Exhibit No.:	
Issues:	*Future Test Year, COVID-19, AAO, Tax Cut and Jobs Act of 2017, AFUDC rate, Affiliated Transactions*
Witness:	*Kimberly K. Bolin*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*WR-2020-0344*
Date Testimony Prepared:	*January 15, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

Jefferson City, Missouri
January 2021

REBUTTAL TESTIMONY OF

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Q. Please state your name and business address.

A. My name is Kimberly K. Bolin. My business address is P.O. Box 360, Suite 440, Jefferson City, Missouri 65102.

Q. Are you the same Kimberly Bolin that contributed to Staff's Costs of Service Report (Staff Report) that was filed on November 24, 2020?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your testimony?

A. In this testimony, I will address the proposal made by Missouri-American Water Company (MAWC) witnesses that the Missouri Public Service Commission (Commission) adopt a future test year approach to set customer rates for MAWC. This proposal is primarily sponsored in the direct testimony of MAWC witness John M. Watkins at pages 21 – 33. I also explain the reasons why Staff is not persuaded that adoption of future test year ratemaking is appropriate at this time for MAWC.

In this rebuttal testimony, I also address corrections I made to the amount of Staff's Amortization of Excess Accumulated Deferred Income Taxes (ADIT) that were a result of the Tax Cuts and Jobs Act of 2017 (TCJA). As part of this issue, I also will address the change in the proposed amortization periods of the regulatory assets related to the National Call Center

and Shared Services Center that were included in the Stipulation and Agreement in MAWC's last rate case, Case No. WR-2017-0285.

I also address the ratemaking treatment of the COVID-19 accounting authority order (AAO) that was granted in Case No. WU-2020-0417 for this case.

Lastly, I address The Office of the Public Counsel's (OPC) witness Robert E. Schallenberg's concerns with the Allowance for Funds Used During Construction (AFUDC) rate that MAWC is currently using and OPC witness Dr. Geoff Marke's recommendation that MAWC submit a Cost Allocation Manual (CAM) and seek Commission approval of said CAM.

FUTURE TEST YEAR

Q. What is a "test year"?

A. A "test year" is 12 months of utility financial data that serves as the starting point for the analysis of utility rates in a general rate proceeding. In Missouri, a test year consists of 12 months of historical financial data that is available for review and audit at the time a utility files its rate change application.

Q. What is a "future test year"?

A. A "future test year" is a ratemaking approach that establishes customer rates based on estimates of the levels of revenues, expenses and rate base the utility will incur during a 12-month period at some point in the future; usually the first 12 months that new rates will be in effect.

Q. How is the historical test year approach currently used in Missouri different from the future test year approach proposed by MAWC?

A. Under a historical test year approach, customer rates are established using actual past levels of revenues, expenses and rate base. Test year revenues/expense/rate base amounts

are the starting point for rate analysis, and are subject to both normalization adjustments to eliminate abnormal test year amounts and annualization adjustment to reflect the latest known trends in the utility's cost structure. Normalization and annualization adjustments can and do incorporate financial information beyond the strict 12 month test year period to reflect material changes in utility cost of service up to a few months before the operation-of-law date. Unlike the case with a future test year, historical test year ratemaking does not directly reflect forecasted values for revenues, expense or rate base.

Q. Why is MAWC proposing that a future test year be used in this case to set rates?

A. Based upon a review of MAWC witness Mr. Watkins' direct testimony, the primary rationale for a future test year appears to be a belief that the use of a historic test year at this time will not afford MAWC a reasonable opportunity to earn its authorized rate of return prospectively. This proposal is premised upon an assertion that, under a historic test year approach, the amount of "regulatory lag" experienced by MAWC will be excessive.

Q. What is "regulatory lag?"

A. "Regulatory lag" is the lapse in time between when a utility experiences a financial change and when that change can be reflected in its rate levels. Regulatory lag can be either detrimental or beneficial to a utility's earnings, and under either scenario, the existence of this phenomenon serves as an important incentive on the utility to be as cost-conscious and efficient over time as possible, in order to maintain its earnings levels.

Q. Has Staff reviewed information concerning the use of future test years in other jurisdictions in this case?

A. Yes, Staff's primary source for this information was the two National Regulatory Research Institute (NRRI) reports previously referenced and attached to Staff's Report in this case.

