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Impacts on Revenue*
Witness: *Kimberly K. Bolin*
Sponsoring Party: *MoPSC Staff*
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Case No.: *WR-2020-0344*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

*Jefferson City, Missouri
February 2021*

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1 **SURREBUTTAL TESTIMONY OF**

2 **KIMBERLY K. BOLIN**

3 **MISSOURI-AMERICAN WATER COMPANY**

4 **CASE NO. WR-2020-0344**

5 Q. Please state your name and business address.

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

8 Q. Are you the same Kimberly Bolin that contributed to the Missouri Public Service
9 Commission Staff's (Staff) Costs of Service Report (Staff Report) that was filed on
10 November 24, 2020 and also filed Rebuttal testimony in this case?

11 A. Yes, I am.

12 **EXECUTIVE SUMMARY**

13 Q. What is the purpose of your testimony?

14 A. In this testimony, I address Missouri American Water Company's (MAWC or
15 Company) rebuttal testimony concerning future test year. I provide a corrected
16 Excess Accumulated Deferred Income Taxes (ADIT) amortization based upon information
17 provided in MAWC witness John Wilde's rebuttal testimony, while also addressing his rebuttal
18 testimony concerning the amortization period of the Excess ADIT. I also address
19 MAWC witness Todd Wright's rebuttal testimony concerning bad debt expense and the
20 possible recovery of bad debt expense through the COVID Accounting Authority Order (AAO).
21 I address the Office of Public Counsel (OPC) witness David Murray's rebuttal testimony
22 concerning the short-term loan in the COVID AAO and Robert Schallenberg's rebuttal
23 testimony concerning outside services. Finally, I address MAWC witness Gregory Roach's

1 rebuttal testimony concerning revenue and the possible impacts on water usage related
2 to COVID-19.

3 **FUTURE TEST YEAR**

4 Q. On page 6 of MAWC witness John Watkin's Revenue Requirement
5 Rebuttal Testimony, he asserts as an argument for future test year that MAWC has experienced
6 declining usage and will continue to do so in the future. Does Staff agree with MAWC that
7 usage has been declining or will decline in the future?

8 A. No. In fact on page 6 of Staff witness James A. Busch's rebuttal
9 testimony, he provides a table showing that revenue has increased over the past five years,
10 which indicates that overall customer usage has not declined over that period.

11 Q. Mr. Watkins states on page 4, lines 4-19, that historic test year ratemaking has
12 not been fair to the Company because it has produced consistently lower earnings for MAWC
13 than were anticipated in the Commission's orders. When Staff annualizes and normalizes
14 MAWC's historic test year as it has in this case, was MAWC overearning?

15 A. Yes. Staff has determined that MAWC is overearning by \$2,072,180. This
16 includes Staff adding the revenue requirement for the expected plant additions for July 2020
17 through December 2020 in the amount of \$19,896,569 to its recommended revenue
18 requirement.

19 Q. Does MAWC currently have five pending Certificate of Convenience and
20 Necessity cases before this Commission to approve?

21 A. Yes. In fact, MAWC has purchased nine systems since its last rate case,
22 Case No. WR-2017-0285. Despite MAWC witness Deborah Dewey's assertions that other
23 states have better ratemaking policy, it seems that MAWC is able to obtain the funding from

1 American Water Works Company (AWWC) to purchase additional systems within the
2 State of Missouri. This does not demonstrate or explain why MAWC continues to make
3 investments in additional properties in Missouri if traditional ratemaking is not sufficient.

4 Q. If MAWC is unable to earn its authorized return, does MAWC have the option
5 of filing rate cases on a more frequent basis?

6 A. Yes. On page six of Deborah Dewey's rebuttal testimony she claims that
7 regulatory lag has not allowed MAWC to earn its authorized return. If MAWC has been unable
8 to earn its authorized return, it could have chosen to file for a rate case sooner. It has been
9 approximately three years since MAWC filed its last rate case (WR-2017-0285).

10 Q. When does MAWC anticipate filing its next rate case?

11 A. MAWC has proposed to normalize rate case expense over three years because it
12 anticipates not filing a rate case until then.

13 Q. What are the discrete adjustments MAWC proposes in Brian LaGrand's revenue
14 requirement rebuttal testimony on page 4?

15 A. MAWC has proposed the following discrete adjustments:

- 16 • Utility Plant in Service additions net of Contributions through May 2021;
- 17 • Additional Accumulated Reserve and changes in Accumulated Deferred Income
18 Taxes on December 2020 Utility Plant through May 2021;
- 19 • Increased labor expenses due to union contract price changes or non-union merit
20 increases, and changes to labor related items that are based on the wage rate –payroll taxes,
21 401K and DCP expense;
- 22 • Contractual price increases for Insurance Other than Group;
- 23 • COVID-19 AAO amortization;

- 1 • Increased United States Postal Service rates that take effect January 24, 2021;
- 2 • Contractual changes or other known price changes for production costs; and
- 3 • MAWC's billing determinants and projected usage.

