

Exhibit No.: _____

Issue(s): Water Plant Premature Retirement
Witness // Type of Exhibit: Bolin/Rebuttal
Sponsoring Party: Public Counsel
Case Nos.: WR-2000-281 and SR-2000-282

REBUTTAL TESTIMONY

FILED

OF

MAY 4 2000

**Missouri Public
Service Commission**

KIMBERLY K. BOLIN

Submitted on Behalf of the Office of the Public Counsel

Missouri-American Water Company

Case Nos.: WR-2000-281 and SR-2000-282

May 4, 2000

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of Missouri-American Water)	
Company's tariff sheets designed to implement)	
General rate increases for water and sewer)	Case Nos. WR-2000-281 and
Service provided to customers in the Missouri)	SR-2000-282
Area of the Company.)	

AFFIDAVIT OF KIMBERLY K. BOLIN

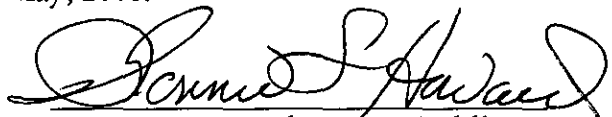
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Kimberly K. Bolin, of lawful age and being first duly sworn, deposes and states:

1. My name is Kimberly K. Bolin. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached, hereto and made a part hereof for all purposes, is my rebuttal testimony consisting of pages 1 through 5.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Kimberly K. Bolin

Subscribed and sworn to me this 4th day of May, 2000.


Bonnie S. Howard, Notary Public

My Commission expires May 3, 2001.



REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2000-281/SR-2000-282

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Kimberly K. Bolin, P.O. Box 7800, Jefferson City, Missouri 65102.

**Q. ARE YOU THE SAME KIMBERLY K. BOLIN WHO HAS FILED DIRECT
TESTIMONY IN THIS CASE?**

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. To response to the direct testimony of Missouri-American Water Company (Company) witness
James E. Salser concerning the premature retirement of the St. Joseph water treatment plant.

**Q. DOES THE OFFICE OF THE PUBLIC COUNSEL (PUBLIC COUNSEL) AGREE
WITH COMPANY'S INCLUSION OF THE PREMATURE RETIREMENT RELATED
TO THE OLD ST. JOSEPH WATER TREATMENT PLANT IN RATE BASE?**

A. No. Public Counsel does not believe the premature retirement amount associated with the old St.
Joseph water treatment plant should be included in rate base. Plant that is no longer used and useful
should not be placed in the rate base.

1 Q. HAS THE MISSOURI PUBLIC SERVICE COMMISSION (COMMISSION)
2 PREVIOUSLY DETERMINED THAT PLANT NO LONGER USED AND USEFUL
3 SHOULD NOT BE INCLUDED IN THE RATE BASE?

4 A. Yes. On page 9 of the Report and Order in United Telephone Company of Missouri, Case No. TR-
5 91-181, the Commission stated:

6 The Commission adopts the Staff's position that, even though UTM
7 gained a savings in closing the center, the equipment involved is no longer
8 in service. For purposes of calculating rates for current and future
9 ratepayers, it is inappropriate to place the cost of items in the rate base
10 which are no longer used and useful. The Commission has consistently
11 taken this position in the recent past.

12
13 Q. IS PUBLIC COUNSEL OPPOSED TO COMPANY'S ADJUSTMENT TO AMORTIZE
14 THE NET ORIGINAL COST OF THE OLD PLANT (\$2,832,906) PLUS AN
15 ESTIMATE OF \$500,000 FOR COST OF REMOVAL EXPENSES OVER 20
16 YEARS?

17 A. Yes. Company's amortization of the premature retirement of the old St. Joseph water treatment
18 plant should not be included in the Company's cost of service because:

19 1. The plant is not in service and is not used and useful to the current or future ratepayers.

20 2. After the true-up audit, some recognition of the new St. Joseph water treatment plant will
21 be built into the cost of service.

1 **Q. PLEASE EXPLAIN WHY THE "USED AND USEFUL" PRINCIPLE IS AN**
2 **APPROPRIATE CRITERION FOR DETERMINING WHETHER THE RATEPAYER**
3 **SHOULD PAY FOR THIS AMORTIZATION.**

4 A. The ratepayer should not be required to pay a return on or a return of the cost of plant that is not
5 being used in the provision of service to current ratepayers. The ratepayer is not receiving any
6 benefit or service from this water treatment plant. In fact, the ratepayers are being served by
7 another water treatment plant whose cost will be built into the cost or service. To require the
8 current ratepayers to pay for two water treatment plants when only one is needed to provide service
9 violates the standard of used and useful when determining if an asset should be included in rate
10 base.

11 **Q. WHAT DOES RATE BASE REPRESENT?**

12 A. Rate base represents the investor-supplied plant and other investments required to supply utility
13 service to customers.

14 **Q. PLEASE DEFINE THE MATCHING PRINCIPLE.**

15 A. The matching principle is a regulatory concept, which for a specified period of time compares the
16 level of revenue received from the sale of goods or services with the expenses incurred and
17 investment (i.e., rate base) necessary in order to provide that level of goods or services. This
18 concept is reflected in the revenue requirement formula (revenue require = expenses + return on
19 rate base).

1 Q. WOULD COMPANY'S INCLUSION OF THE OLD ST. JOSEPH WATER
2 TREATMENT PLANT DISTORT THE MATCHING OF RATE BASE, REVENUE,
3 AND EXPENSES FOR THE TEST PERIOD AND TRUE-UP?

4 A. Yes. The purpose of establishing a test period in rate case proceedings is to provide the most
5 appropriate and consistent relationship between the rate base, revenue and expenses that will give
6 the Company an opportunity to earn a fair and reasonable return. The old water treatment plant is
7 not used and useful; thus, it is not producing revenue or incurring operation expenses. Therefore, if
8 the old water treatment plant is included in rates as a rate base item and an expense, the rate base,
9 revenue and expenses will be mismatched.

10 Q. WHAT WAS THE COMMISSION'S DECISION IN GTE NORTH INCORPORATED,
11 CASE NO. TR-89-182, WITH REGARD TO THE AMORTIZATION OF THE
12 PREMATURE RETIREMENT OF A SWITCH?

13 A. The Commission disallowed the inclusion of the unamortized early retirement of the switch in rate
14 base, but allowed the amortization of the investment over a five year period. On page 8 of the
15 Report and Order in this case, the Commission stated:

16 . . . Given the rapidity of technological advancement in the telecommunication
17 industry, it is difficult to project with complete accuracy the life span of a given
18 technology.

19 The Commission determines that the reserve deficiency associated with the EAX
20 switch should be amortized over a five-year period. However, the Commission
21 further determines that the unamortized investment should not remain in rate base
22 until recovered. Since the EAX switch is no longer used and useful it should be
23 removed from rate base since the ratepayers are receiving no benefit from it.

1 **Q. IN RECENT YEARS HAS THE WATER INDUSTRY EXPERIENCE THE SAME**
2 **RAPID TECHNOLOGICAL ADVANCEMENT AS THE TELEPHONE INDUSTRY**
3 **HAS?**

4 **A.** No. The water industry has not seen the same rapid technological changes that the telephone
5 industry has. The rapid technological changes in the telephone industry has cause telephone
6 companies to upgrade and/or replace plant, while little upgrading and/or replacing of plant for new
7 technology has been necessary for water companies.

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

9 **A.** Yes.