Q. Is use of future test years common in other jurisdictions?

A. Based upon the information reviewed by Staff, it appears that at least 14 state public utility commission (PUCs) use future test year approaches as a matter of general policy.

Q. Did Staff identify any areas in which PUCs that use future test years vary in practices?

A. Yes, PUCs differed in the amount of upfront information filed by the utility to support a future test year, the source from which utilities employ escalation or inflation factors to adjust expense amounts; whether or not that the PUC staff perform an independent forecast of some or all of the utility's financial data instead of solely relying on proposed adjustments to the utility's forecasts; whether a further third party audit of utility forecasts is necessary beyond PUC staff review; and whether some components of the utility's forecasted financial results should be "trued-up" to actual results at some point in the process.

In the event that the Commission determines that further consideration should be given to the implementation of future test years in Missouri, all of the above areas should receive further scrutiny.

Q. In his direct testimony, Mr. Watkins portrays the historical test year model as unsuitable for utilities with declining revenues and rising costs. Does Staff agree with this characterization?

A. No. Staff agrees that the current cost environment for regulated utilities makes ratemaking a more challenging endeavor under a historical test year approach than in some past

timeframes. However, Staff does not agree that the use of a future test year approach instead would necessarily produce more accurate or appropriate rates than under a historic test year. In addition, Staff has concerns regarding the effects of use of future test years on existing utility incentives to provide safe and adequate service at the lowest reasonable cost of service.

Q. Why would use of future test years not necessarily lead to more accurate or appropriate rate levels than the historical test year approach?

A. In the hypothetical scenario wherein utility budgets could be relied upon to accurately forecast future financial events, there would be little conceptual reason to object to setting rates on a forecasted basis. However, in reality, budgets may be assembled using either conservative (easier to achieve) or challenging (harder to achieve) assumptions; may be put together with great attention to consistency between revenue, expense and capital assumptions, or not; may be prepared in great detail or by "broad brush;" and may be subject to significant bias in respect to the results used for ratemaking purposes, or not. For all of these reasons, the information that would be used to set rates under a future test year is inherently much more speculative and less reliable than the historical cost information relied upon traditionally by this Commission to establish utility rates.

Q. Why is Staff concerned regarding the "incentive" effects of a future test year process?

A. Stated broadly, the use of any test year approach to set rates is intended to establish an overall revenue/expense/rate base relationship on which current customer rate levels should be set. Under a historical test year approach, all of the financial data is based upon actual recorded utility accounting records, adjusted to normalize and annualize key utility data to reflect the most current trends beyond the test year in the underlying costs. Under a

future test year approach, this relationship is based upon forecasted data. In essence, the revenues/expense/rate base relationship established in rates under either test year approach means that if a utility can manage its expenses and capital costs to keep their growth in line with the growth trend for revenues, it will still be able to earn a rate at or near the overall rate of return previously established by the Commission.

Under a historic test year, this overall revenue/expense/rate base relationship efficiency target is set based upon actual past cost of service results incurred by the utility. In contrast, under a future test year approach, the overall efficiency target is set using speculative future financial information. In the specific circumstances for MAWC in this case, and in general for utilities seeking rates set based on forecasts, it may be safely assumed that the revenue/expense/rate base relationship forecasted by the utility will lead to higher rates than if historic data was relied on instead. Therefore, while a utility using a future test year will still have financial incentives to attempt to keep its expense, capital costs within parameters assumed in setting its rates, that expense, and rate base levels will very likely be higher than the similar levels produced by a historical test year. For this reason, utilities inherently have less incentive to control capital costs and expenses under a future test year approach than under a historical approach.

Q. Wouldn't it be "unfair" to the utility for a public utility commission to employ historical test year approaches for setting rates in a rising cost of service environment?

A. No. That assertion ignores the reality that utilities ultimately have a substantial amount of control over their costs. The utility chooses which capital projects to undertake. The utility also decides how many employees it needs, and what to pay those employees, among many other decisions. A utility should be assumed to have some level of control of its financial

destiny. For this reason, the abstract consideration of whether a future test year or historic test year is more apt to produce rates consistent with a utility's ongoing cost of service is not the only question the Commission should explore. The question of how the Commission's choice between future or historic test year approaches may affect the amount of a utility's ongoing cost of service is also important to examine. Staff's concern is that forecasts of rising costs accepted using future test years for ratemaking purposes may to some degree become "self-fulfilling prophecies," as the utility incentives to "beat" those estimates would be weak at best under future test year regulatory structure.

