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Service Commission

Exhibit No.:
Issues: District Allocation of Costs,
Business Transformation
Witness: Kimberly K. Bolin
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

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

Staff Exhibit No. 7
Date 3-21-16 Reporter TR
File No. WR-2015-0301

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

Staff Ex 7

*Jefferson City, Missouri
February 2016*

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TABLE OF CONTENTS OF

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2015-0301

DISTRICT ALLOCATION OF COSTS 2
BUSINESS TRANSFORMATION..... 4

1 REBUTTAL TESTIMONY

2 OF

3 KIMBERLY K. BOLIN

4 MISSOURI-AMERICAN WATER COMPANY

5 CASE NO. WR-2015-0301

6 Q. Please state your name and business address.

7 A. Kimberly K. Bolin, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Missouri Public Service Commission ("Commission")
10 as a Utility Regulatory Auditor V.

11 Q. Are you the same Kimberly K. Bolin who has filed portions of the
12 Commission Staff's ("Staff") Cost of Service Report?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my rebuttal testimony is respond to the direct testimony of
16 Missouri-American Water Company's (MAWC) witness Jeanne M. Tinsley wherein she
17 proposes a \$20 per year per customer "cap" on corporate administrative and general
18 (corporate), and service company costs allocated to small water and sewer districts. Staff
19 does not believe the \$20 per customer cap for ratemaking purposes is needed or appropriate.
20 Staff has proposed to use consistently applied corporate allocation factors to determine the
21 cost of service for each district.

22 In addition, I will respond to The Office of the Public Counsel ("OPC")
23 witness Ralph C. Smith's direct testimony concerning American Water Works Company,

1 Inc.'s ("American Water") apparent allocation of Business Transformation costs to
2 American Water's regulated utilities only.

3 **DISTRICT ALLOCATION OF COSTS**

4 Q. What is the issue?

5 A. MAWC in its direct testimony has proposed to allocate only \$20 per year per
6 customer of corporate and service company costs to its small water and sewer districts with
7 less than 3,000 customers. The districts with more than 3,000 customers would then be
8 allocated the remaining costs (the total corporate and services company costs minus the
9 \$20 per customer) by the allocation method selected for each costs. For each cost,
10 the Company has identified an allocation method based upon an identified cost causer.
11 Staff recommends that all districts, small and large, be allocated costs using the same
12 allocation method and that the use of an arbitrary \$20 per customer cap not be applied to the
13 small districts.

14 Q. Did the Company prepare a study to show that the \$20 per customer cap for the
15 small districts was reasonable?

16 A. The Company provided in response to Staff Data Request Number 0181
17 a very high-level comparison of overhead costs for four small Missouri regulated water
18 companies and four small Missouri regulated sewer companies. This study showed a range of
19 \$15.71 to \$60.57 per customer for overhead costs for these utilities.

20 Q. What costs did MAWC compare in their study?

21 A. MAWC pulled information concerning accounting expense, office supply
22 expense, billing expense, outside services expense, telephone expense, and legal and
23 miscellaneous expense.

Rebuttal Testimony of
Kimberly K. Bolin

1 Q. Does Staff believe this study presents an accurate comparison to the costs that
2 MAWC allocates to its districts?

3 A. No. The Company's study is an apples to oranges comparison of costs. The
4 Company did not include costs such as administrative and general salaries and benefits in its
5 analysis of the comparable small Missouri utilities, while these items are a major component
6 of the corporate costs charged by American Water to the MAWC districts. MAWC also did
7 not include general liability insurance expense and office rent and utilities expenses in
8 its analysis. All of these costs are the type of expenses that MAWC allocates to its districts
9 and that Ms. Tinsley has listed as examples of allocated costs on pages 13 and 14 of her
10 Direct Testimony.

11 Q. Has Staff conducted any analysis to determine if a cap of allocated costs is
12 needed?

13 A. Yes. Staff allocated the test year costs to each district using the appropriate
14 allocation factor for each cost to see if the smaller districts were receiving more allocated
15 costs on a per customer basis than the larger. Attached as Schedule KKB-r1 is a comparison
16 of test year unadjusted allocated costs for each district. The data in this analysis did not
17 persuade Staff that a \$20 price cap was needed. Staff's analysis shows the larger
18 districts were allocated 97.9% of the MAWC corporate and Service Company costs.
19 Schedule KKB-r1 also shows the difference per customer between Company's proposed
20 allocation and Staff's proposed allocation of test year unadjusted costs.

21 Q. Do you agree with MAWC that the smaller districts do not require the same
22 level of service as the larger districts?

1 A. No. In fact, some of the newly acquired smaller districts may take
2 more resources, such as manpower and capital, to bring the system up to an acceptable level
3 of service.

4 Q. Has Staff compared the Company's allocation proposal to Staff's proposal
5 using Staff's adjusted costs?

6 A. Yes. Attached Schedule KKB-r2 shows the difference in allocation of
7 costs per district and per customer between Staff and Company's proposals using Staff's
8 adjusted costs.

