

MAWC 5

Exhibit No.:
Issues: Tank Painting, Supply Side
Energy Efficiency
Witness: Kevin H. Dunn
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2015-0301
SR-2015-0302
Date: February 11, 2016

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

REBUTTAL TESTIMONY

OF

KEVIN H. DUNN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

MAWC Exhibit No. 5
Date 3-25-16 Reporter JM
File No. WR-2015-0301

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN) WATER COMPANY FOR AUTHORITY TO) FILE TARIFFS REFLECTING INCREASED) RATES FOR WATER AND SEWER) SERVICE)	CASE NO. WR-2015-0301 CASE NO. SR-2015-0302
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AFFIDAVIT OF KEVIN H. DUNN

Kevin H. Dunn, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Kevin H. Dunn"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



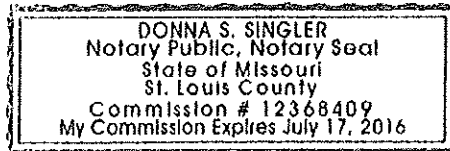
Kevin H. Dunn

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 9th day of February 2016.



Notary Public

My commission expires: July 17, 2016



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**REBUTTAL TESTIMONY
KEVIN H. DUNN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

TABLE OF CONTENTS

I. Introduction 1

II. Overview 2

 1. Tank Painting Tracker 2

 2. Supply Side Energy Efficiency..... 6

REBUTTAL TESTIMONY

KEVIN H. DUNN

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Kevin H. Dunn, and my business address is 727 Craig Rd, St.
4 Louis, MO 63141.

5

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. Yes, I have submitted direct testimony in this proceeding on behalf of
9 Missouri-American Water Company (MAWC or Company).

10

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. I will respond to the following issues that were raised in the testimony of the
13 Commission Staff, the Office of the Public Counsel (OPC), and other
14 interveners in this case.

- 15 1. Tank Painting Tracker; and
16 2. Supply Side Energy Efficiency.

17

18 **II. OVERVIEW**

19

20 **1. Tank Painting Tracker**

1 Q. PLEASE SUMMARIZE STAFF'S AND OPC'S RECOMMENDATION FOR
2 THE COMPANY'S TANK PAINTING TRACKER?

3 A. Both Staff (Jason Kuntz) and OPC (Keri Roth) recommend that the
4 Company's Tank Painting Tracker be discontinued. (Staff Report, p. 48; OPC
5 Roth DT, p. 17).

6

7 Q. WHY DO STAFF AND OPC RECOMMEND DISCONTINUING THE
8 COMPANY'S TANK PAINTING TRACKER?

9 A. Both Staff and OPC witnesses believe that tank painting can easily be
10 normalized. Staff states that painting and inspection expenses should not
11 qualify for a tracker because the timing of this expense is generally under the
12 Company's control, and the Company should be able to maintain the costs at
13 a relatively constant level with proper planning. OPC states that it believes
14 sufficient evidence is available to create a normalized level of expense. (Staff
15 Report, p. 48; OPC Roth DT, p. 17).

16

17 Q. WHAT IS TANK PAINTING?

18 A. Tank painting refers to the coatings applied to both the inside and the outside
19 of water storage tanks. These coatings allow the steel tank to be protected
20 from corrosion.

21

22 Q. HOW DOES TANK PAINTING BENEFIT YOUR CUSTOMERS?

23 A. Failure to timely replace the coatings may lead the tank to fail prematurely (i.e
24 shorten its life span) because of the destructive impact of corrosion. Tank

1 painting benefits our customers by extending the useful life of water storage
2 tanks and, therefore, the need to replace those tanks.

3

4 **Q. DO YOU AGREE THAT TANK PAINTING EXPENSE IS EASILY**
5 **NORMALIZED?**

6 A. No, I do not. MAWC believes the tank painting tracker is an appropriate
7 mechanism to insure that MAWC recovers no more and no less than its
8 actual tank painting expense. The cost to paint varying sizes and type of
9 tanks is vastly different and set an annual expenditure to recover this
10 variability is not easily accomplished. Also, the scheduling of tank projects
11 can only occur in spring and fall time frames and as weather or customer
12 demands fluctuate these windows of opportunities could close and sometimes
13 push projects into the next year. History has proven that only allowing a
14 normalized amount to be recovered in rates has resulted in MAWC failing to
15 recover its costs to paint and inspect tanks. Setting rates to recover an
16 average annual cost for tank painting means that each year a portion of any
17 cost above the average in one year will not be recovered by MAWC. In
18 addition, in any year that tank painting costs are below the average,
19 customers will pay for a cost that is not incurred. In the current case, the
20 tracker has resulted in an amount greater than the set point created in the
21 previous case. If there was not a mechanism to track this increase cost
22 MAWC would not recover the full cost painting and inspecting these tanks.

23

24 **Q. HOW DOES THE TRACKER MECHANISM OPERATE?**

1 A. The tracker was established in order to provide adequate funds for MAWC to
2 undertake the extensive tank painting program. To the extent MAWC spends
3 less than the amount of the tracker included in rates, the customer is
4 protected by setting up a regulatory liability that will flow back to customers
5 over time. If MAWC spends more than the authorized tracker amount, a
6 regulatory asset is established that should be recovered by MAWC over time.
7 This mechanism provides assurance that MAWC will utilize those funds for
8 the tank painting program. The customer pays no more or less than the actual
9 cost of tank painting.