Q. Is use of a future test year consistent with the "matching principle" used in ratemaking in Missouri?

A. Theoretically, yes. The "matching principle" used in Missouri requires that all major components of a utility's cost of service be measured at the same point in time in developing customer rates. In a future test year scenario, if the forecasts of major elements of the utility's revenues, expenses, and rate base are calculated at the same point in time, then the matching principle would seem to be maintained. However, this principle operates under a historic test year approach through use of verifiable known and measurable data. With a future test year, successful application of the matching principle to the utility's forecasted data is entirely dependent upon the utility's ability to accurately forecast its revenues, expenses, and capital costs without significant bias and with attention to the inter-relationship between these forecast assumptions.

Q. Is the use of a future test year consistent with the "known and measurable" principle traditionally used in ratemaking in Missouri?

A. No, not at all.

Q. In general, how did MAWC develop its future test year projections?

A. For revenues, MAWC applied an estimated annual sales decrease assumption to the adjusted level of customer sales through use of a regression analysis. MAWC's projected revenues calculation is being address by Staff witness Jarrod J. Robertson.

For plant in service, depreciation reserve, accumulated deferred income tax reserve, and most other rate base items, MAWC projected monthly balances for the period of June 2021 through May 2022 (the "future test year"), and used a 13-month average of those balances for inclusion in its future rate base. The value of assumed future plant in service additions were obtained from MAWC's 2020-2024 "Strategic Capital Expenditure Plan."

For operating expenses, MAWC performed a few discrete analyses of individual expense items to determine their projected level. However, for many expense items, MAWC simply applied a general inflation factor to the adjusted historical test year balance in order to project these amounts into the future.

Q. For rate base valuation, how did the amount of projected net plant additions assumed by MAWC past the true-up cut-off date in this case (December 30, 2020) compare to the level of net plant additions made by MAWC in prior periods?

A. To calculate an approximate measure of the growth in MAWC's rate base in the past and projected through May 2022, Staff subtracted the actual or estimated annual increase in MAWC's accumulated depreciation reserve and accumulated deferred tax reserve from its actual or estimated annual increase in net gross plant in service (plant additions less plant retirements).

Based on MAWC's filed case, the net growth in rate base resulting from subtraction of MAWC's projected growth in depreciation and deferred tax reserve balances from its projected

net plant additions amount is $219,909,567 for the calendar year 2020 compared to the value of net rate base at year-end 2019, which is a net increase of 12.55%. The comparable amount for 2021 over 2020 is $144,193,561 or an 8.48% increase in net rate base from the end of 2020. MAWC projects its net rate base will increase by $42,064,869 for the months of January through May 2022, for a further 2.01% increase.

To review MAWC's recent growth trend for rate base, Staff reviewed MAWC's Commission Annual Report filing from 2010 through 2019 and used the same calculation as described above. The growth amounts and percentage increases in MAWC's net rate base from recent years are as follows:

2011 Compared to 2010	$45.2 million	4.5%
2012 Compared to 2011	$63.6 million	6.06%
2013 Compared to 2012	$36.1 million	3.23%
2014 Compared to 2013	$59.3 million	5.15%
2015 Compared to 2014	$86.7 million	7.17%
2016 Compared to 2015	$79.8 million	6.16%
2017 Compared to 2016	$294 million	21.39%[1]
2018 compared to 2017	$114 million	6.87%
2019 Compared to 2018	$151 million	8.46%
Average for All Years	**$103 million**	**7.67%**
Average for All Years Excluding 2017 compared to 2016		**5.29%**

[1] A significant portion of this rate base increase is due to a reduction in the Accumulated Deferred Income Tax offset of $131 million due to changes in tax rate enacted by the Tax Cuts and Jobs Act.

As can be seen, for purposes of this case MAWC is projecting that it will experience significantly higher growth in its net rate base from January 2020 through May 2022 that it has recently experience on average.

Q. Does MAWC need to increase its construction activity beyond recent levels in order to provide safe and adequate service?

