

Exhibit No:
Issues: Tank Painting Expense,
Tank Painting Tracker,
Incentive Compensation
Witness: Jason Kunst
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WR-2015-0301
Date Testimony Prepared: February 11, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

JASON KUNST

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

Jefferson City, Missouri
February 2016

**TABLE OF CONTENTS OF
REBUTTAL TESTIMONY**

OF

JASON KUNST

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

1		
2		
3		
4		
5		
6		
7	EXECUTIVE SUMMARY	1
8	TANK PAINTING AND INSPECTION EXPENSE	2
9	TANK PAINTING AND INSPECTION EXPENSE TRACKER	3
10	AMORTIZATION OF REGULATORY ASSET BALANCE RESULTING FROM THE	
11	TANK PAINTING AND INSPECTION EXPESE TRACKER	5
12	INCENTIVE COMPENSATION	6

1 inspection expense, Mr. Wright proposes no change to the base level of this cost that was
2 established in MAWC's last rate case, Case No. WR-2011-0337. My rebuttal testimony will
3 explain Staff's recommendation to normalize an ongoing level of tank painting and inspection
4 expense based upon more recent actual cost history and to discontinue the tank painting and
5 inspection expense tracker on a going-forward basis. No MAWC witness proposes to
6 amortize the existing regulatory asset associated with past operation of the tank painting
7 tracker; however, MAWC witness Wright recommends that the tracker be continued on
8 page 12 of his direct testimony. Staff is proposing to amortize this regulatory asset over
9 five years and to discontinue the tracker.

10 I will also address The Office of the Public Counsel ("OPC") witness Kerri Roth's
11 recommendations related to tank painting and inspection expense as well as OPC's proposed
12 amortization of the existing regulatory asset balance in this rebuttal.

13 Finally, I will explain Staff's change in position to include all costs (both capital and
14 expense) associated with incentive compensation that is tied to the results from customer
15 surveys. Staff has received additional information from the Company since the time Staff
16 filed its direct testimony, and now recommends including these expenses in cost of service.

17 **TANK PAINTING AND INSPECTION EXPENSE**

18 Q. What level of tank painting and inspection expense does MAWC propose for
19 inclusion in rates?

20 A. MAWC witness Wright proposes to maintain the same \$1.3 million level of
21 tank painting and inspection expense that was the base level agreed to in the previous MAWC
22 rate case as part of the Commission approved *Non-Unanimous Stipulation and Agreement* in
23 Case No. WR-2011-0337.

1 Q. What level of tank painting and inspection expense does Staff include in its
2 cost of service calculation for tank painting and inspection expense?

3 A. Staff proposes a normalized level of \$1.28 million for tank painting and
4 inspection expense based upon a five-year average of actual historical costs for the period
5 covering October 1, 2010, through September 30, 2015. Staff believes its recommended tank
6 painting and inspection expense is more appropriate because it is based upon actual known
7 and measurable historical costs, rather than a base tracker level that was established almost
8 four years ago in the last MAWC rate case. Staff will continue to examine all of these costs
9 through the January 31, 2016, true-up cut-off as established by the Commission in this rate
10 case and may adjust its recommendations in this area if appropriate.

11 **TANK PAINTING AND INSPECTION EXPENSE TRACKER**

12 Q. What is the tank painting and inspection expense tracker?

13 A. The tank painting and inspection expense tracker measures the amount of
14 actual costs incurred by MAWC for tank painting and inspection expenses against a base level
15 of expense established in the previous rate case. The tracker is a two-way mechanism that
16 creates either a regulatory asset or a regulatory liability balance for MAWC's tank painting
17 and inspection expenses by keeping account of the amounts MAWC spends in those areas.
18 All increases or decreases in a given year following the establishment of a base level of
19 expense are combined to determine the balance of the total regulatory asset or liability.

20 Q. What is the current base level of the tracker?

21 A. The base level of expense was set at \$1.3 million in the Commission approved
22 *Non-Unanimous Stipulation and Agreement* filed in the previous rate case, WR-2011-0337.

Rebuttal Testimony of
Jason Kunst

1 Q. Does Staff propose the continuation of the tank painting and inspection tracker
2 in this proceeding?

3 A. No. Staff recommends that upon the effective date of rates in this case that the
4 tracker be discontinued.

5 Q. Why does Staff recommend the discontinuation of the tracker?

6 A. In addition to the reasons already discussed in Staff's Revenue Requirement
7 Cost of Service Report, tank painting and inspection expenses are planned ongoing
8 maintenance costs that MAWC should be able to easily plan and prepare for due to the
9 lengthy intervals of time between external and internal tank paintings. Furthermore, MAWC
10 has experienced a relatively constant level of actual tank painting and inspection expenses
11 since implementation of the tracker. The following chart provides a summary of actual
12 historical tank painting and inspections expenses and the five-year average that Staff
13 employed to normalize tank painting and inspection expense in the amount of \$1,277,656.