10

11 **Q. WHY IS THE TRACKER METHOD APPROPRIATE?**

12 A. Because, as I mentioned, above, tank painting costs are extremely variable, a
13 tracker mechanism is the best way to account for that variability. For example
14 in the last five years, tank painting costs have ranged from a low of \$828,602
15 in 2013 to a high of \$1,762,168 in 2012. Additionally, the 11 million gallon
16 Stratmann Tank #2 will need to be painted in the next few years. MAWC
17 estimates that this tank alone will cost \$2.2 million. The Tracker Method also
18 establishes the optimal level of expense (the average tank interior and
19 exterior cost spread over the appropriate life expectancy of the coating of the
20 tanks along with inspection costs) so that the appropriate cost causers will
21 pay for the coatings as they wear. This promotes equity because it more
22 closely matches the costs of tank painting with the generations of customers
23 who "used" the tanks. If MAWC spends above the optimal level the difference
24 is amortized to the customers in a timely manner to offset the overage. On the

1 other hand, if MAWC does not expend the optimal level then the liability
2 created should be charged back to the customers in a timely manner.

3

4 **Q. IS THE CURRENT TRACKER LEVEL OF \$1,300,000 THE OPTIMAL**
5 **LEVEL OF EXPENSE?**

6 A. No. MAWC believes that the current level included in the tracker is under-
7 recovering the actual cost. This is based on the increase in coating costs
8 since the last rate case. However, since MAWC is proposing to maintain the
9 tracker, it did not propose a change in the tracker level of \$1,300,000.

10

11 **Q. DOES MAWC AGREE THAT AN ADJUSTMENT TO AMORTIZE THE**
12 **CURRENT REGULATORY ASSET BALANCE SHOULD OCCUR?**

13 A. Yes, MAWC believes that the tracker balance at the end of January 31, 2016
14 should be amortized over a period of three years, and to include the
15 unamortized balance of the regulatory asset in rate base. This will allow
16 MAWC to fully recover its cost for painting tanks

17

18 **Q. WHAT RECOMMENDATION DO YOU HAVE FOR THIS ISSUE?**

19 A. I recommend that the Commission continue to allow the use of the
20 Company's Tank Painting Tracker at \$1,300,000 annually; to amortize the
21 tracker balance as of January 31, 2016, over a period of three years; and to
22 include the unamortized balance of the regulatory asset in rate base.

23

24 **2. Supply Side Energy Efficiency**

1 Q. WHAT DOES THE MISSOURI DEPARTMENT OF ECONOMIC
2 DEVELOPMENT DIVISION OF ENERGY RECOMMEND TO PROMOTE
3 SUPPLY-SIDE WATER AND ENERGY EFFICIENCY?

4 A. The Missouri Department of Economic Development Division of Energy
5 ("DE") proposes a deferral mechanism to promote supply-side energy
6 efficiency and water loss reduction and to facilitate investments in supply-side
7 infrastructure. The proposed deferral mechanism would apply to investments
8 made in excess of a \$100M annual investment threshold. Limiting the
9 authorized deferral only to investments made in excess of \$100M per year is
10 designed to ensure that this mechanism promotes additional investment in
11 supply-side energy efficiency and water loss reduction above the Company's
12 anticipated average annual level of capital investment. (Epperson Direct
13 Testimony)

14
15 Q. WHO WOULD DETERMINE THE PROJECTS TO BE COVERED BY THE
16 PROPOSED DEFERRAL MECHANISM?

17 A. Initially, MAWC would determine the energy-saving projects to be installed.
18 However, as DE Ms. Epperson discusses, the potential projects identified
19 should be reported to Staff, Office of Public Counsel, and DE to share and
20 discuss the merits of the projects. The discussions should review the savings
21 and rate impact created by the proposed expenditures.

22
23 Q. DOES MAWC HAVE AN ALTERNATIVE PROPOSAL FOR THE
24 DEFERRAL MECHANISM?

1 A. Yes. MAWC proposes to set the threshold annual investment level to an
2 amount of investment that does not include the current annual expenditures in
3 the Company's Infrastructure Systems Replacement Surcharge (ISRS). The
4 DE states that MAWC is expected to expend \$436 million in capital since the
5 last rate case. Of this amount, the ISRS expenditures are estimated to be
6 \$221 million. This leaves approximately \$215 million of plant expenditures
7 excluding ISRS expenditures. MAWC would recommend that the threshold
8 annual investment level be the average of actual total annual expenditures,
9 less actual total annual ISRS between rate proceedings. For example, using
10 the estimates noted above would result in an annual threshold investment
11 level of approximately \$50 million.

12 As the ISRS expenditures will not be part of the deferral mechanism, MAWC
13 believes the ISRS expenditures should not be included as part of the
14 calculation of the threshold investment level.

15 Projects reviewed and discussed with Staff, OPC, and DE would then be
16 eligible to be installed, if MAWC has additional capital available above the
17 threshold amount. The deferral mechanism cap between rate proceedings
18 would be \$100 million.

19

20 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 A. Yes, it does.