A. No. Currently MAWC is providing safe and adequate service and Staff is not aware of anything that would cause MAWC to need to increase construction activity in order to continue to provide safe and adequate service.

Q. Does Staff have specific concerns regarding the use of estimated capital expenditures in setting rates?

A. Yes. The first concern is that reliance on projected plant additions in setting current customer rates would effectively put an end to the Commission's "used and useful" standard for determining plant in service to be included in rates, at least for water and sewer utilities. This standard has been in place for many decades. Staff's position is that the used and useful standard is still appropriate ratemaking policy under almost all circumstances. Nowhere in MAWC's direct testimony does MAWC address a scenario where plant additions assumed for purposes of setting rates are not actually placed in service within the timeframe forecasted by the utility, much less propose any remedies for that situation.

Staff's second concern is that use of forecasted plant additions to set rates can provide inappropriate incentives for utility management in some circumstances. Staff understands that annual budgeting processes in general are intended to provide an operational and financial plan for the coming year. A good annual budget should provide for fairly rigorous but achievable

financial targets, and be flexible enough to incorporate changes in operating and financial plans as events occur that were not anticipated.

A good illustration of this is a utility's capital budget. This type of budget should be based on the costs associated with specific projects and ongoing construction programs that are judged by the utility to be high priority in nature. However, unanticipated events may occur that change or should change the utility's priorities; as a result, some new expenditures may be given higher emphasis and other projects delayed until a later date.

Under traditional regulation, there should be no direct impacts on ratepayers from these budget adjustments. However, with the use of future test years, complications arise from budget priority changes as the cost of projects included in customer rates may be cancelled or postponed. This may lead to a reluctance by the utility to change the priority of its budgeted plant additions in light of unforeseen circumstances because of the perceived inconsistency with its capital budget reflected in its rates, even if a change in priority would be the most prudent course of action.

Q. Does Staff have a similar concern with use of future test years for expenses?

A. Yes. Budgeted payroll increases are a good example of the same phenomenon relating to forecasted expenses. Once a budgeted salary increase is approved in setting rates, the utility may perceive that the best course of action is to "lock in" that budget assumption, even if a smaller amount of increase was optimal to the utility.

Q. How do MAWC's forecasted level of operating expenses built into its case compare to its prior actual levels of operating expense?

A. "Operating expenses" is defined in this testimony as all water and sewer operating and maintenance expenses, as well as total administrative and general expenses. These calculations exclude depreciation, amortization, income tax, and other tax expense.

MAWC is seeking a total of $142,479,008 in operating expense in this proceeding. That is the level that MAWC argues is reasonable to project that it will incur for the 12 months of June 2021 through May 2022 (the future test year). This compares to the following past annual levels of operating expense, again obtained from the Commission Annual Reports for the years 2010 through 2019:

2010	$120.2 million
2011	$122.2 million
2012	$130.9 million
2013	$126.4 million
2014	$125.3 million
2015	$125.8 million
2016	$125.4 million
2017	$125.3 million
2018	$137.8 million
2019	$128.6 million

Q. Does MAWC's proposed amount of expense appear to be out of line with recent history?

A. Yes. As can be seen, MAWC experiences minimal growth in operating expenses from 2010 to 2019, with an average annual growth rate for these expenses of approximately 0.86%. Furthermore, MAWC's operating expenses dropped 6.61% from

2018 to 2019. These results point to an apparently good record of cost control by MAWC in recent years. However, in this case MAWC has projected for rate purposes a 15.9% increase in operating expense over 2019 levels, a rate of increase that translates into an average annual increase to these costs of approximately 5.3%. This is five times more than the actual escalation rate experienced by MAWC for operating expenses for the years 2010 through 2019.

Q. What are the primary drivers behind MAWC's higher proposed level of operating expenses in this case?

A. One reason for this increase is that MAWC is projecting a significant increase in the number of employees compared to the recent past in this proceeding. MAWC's case is based upon an employee level of 727 positions, while MAWC only had 672 employees as of June 30, 2020. In MAWC's last rate case (Case No. WR-2017-0285), MAWC projected an employee level of 708 positions at May 31, 2019.

Another reason for MAWC's forecast of rapidly growing expense levels is its approach of applying "inflation factors" to adjusted test year expense levels. In this case, MAWC applied an inflation factor to the adjusted test year balances for many of its expense items, and assumes that the dollar value of these expenses will increase at annual rate of 2% for 2021 and 2.1% for 2022.

