

Rebuttal Testimony of
Arthur W. Rice

- 1 1. Reverse \$101,799 of the retirement entry for land in the accumulated
- 2 reserves for the Shawnee Bend waste water treatment equipment
- 3 Account 372, increasing reserves by \$101,799.
- 4 2. Enter an adjustment of \$61,830 to reverse the depreciation accrued in
- 5 Account 372 land, reducing the reserves by \$61,830
- 6 3 Transfer \$38,535 of CIAC and \$1,506 of accumulated CIAC amortization
- 7 from Horseshoe Bend Sewer to Shawnee Bend Sewer.
- 8 Q. Does this end your testimony?
- 9 A. Yes.

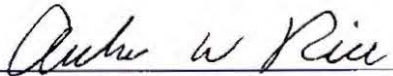
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Lake Region Water & Sewer)
Company's Application to Implement a) Case No. WR-2013-0461
General Rate Increase in Water & Sewer)
Service)

AFFIDAVIT OF ARTHUR W. RICE, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

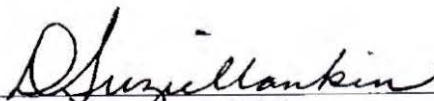
Arthur W. Rice, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has 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.



Arthur W. Rice

Subscribed and sworn to before me this 10th day of January, 2014.





Notary Public