4 Q. Is Staff opposed to these discrete adjustments?

5 A. Yes. The items, other than the postage rate increase, are not known and
6 measurable at this time. In addition, to only update a few items through May 2021, would cause
7 a mismatch of rate base, revenues and expenses.

8 **AMORTIZATION OF EXCESS ADIT**

9 Q. In MAWC's witness John Wilde's rebuttal testimony he attached revised
10 schedule JRW-1 that corrects MAWC's previous calculation of Excess ADIT balances. Has
11 Staff reflected these corrections in its revenue requirement?

12 A. Yes. The following are the corrected amortization amounts:

13	Federal Protected Plant	\$ 3,006,185
14	Federal Protected Non-Plant	\$(403,843)
15	Federal Unprotected Plant	\$23,527,662
16	State Unprotected Plant	\$ 7,207,588
17	Federal Unprotected Non-Plant	\$(5,835,532)
18	State Unprotected Non-Plant	<u>\$(1,456,080)</u>
19	Total	\$26,045,980

20 Q. What is difference between Staff's and MAWC's proposal regarding
21 Excess ADIT?

1 A. MAWC wants to amortize all plant-related items using the ARAM method and
2 amortize all non-plant unprotected items over a 20-year period, which results in an annual
3 amortization of \$5,379,084 for a difference between Staff and MAWC of \$20,666,896.

4 Q. Mr. Wilde states that he does not agree with Staff’s five-year amortization of
5 unprotected plant and non-plant Excess ADIT for several reasons. One reason is the impact on
6 MAWC’s revenue requirement. What are the amortization periods that have been used for
7 other regulated Missouri utilities?

8 A. The table below shows the amortization periods that have been used for other
9 Missouri regulated utilities. The range in amortization periods is three to ten years:

	Case No. ER-2017-0145 and ER-2017-0146 Evergy	Case No. ER-2019-0355 Ameren Missouri	Case No. ER-2019-0374 Empire District Electric
Plant Protected ADIT	ARAM	ARAM	ARAM
Plant Unprotected ADIT	10 years	10 years	3 years
Non-Plant Unprotected Federal ADIT	10 years	10 years	3 years
Non-Plant Unprotected State ADIT	10 years	5 years	3 years

10
11 Q. Has MAWC returned any of the benefit of the tax reduction to the ratepayers
12 since the TCJA went into effect?

13 A. No. During the last rate case, the parties agreed to defer the return of the
14 Excess ADIT to ratepayers until the next rate case. Rates from MAWC’s last rate case went
15 into effect May 28, 2018, five months after the TCJA was signed.

1 Q. Mr. Wilde states on page 15, lines 11 -14 of his rebuttal testimony that Staff's
2 five-year amortization will cost ratepayers \$115.2 million. Is this correct?

3 A. No. Mr. Wilde's calculation assumes that a rate case will be filed every year.
4 Based upon statements made by MAWC and MAWC's past filing history, MAWC files a rate
5 case approximately every three years. The rate that ratepayers pay does not change in between
6 the rate cases, thus the amount charged to the ratepayers does not change during this
7 period either.

8 Q. Is Staff opposed to the three-year amortization proposed by MIEC and OPC?

9 A. No. However, Staff recommends a five-year amortization would more align
10 with the five year amortization of the "catchup period" that was agreed to in the Stipulation and
11 Agreement approved in the last rate case.

12 Q. What is the "catchup period?"

13 A. The catchup period is the amount of amortization that would have occurred
14 starting January 1, 2018 when the Tax Cut and Jobs Act went into effect through the effective
15 dates in the rate case (May 31, 2021).

16 **COVID-AAO RATE RECOVERY**

17 Q. In Case No. WU-2020-0417, MAWC was allowed to defer for possible future
18 recovery interest expense on MAWC's approximately \$70 million short-term loan that was
19 entered into on March 20, 2020. OPC witness David Murray opposes the inclusion of the
20 interest expense for the short-term debt in MAWC's COVID AAO because he asserts that
21 MAWC is already recovering the interest expense through AFUDC. Does Staff agree with
22 Mr. Murray?

1 A. No. However, Staff recommends, to prevent double recovery, that the interest
2 expense associated with this short-term debt be included in the COVID AAO and excluded
3 from any calculation of AFUDC for the period of March 2020 through March 31, 2021.

4 Q. On page 13 of MAWC witness Todd Wright’s Rebuttal Testimony he refers to
5 Case No. WU-2020-0417 as the Commission acknowledging the current economic climate and
6 the possibility of higher bad debts. Can MAWC request an extension of the COVID AAO past
7 March 31, 2021?

8 A. Yes. Per the Stipulation and Agreement in Case No. WU-2020-0417,
9 paragraph 8, the term of the COVID AAO may be extended or renewed upon agreement of the
10 Parties or Order of the Commission. If MAWC determines bad debt expense is rising or
11 continuing at a rate higher than what is built into rates, MAWC could ask for an extension past
12 March 31, 2021 for AAO costs.