Q. What is the source of MAWC's proposed inflation factors?

A. MAWC used the Gross Domestic Product (GDP) Price Index forecast percentages complied by "Blue Chip Economic Indicators."

Q. What is Staff's position concerning the use of inflation/escalation factors in the context of future test years?

A. Staff is opposed to use of inflation factors in concept, and further objects to MAWC's specific proposal to use the Blue Chip GDP index estimate for this purpose. This inflation estimate is applicable to the entire U.S. economy, including purchases by consumers, governmental entities, and all types of manufacturing enterprises and service companies. While utilities are a part of the overall national economy, it should be obvious that utilities make up only a small part of the national economic picture, with water and sewer utilities being only a part of the national utility sector. For this reason, it does not make sense to assume that growth over time in the costs of MAWC would necessarily have much correlation with growth in costs for the U.S. economy as a whole.

Q. How does MAWC's recent trend in operating expense compare to the Blue Chip GDP results?

A. The following table compares the actual increase/decrease in MAWC operating expenses from 2010 through 2019 with the Blue Chip GDP forecast for each of those years:

	% Change	GDP Estimate
2011 Over 2010	1.7%	1.5%
2012 over 2011	7.1%	1.9%
2013 over 2012	-3.4%	1.9%
2014 over 2013	-0.9%	1.7%
2015 over 2014	0.4%	1.7%
2016 over 2015	-0.3%	1.7%
2017 over 2016	-.05%	2.3%
2018 over 2017	9.89%	2.7%
2019 over 2018	-6.61%	2.4%

Q. Has MAWC claimed in this case that it has consistently beat the results of general inflation factors in the past in its cost control efforts?

A. Yes, at pages 27-28 of Mr. Watkins direct testimony, he states that MAWC has been successful in controlling costs in the recent years and claims MAWC's cost control efforts have compared favorably to the GDP Index.

Q. Would use of this type of escalation factor for ratemaking purposes serve as a reasonable proxy for expected growth in MAWC expenses based upon Mr. Watkins' assertions?

A. No. MAWC has shown the ability to consistently "beat" the results of general inflation factors in the past in its cost control efforts.

Q. Does Staff have other concerns with MAWC's approach to forecasting future financial results?

A. Yes. In the Staff Report in the section concerning future test year, Staff mentioned a concern that utilities using a future test year would not forecast reasonable estimates of increased productivity or greater efficiency in their requested revenue requirements. Two examples of this concern are the number of main break incidents and the water loss percentage.

Q. Why do main breaks have a detrimental impact on utility expenses?

A. When main breaks occur, the break must be fixed quickly in order to restore water service to customers. A large number of main breaks will result in a material amount of maintenance expense for water utilities.

Q. Have MAWC's main breaks in its St. Louis County service area been decreasing in recent years?

A. Yes, in all but one year. The following are the total main breaks for St. Louis County for the last five years:

Year	Number of Main Breaks
2015	545
2016	525
2017	608
2018	426
2019	277

Q. Is MAWC projecting a reduced level of main breaks for its future test year?

A. No. MAWC is basing its cost of service in this case for the St. Louis county service area using a starting point of a historical three-year average of main break occurrences, and then escalates that value using the Blue Chip GDP inflation factor.

Q. Is MAWC including budgeted main replacement program expenditures in its forecasted rate base in its requested revenue requirement?

A. Yes.

Q. Would reducing MAWC's water loss percentage have the impact of decreasing MAWC's revenue requirement?

A. Yes. The greater the percentage of water losses, the higher the utility's chemicals, electricity and purchased water expenses will be.

Q. Does MAWC's address water loss percentage in MAWC's direct testimony in this case?

A. In the direct testimony of MAWC witness Grant A. Evitts at pages 19-23, he discusses MAWC's efforts to reduce its "water losses." Mr. Evitts lists a number of operational steps MAWC has or will take in effort to reduce its current water loss percentage.

Q. Is MAWC forecasting a reduced water loss percentage for purposes of setting rates in this case?

A. No. MAWC uses a historical three-year average of the water loss percentage to apply to its estimated future system delivery amount. The future system delivery amount is then used to calculated chemicals, purchased water expense, and electricity expense.