9 **BUSINESS TRANSFORMATION**

10 Q. Does Staff agree with OPC witness Ralph Smith concerning the allocation of
11 Business Transformation ("BT") costs?

12 A. Staff shares the same concern as OPC witness Ralph Smith in that it appears
13 from MAWC's direct testimony and responses to data requests that none of the Business
14 Transformation costs were allocated to non-regulated affiliates of American Water.
15 According to Company's original response to OPC Data Request No. 5012, "The BT systems
16 are designed for American Water's regulated utilities, and American Water Company's
17 'non-regulated' or market based affiliates." Since the BT systems were designed for use by
18 both the non-regulated and regulated affiliates, the non-regulated affiliates should share in
19 the cost.

20 MAWC has provided an updated response to OPC Data Request No. 5012, in which
21 MAWC now claims that the non-regulated entities of American Water do use a portion of the
22 Business Transformation system and were allocated a portion of the Business Transformation
23 costs.

Rebuttal Testimony of
Kimberly K. Bolin

1 Q. Has Staff been able to determine if these costs were properly allocated to both
2 regulated and non-regulated American Water entities?

3 A. No. The updated response to OPC Data Request No. 5012 does not provide
4 the information necessary to determine if American Water has, in fact, properly allocated
5 Business Transformation costs to its non-regulated utilities. Staff has issued additional data
6 requests to determine if the costs were properly allocated.

7 Q. Does this conclude your rebuttal testimony?

8 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 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 REBUTTAL TESTIMONY; and that the same is true and correct according to her best knowledge and belief.

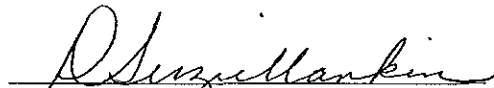
Further the Affiant sayeth not.


KIMBERLY K. BOLIN

JURAT

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

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070


Notary Public

MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
Allocation of Test Year Corporate and Service Company Costs

LARGE WATER DISTRICTS

	St. Louis	St. Joseph	Joplin	Jefferson City	Warrenburg	Parkville	Mexico	Tri-States	Total Large Districts
Number of Customers	365,901	32,003	23,774	10,851	7,555	5,949	4,926	3,322	454,281
Test Year Allocated Costs	\$ 64,952,075	\$ 6,486,056	\$ 5,759,696	\$ 2,364,915	\$ 1,245,237	\$ 1,708,698	\$ 1,144,967	\$ 416,731	\$ 84,078,375
Percentage of Allocated Costs	75.63%	7.55%	6.71%	2.75%	1.45%	1.99%	1.33%	0.49%	97.90%
Staff's Proposal per Customer	\$ 177.51	\$ 202.67	\$ 242.27	\$ 217.94	\$ 164.82	\$ 287.22	\$ 232.43	\$ 125.45	
Company's Proposal per Customer	\$ 187.27	\$ 214.02	\$ 257.71	\$ 225.93	\$ 174.24	\$ 306.38	\$ 249.08	\$ 148.92	

SMALL WATER DISTRICTS

	Maple/River/ Stonebridge	Ozark Mtn/LTA	Brunswick	Emerald Pointe	Whitebranch	Spring Valley/LWM	Saddlebrooke	Rankin Acres	Anna Meadows	Total Small Districts
Number of Customers	1,372	493	410	326	136	134	89	86	80	3,126
Test Year Allocated Costs	\$ 208,695	\$ 82,202	\$ 147,749	\$ 42,913	\$ 33,145	\$ 32,294	\$ 24,284	\$ 24,464	\$ 19,721	\$ 615,467
Percentage of Allocated Costs	0.24%	0.10%	0.17%	0.05%	0.04%	0.04%	0.03%	0.03%	0.02%	0.72%
Staff's Proposal per Customer	\$ 152.11	\$ 166.74	\$ 360.36	\$ 131.63	\$ 243.71	\$ 241.00	\$ 272.85	\$ 284.47	\$ 246.51	
Company's Proposal per Customer	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	

SEWER DISTRICTS

	Jefferson City WW	Cedar Hill WW	Stonebridge WW	Meramec WW	Warren County WW	Emerald Pointe WW	Maplewood WW	Parkville WW	Saddlebrooke WW	Anna Meadows WW	Ozark Meadows WW	Total Sewer Districts
Number of Customers	1,358	730	688	610	414	376	366	101	88	80	23	4,834
Test Year Allocated Costs	\$ 391,585	\$ 186,586	\$ 134,616	\$ 100,209	\$ 114,348	\$ 70,661	\$ 63,106	\$ 39,897	\$ 50,640	\$ 18,571	\$ 16,905	\$ 1,187,125
Percentage of Allocated Costs	0.46%	0.22%	0.16%	0.12%	0.13%	0.08%	0.07%	0.05%	0.06%	0.02%	0.02%	1.38%
Staff's Proposal per Customer	\$ 288.35	\$ 255.60	\$ 195.66	\$ 164.28	\$ 276.20	\$ 187.93	\$ 172.42	\$ 395.02	\$ 575.45	\$ 232.14	\$ 735.00	
Company's Proposal per Customer	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	