13 Q. How did Staff calculate bad debt expense in this case?

14 A. Staff determines a normalized net charge off amount to include as bad debt
15 expense. A net charge off is uncollectible expense that has been deemed uncollectible and
16 “written off” minus any subsequent recovery of said uncollectible amount. Please see
17 Caroline Newkirk’s surrebuttal testimony for the amount of bad debt Staff determined should
18 be included in the revenue requirement.

19 **OUTSIDE SERVICES**

20 Q. In the rebuttal testimony of OPC witness Robert Schallenberg, he identifies an
21 amount of \$4,112,876 in Account 923 that MAWC cannot explain or support with an
22 explanation or supporting documentation. Does Staff agree with Mr. Schallenberg that this
23 amount should be removed from the revenue requirement?

1 A. Yes. Staff did not originally propose this adjustment; however, after reviewing
2 Mr. Schallenberg's rebuttal testimony, MAWC's annual report to the Commission and the
3 general ledger amounts involved, Staff agrees this amount should be removed until and unless
4 it can be supported by MAWC.

5 Q. Did Staff compare the annual report to the general ledger amounts for
6 Account 923?

7 A. Yes. Staff found the balance for Account 923 listed in the 2019 Missouri Public
8 Service Commission Annual Report was \$303,933 less than what was recorded in MAWC's
9 general ledger for 2019.

10 Q. Does Staff complete a full audit of annual reports submitted to the Commission?

11 A. No. Staff does not conduct a full audit of annual reports. Staff only reviews
12 annual reports for procedural errors and omissions, thus Staff does not normally rely solely
13 upon the information provided in the annual reports when conducting rate case audits.

14 **COVID IMPACTS ON REVENUES**

15 Q. What aspects of Mr. Roach's rebuttal testimony are you addressing?

16 A. I will respond to Mr. Roach's argument that the revenue annualizations and
17 normalizations used in this case to set MAWC's base rates should not incorporate any period
18 of time in which the COVID-19 pandemic may have affected customer revenue levels.

19 Q. Is Mr. Roach's position on COVID-19 reasonable?

20 A. No. Mr. Roach's position on this matter goes to an extreme in not recognizing
21 any historical revenue information past the end of the test year and within the update period in
22 this case on account of that update period revenue levels may be materially impacted by the
23 COVID-19 pandemic.

Surrebuttal Testimony of
Kimberly K. Bolin

1 Q. Is the COVID-19 pandemic an extraordinary event in nature (i.e., unusual,
2 unique and nonrecurring)?

3 A. Yes. The Commission has previously found the COVID pandemic to be
4 extraordinary in nature for MAWC (refer to Case No. WU-2020-0417) and other
5 Missouri utilities and, thus, that the financial impacts of the pandemic on utilities deserve
6 special accounting treatment through an accounting authority order (AAO).

7 Q. Does the AAO authorized by the Commission in Case No. WU-2020-0417 allow
8 MAWC to defer the impacts on its revenue levels associated with COVID-19?

9 A. No. Staff's position is that the financial impacts of extraordinary events that do
10 not qualify for deferral through an AAO should not be reflected in ongoing customer rates due
11 to the underlying event being unusual, unique and nonrecurring in nature. Therefore, one-time
12 revenue impacts of the COVID-19 pandemic that are not expected to be ongoing in nature in
13 theory should not be reflected in MAWC's ratemaking process.

14 Q. Is it possible that the COVID pandemic could lead to ongoing and continuing
15 impacts on the level of revenues received by MAWC from customers?

16 A. Yes. Please see the surrebuttal testimony of Staff witness Jarrod Robertson for
17 a further discussion of this topic.

18 Q. Should any continuing or ongoing impacts of the COVID-19 pandemic be
19 reflected in setting MAWC's permanent rates?

20 A. Yes, if known and quantifiable.

21 Q. Can a reasonable quantification be made in the test year and update period
22 breaking out any ongoing and continuing impacts of the COVID-19 pandemic from one-time
23 temporary revenue impacts?

Surrebuttal Testimony of
Kimberly K. Bolin

1 A. No. Revenue fluctuations in the test year and update period could be attributable
2 to many causes, including weather, changes in customer usage not related to COVID-19, and
3 economic conditions unrelated to COVID-19. A reasonable quantification of the impact of
4 COVID-19 on MAWC revenue levels within the update period of this case cannot be made at
5 this time.

6 Q. Given the inability to break out permanent vs. temporary revenue impacts of the
7 COVID-19 pandemic, what is Staff's position regarding treatment of possible COVID-19
8 revenue fluctuations in this case?

9 A. As discussed above, the practical problems with identifying the one-time
10 revenue impacts on MAWC due to COVID-19 make this a difficult rate matter to satisfactorily
11 handle in the midst of a pandemic. Recognizing that the Staff is recommending an overall
12 reduction to MAWC's rates at this time, Staff's position is that the most appropriate course of
13 action is to not propose any adjustments to eliminate possible but unquantifiable COVID-19
14 revenue fluctuations within MAWC's test year and update period revenues at this time.

15 Q. Does this conclude your surrebuttal testimony?

16 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)
)
COUNTY OF COLE) ss.

COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal 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 Affiant sayeth not.

/s/ Kimberly K. Bolin
KIMBERLY K. BOLIN