Q. Does MAWC currently take advantage of any "special" rate mechanisms?

A. Yes. I am defining "special" rate mechanisms as those that allow utilities to recover certain costs in customer rates outside of normal utility general rate cases.

MAWC currently files for rate increases under the Infrastructure System Replacement Surcharge (ISRS) process for its St. Louis County service area, which allows for periodic rate changes associated with certain plant in service additions outside of a general rate case. MAWC currently is allowed use of "tracker mechanism" for its pension and other post-employment retiree benefits (OPEBs) to shield it from earnings impacts associated with fluctuations in these costs over time. Recently, MAWC was granted an AAO to defer costs and savings related to the COVID-19 pandemic.

Q. Is MAWC seeking authorization to use any other new special rate mechanisms in this proceeding that is separate from its future test year proposal?

A. Yes. MAWC is seeking approval in this case to use a "revenue stabilization mechanism," which is a type of mechanism commonly known as revenue "decoupling."

MAWC is also seeking a property tax tracker in this case, which would shield MAWC from any changes in property tax expense.

Q. What is the relevance of these other special mechanisms to consideration of MAWC's future test year proposal in this case?

A. Utilities have frequently argued that continued reliance on utility ratemaking rules and policies in a "rigid" or "inflexible" manner, including strict adherence to historical test year ratemaking, is no longer appropriate in today's rising cost utility environment. However, Missouri ratemaking practices over time have not been rigid or inflexible. The Missouri Legislature and the Commission have made significant modifications to the utility ratemaking process over the last ten to fifteen years that have aided Missouri utilities in maintaining their earnings levels at reasonable levels by reducing regulatory lag. These initiatives include authorization of fuel adjustment clauses for electric utilities, the ISRS process for natural gas utilities and MAWC, the environmental cost adjustment mechanism and increased use of tracker mechanisms.

To the extent that MAWC or other utilities urge adoption of major substantive changes to the Commission's current ratemaking process, including use of future test years, Staff encourages the Commission to consider whether more limited modifications to the process may be responsive to any legitimate utility concerns in lieu of more far-reaching and potentially disruptive proposals such as future test year implementation.

Q. What is the relationship of MAWC's Revenue Stabilization Mechanism (RSM) proposal to use of a future test year?

A. Under a future test year approach, MAWC would forecast the level of future customer sales as part of establishing new rate levels. With the RSM mechanism in place, any

difference between assumed utility sales for purposes of setting rates and actual sales levels will be "trued-up" and the financial impact of those differences will be returned over time to either the utility or its customers. Because a utility will be automatically protected from the financial impact of future fluctuations in customer sales if an RSM-type mechanism is approved in the context of historical test year ratemaking, there would be no apparent need to forecast future customer sales in setting rates.

Q. Is Staff suggesting that MAWC's RSM proposal and future test year proposals should be viewed as being alternative in nature?

A. No. The RSM/decoupling concept presents a host of practical and theoretical concerns and issues which are not related to future test year issues, and which I am not addressing for Staff.[2] At this time, Staff is not recommending that the Commission adopt either the RSM or a future test year approach for ratemaking purposes in this case. However, Staff is also recommending in the alternative that under no circumstances should the Commission choose to adopt both proposals.

Q. What is Staff's overall position regarding MAWC's request for use of a future test year in this proceeding?

A. Staff's position is that MAWC has failed to provide sufficient evidence that the Commission should change its long-standing practice of relying on historical test year data to set utility rates, and its future test year proposal should not be adopted.

Q. In Staff's view, would setting MAWC's customer rates in this proceeding on a historical test year basis still allow it a reasonable opportunity to earn a fair rate of return?

[2] Staff witness James A. Busch will be addressing MAWC's RSM proposal in his rate design rebuttal testimony.

A. Yes. Use of historical test year ratemaking for MAWC would provide the utility with continued and appropriate incentives to minimize its cost of service to the benefit of customers.

Q. In the event the Commission adopts MAWC's request in this case for a future test year, does Staff recommend that certain conditions be attached to that approval?