14

12 Mo Ending 9/30/11	\$ 1,317,352
12 Mo Ending 9/30/12	\$ 941,265
12 Mo Ending 9/30/13	\$ 2,322,333
12 Mo Ending 9/30/14	\$ 566,637
12 Mo Ending 9/30/15	\$ 1,240,691
5 Year Average	\$ 1,277,656

15
16 As can be seen from the data in the chart above, Staff's position is that fluctuations in expense
17 up and down over time are most appropriately addressed through a normalization adjustment,
18 which is a traditional ratemaking technique frequently used in rate cases. Additionally, tank
19 painting and inspection expenses represent less than 1% of the total operating expenses
20 incurred by MAWC during the test year ending December 31, 2014. Staff believes that the
21 amount of tank painting and inspection expense is not significant enough to warrant use of a

1 tracking mechanism. MAWC can take any changes in the level of tank painting costs into
2 account along with the changes in all other relevant factors in determining whether or not
3 MAWC needs to file for a rate increase.

4 **AMORTIZATION OF REGULATORY ASSET BALANCE RESULTING FROM THE**
5 **TANK PAINTING AND INSPECTION EXPENSE TRACKER**

6 Q. How does Staff propose to address the existing regulatory asset balance that
7 has resulted from this tracker?

8 A. Staff proposes to amortize the balance over a five-year period and to include
9 the unamortized balance in rate base. As of September 30, 2015, MAWC had recorded an
10 \$828,602 regulatory asset associated with past operation of the tracker. As part of its direct
11 filing, Staff recommended that this balance be recovered by MAWC through a five-year
12 amortization. Staff will examine all changes to this regulatory asset balance through the
13 January 31, 2016, true-up cut-off date established by the Commission. Staff also recommends
14 for the next rate case that the resulting regulatory asset or liability created by the tracker
15 subsequent to the true-up cutoff of January 31, 2016, through the June 28, 2016, effective date
16 of rates in this proceeding be addressed through amortization in MAWC's next rate case.

17 Q. How does Staff propose to allocate the expense and un-amortized balance to
18 the various districts?

19 A. As in the previous case, WR-2011-0337, Staff is proposing to allocate these
20 amounts to each district based on the total square footage of tanks that require painting. Staff
21 will continue to evaluate its allocation method as part of the true-up audit.

22 Q. How does MAWC propose to address the existing regulatory asset for the tank
23 painting and inspection expense tracker?

1 A. MAWC proposed no adjustment to the \$1.3 million base level of tracker as
2 stipulated to in the last MAWC rate case. Also, no MAWC witness proposed an adjustment
3 or sponsored direct testimony supporting any amortization of the regulatory asset balance.

4 Q. Did any other parties recommend the discontinuation of the tank painting and
5 inspection expense tracker?

6 A. Yes. OPC witness Keri Roth examined the regulatory asset balance through
7 the end of the December 31, 2014 test year. At that point in time the regulatory asset balance
8 was \$1.43 million. OPC recommends that the regulatory asset balance be amortized over
9 three years and that the tank painting and inspection expense tracker be discontinued.

10 Q. How does Staff respond to OPC's proposals?

11 A. Staff will continue to examine tank painting and inspection expenses
12 throughout the true-up to determine if further adjustment is necessary. Staff continues to
13 support a five-year amortization of the regulatory asset balance. The five-year amortization is
14 consistent with the time period that Staff normally recommends for addressing regulatory
15 asset or liability amortizations in rate cases.

16 **INCENTIVE COMPENSATION**

17 Q. Has Staff made any changes to its direct filed position in regards to incentive
18 compensation?

19 A. Yes. Staff has reviewed the additional information provided in response to
20 Staff Data Request No. 0291 regarding MAWC's customer satisfaction and service quality
21 surveys. After reviewing the additional information, Staff has reconsidered its adjustment
22 proposing to disallow the portion of the incentive compensation associated with the surveys.
23 Staff will adjust its cost of service calculation to include \$310,068 of expense and \$146,026 of

Rebuttal Testimony of
Jason Kunst

1 capital cost that it had previously excluded. Staff's inclusion of the incentive compensation
2 capital and expense amounts that were tied to customer satisfaction and service quality
3 surveys increases Staff's total company revenue requirement recommendation by \$331,054.
4 Staff intends to include this change in the true-up accounting schedules that will be filed with
5 surrebuttal testimony on March 4, 2016.

6 Q. Does this conclude your rebuttal testimony?

7 A. Yes.

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-2015-0301

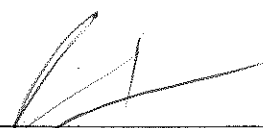
AFFIDAVIT OF JASON KUNST

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

ss.

COMES NOW JASON KUNST and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing REBUTTAL TESTIMONY; and that the same is true and correct according to his best knowledge and belief.

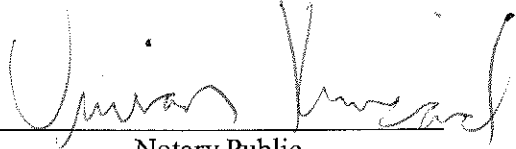
Further the Affiant sayeth not.



JASON KUNST

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of St. Louis, State of Missouri, at my office in St. Louis, on this 10th day of February, 2016.



Notary Public

VIVIAN KINCAID
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis County
My Commission Expires: June 06, 2018
Commission Number: 14893349