

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**

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

<b>IN THE MATTER OF MISSOURI-AMERICAN ) WATER COMPANY FOR AUTHORITY TO ) FILE TARIFFS REFLECTING INCREASED ) RATES FOR WATER AND SEWER ) SERVICE )</b>		<b>CASE NO. WR-2015-0301 CASE NO. SR-2015-0302</b>
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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 9<sup>th</sup> 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**

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## 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. Louis, MO 63141.

5

6

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

7

8

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

9

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 Commission Staff, the Office of the Public Counsel (OPC), and other interveners in this case.

13

14

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.