A. Yes. Staff recommends that if the Commission should adopt the use of a future test year the Commission impose the following conditions:

1) Use of general inflation factors should not be allowed for purposes of escalating utility costs in the context of a future test year;

2) Utilities using future test years should be required to demonstrate that the sponsored financial projections reflect reasonable assumptions of increasing productivity or efficiency compared to prior historical results;

3) Utilities using future test years should be required to return amounts to customers if projected plant additions reflected in customer rates are not in-service by the end of the future test year; and

4) Utilities using future test years should be ordered to provide ongoing variance analyses to document differences between actual revenue, expense and capital cost results and the projected cost amounts used to set rates, as well as the major reasons for this differences.

AMORTIZATION OF EXCESS ADIT AND OTHER REGULATORY ASSETS

Q. Do you have any corrections to make to the amount of your amortization of the excess ADIT?

A. Yes. I had a formula error in my workpaper. The following are the corrected amortization amounts:

Federal Protected Plant	$ 3,006,185
Federal Unprotected Plant	$23,527,662
State Unprotected Plant	$ 7,207,588
Federal Unprotected Non-Plant	$(9,379,411)
State Unprotected Non-Plant	$(1,326,106)
Total	$23,035,388

Q. What is the dollar difference as a result of your change?

A. The Federal Unprotected Non-Plant amortization changed from $(9,083,280) to $(9,279,411). This resulted in lowering the total amortization by $295,131.

Q. In the Stipulation and Agreement in MAWC's last rate case (Case No. WR-2017-0285) did the signatories agree that the amortization of the regulatory assets related to the National Call Center and Shared Services Center be amortized over the same period as the unprotected ADIT liabilities?

A. Yes. The Stipulation and Agreement stated: "The amortization of regulatory assets related to the National Call Center and Shared Services Center will be amortized over the same period as the unprotected ADIT liabilities, not to exceed ten years." In Staff's Report filed in this case, Staff failed to change the amortization period for these two regulatory assets. Staff has now included adjustment to reflect five-year amortizations for both regulatory assets, consistent with the proposed amortization period for unprotected ADIT liabilities.

Q. Does Staff agree with MAWC that all plant-related ADIT should be amortized over Average Rate Assumption Method (ARAM)?

A. No. What should govern the amortization period is whether the ADIT is protected or unprotected, not if it is related to plant or not plant related.

COVID-19 AAO RATE RECOVERY

Q. Has Staff reviewed MAWC's quarterly report filed in Case No. WU-2020-0417 that quantified all costs, revenues and savings related to the COVID-19 pandemic?

A. Yes.

Q. How much COVID-19 related costs and savings has MAWC incurred as of September 30, 2020?

A. Per MAWC's report, as of September 30, 2020, MAWC has incurred costs related to the pandemic in the amount of $4,101,372 and savings of $261,516, for a net of $3,839,856.

Q. Does Staff disagree with MAWC's calculation of these amounts?

A. Yes. MAWC has used bad debt amounts recorded in the general ledger for deferral purposes, which include certain accruals to determine the amount of ongoing bad debt expense. Staff would recommend the use of net write-offs for the amount of bad debt expense to include in the deferral. Net write-offs are used in determining bad debt expense when setting rates and use of write-off information is how Staff calculated bad debt expense in this case and in MAWC's last rate case.

Q. As of September 30, 2020, has MAWC's level of net bad debt write-off exceeded $2,600,000 which is the annual level assumed to have been established in the Stipulation and Agreement in Case No. WU-2020-0417?

A. No. The amount of bad debt write offs incurred from March 1, 2020, through September 30, 2020, is $1,145,801. This amount does not exceed the $2,600,000 threshold level for deferral and potential later recovery.

Q. Is it possible the bad debt expense level will eventually exceed $2,600,000?

A. Yes. However, at this time it has not.

Q. Does Staff recommend the incurred level of MAWC's COVID-19 costs and savings (with bad debts adjusted to equal net write-offs) be allowed ratemaking treatment in this case?

A. Yes. The COVID-19 pandemic is an extraordinary event that has affected daily life in the U.S. to a degree not previously seen from a disease outbreak within living memory. In addition, the costs MAWC has incurred as of September 2020 exceed the 5% of net income and thus meet the materiality standard applicable for AAO deferrals.