TOTAL COSTS

Number of Customers	462,241
Test Year Allocated Costs	\$ 85,880,967

MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
Allocation of Staff's Adjusted Corporate and Service Company Costs

LARGE WATER DISTRICTS

	St. Louis	St. Joseph	Joplin	Jefferson City	Warrensburg	Parkville	Mexico	Tri-States	Total Large Districts
Company Proposal									
Allocated with \$20 cap (Company)	\$ 58,914,413	\$ 5,988,495	\$ 5,318,232	\$ 2,148,831	\$ 1,139,905	\$ 1,602,045	\$ 1,072,614	\$ 419,456	\$ 76,603,989
Annual Per Customer Cost	\$ 161.01	\$ 187.12	\$ 223.70	\$ 198.03	\$ 150.88	\$ 269.30	\$ 217.75	\$ 126.27	
Percentage of Total Allocated Costs	76.61%	7.79%	6.92%	2.79%	1.48%	2.08%	1.39%	0.55%	99.61%
Staff Proposal									
Allocated without \$20 cap (Staff)	\$ 57,256,759	\$ 5,794,148	\$ 5,117,311	\$ 2,126,003	\$ 1,104,457	\$ 1,531,846	\$ 1,022,785	\$ 365,526	\$ 74,318,835
Annual Per Customer Cost	\$ 156.48	\$ 181.05	\$ 215.25	\$ 195.93	\$ 146.19	\$ 257.50	\$ 207.63	\$ 110.03	
Percentage of Total Allocated Costs	74.45%	7.53%	6.65%	2.76%	1.44%	1.99%	1.33%	0.48%	96.64%

SMALL WATER DISTRICTS

	Maple/River/ Stonebridge	Ozark Mtn/LTA	Brunswick	Emerald Pointe	Whitebranch	Spring Valley/LWM	Saddlebrooke	Rankin Acres	Anna Meadows	Total Small Districts
Company Proposal										
Allocated with \$20 cap (Company)	\$ 27,440	\$ 9,860	\$ 8,200	\$ 6,520	\$ 2,720	\$ 2,680	\$ 1,780	\$ 1,720	\$ 1,600	\$ 62,520
Annual per Customer Cost	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Percentage of Total Allocated Costs	0.04%	0.01%	0.01%	0.01%	0.004%	0.003%	0.002%	0.002%	0.002%	0.08%
Staff Proposal										
Allocated without \$20 cap (Staff)	\$ 183,222	\$ 73,919	\$ 128,903	\$ 37,309	\$ 29,077	\$ 28,434	\$ 21,063	\$ 21,230	\$ 15,970	\$ 539,128
Annual Per Customer Cost	\$ 133.54	\$ 149.94	\$ 314.40	\$ 114.44	\$ 213.80	\$ 212.19	\$ 236.67	\$ 246.86	\$ 199.62	
Percentage of Total Allocated Costs	0.24%	0.10%	0.17%	0.05%	0.04%	0.04%	0.03%	0.03%	0.02%	0.70%

SEWER DISTRICTS

	Jefferson City WW	Cedar Hill WW	Stonebridge WW	Meramec WW	Warren County WW	Emerald Pointe WW	Maplewood WW	Parkville WW	Saddlebrooke WW	Anna Meadows WW	Ozark Meadows WW	Arnold WW	Total Sewer Districts
Company Proposal													
Allocated with \$20 cap (Company)	27,160	14,600	13,760	12,200	8,280	7,520	7,320	2,020	1,780	1,600	460	140,000	236,700
Annual per Customer Cost	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 21.91	
Percentage of Total Allocated Costs	0.04%	0.02%	0.02%	0.02%	0.01%	0.01%	0.01%	0.003%	0.002%	0.002%	0.001%	0.18%	0.31%
Staff Proposal													
Allocated without \$20 cap (Staff)	\$ 343,787	\$ 169,020	\$ 119,975	\$ 87,703	\$ 100,192	\$ 62,809	\$ 55,672	\$ 34,117	\$ 42,345	\$ 15,059	\$ 14,111	\$ 1,000,437	\$ 2,045,228
Annual per Customer Cost	\$ 253.16	\$ 231.53	\$ 174.38	\$ 143.78	\$ 242.01	\$ 167.05	\$ 152.11	\$ 337.79	\$ 481.19	\$ 188.24	\$ 613.51	\$ 156.56	
Percentage of Total Allocated Costs	0.45%	0.22%	0.16%	0.11%	0.13%	0.08%	0.07%	0.04%	0.06%	0.02%	0.02%	1.30%	2.66%
Total Costs	\$ 76,903,209												