Q. How did Staff calculate net income for purposes of determining the materiality of MAWC's COVID-19 deferral?

A. Staff used the net income amount derived from its filed accounting schedules in this case to determine net income.

Q. What amount is Staff recommending be included in the deferral as of September 30, 2020?

A. Staff recommends the amount of deferral as of September 30, 2020, should be $2,405,220.

Q. Over what period should these costs be amortized?

A. Staff believes a 5-year amortization is appropriate. This would result in an annual amortization of $481,044.

Q. Will Staff recalculate the COVID-19 AAO as part of Staff's true-up audit?

A. Yes. Staff will include the COVID-19 AAO costs up through December 31, 2020, as part of its true-up audit.

ACCUMULATED FUNDS USED DURING CONSTRUCTION (AFUDC)

Q. Does Staff agree with OPC witness Robert E. Schallenberg that the AFUDC accrual approach currently being used by MAWC is inappropriate?

A. Yes. MAWC is using an AFUDC rate that is comparable to its overall rate of return. Staff's position is that the AFUDC rate should be calculated assuming that short-term debt is used as the first source of financing for all construction activities, with any excess of Construction Work in Progress (CWIP) over the short-term debt balance assumed to be financed by MAWC's proportionate shares of common equity, preferred equity, and long-term debt included in its current capital structure. In this case, it appears that for many years MAWC has not had average CWIP balances that are larger than its average short-term debt balances, thus the short-term debt should have been used in the manner recommended by Staff to allow customers a proportionate benefit from MAWC's use of this low-cost source of capital.

Q. Has MAWC's AFUDC rate been questioned in any previous rate cases?

A. Not to my knowledge. It appears MAWC has been using the same methodology to calculate AFUDC for some time.

Q. Does Staff recommend that the Commission accept Mr. Schallenberg's adjustment of AFUDC back to 2002?

A. No. Staff recommends the Commission adjust the AFUDC that has been booked to plant during the test year, update and true-up period in this case. As stated before, MAWC has been calculating AFUDC in its current manner for some time without objection from other

parties in general rate cases. In addition, the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for Class A water utilities does not provide a specific formula or methodology to use in calculating AFUDC.

Q. Does the NARUC USOA for electric utilities provide a formula for calculation of the AFUDC rate?

A. Yes and this is what Staff recommends MAWC should follow for the test year going forward. The formula uses short-term debt rate for CWIP first, then applies the combination of the other financing (debt and equity) next to the remaining CWIP balance. The rate is calculated on an annual basis.

Q. If the Commission does not agree with Staff's use of short-term debt first in the calculation of the AFUDC, does Staff recommend an alternative solution?

A. Yes. If the Commission believes MAWC is properly calculating AFUDC, then the short-term debt balances should be included in American Water Works Company's (AWC) capital structure for this case.

Q. Why would this alternative approach to reflecting short-term debt financing in rates be appropriate?

A. Under almost all circumstances, short-term debt has a lower cost to utilities than alternative sources of financing such as long-term debt and common equity. If short-term debt is not used to establish a utility's AFUDC rate, then to allow customers to benefit from this low-cost financing it would be necessary to include short-term debt in the utilities' capital structure. If neither approach is used, customer rates will be set based upon an implicit assumption that the utility has little or no outstanding short-term debt. If the utility did have outstanding short-term debt, this result would be obviously inequitable.

Q. What amount of AFUDC does Staff recommend to remove from its case?

A. Staff recommends that $1,065,264 be removed from plant in service to reflect the correct amount of AFUDC for the test year and update period. Staff will update its adjustment in its true-up audit.

AFFILIATED TRANSACTIONS

Q. In Dr. Geoff Marke's direct testimony, page 19, lines 2 through 6 he recommends the Commission order MAWC create a new Cost Allocation Manual (CAM) using existing standards for other regulated utilities and stakeholder input. Does Staff support OPC witness Marke's recommendation?

A. Creation of a CAM is required under the existing affiliate transaction rules for electric and gas utilities. If the Commission decides water and sewer utilities with over 8,000 customers should be included in the affiliate transactions rule as part of Case No. AW-2018-0394, a CAM should be created as soon as reasonably possible so that MAWC will be in compliance with such rules.

Q. Does this conclude your rebuttal testimony?

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 General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas	)))))	Case No. WR-2020-0344

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COME NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Kimberly K. Bolin*; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Kimberly K. Bolin
KIMBERLY K. BOLIN