

Exhibit No.:

*Issues: Accumulated Deferred
Income Taxes,
Tank Painting Expense,
Fire Hydrant Painting Expense
Pension and OPEB trackers,
Changes to Staff's Income
Taxes*

Witness: Kimberly K. Bolin.

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: WR-2010-0131

Date Testimony Prepared: April 15, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2010-0131

*Jefferson City, Missouri
April 2010*

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KIMBERLY K. BOLIN**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2010-0131**

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) as a
10 Utility Regulatory Auditor V.

11 Q. Are you the same Kimberly K. Bolin who has filed direct testimony
12 in this case?

13 A. Yes.

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

15 A. My rebuttal testimony will address the direct testimony of
16 Missouri-American Water Company's (MAWC or Company) witness Regina C. Tierney and
17 the Office of Public Counsel's (OPC) witness Ted Robertson regarding the
18 Accumulated Deferred Income Taxes associated with the Security Accounting Authority
19 Order (Security AAO). I will also address the Company's proposal for hydrant painting
20 expense, which is contained in witness Tierney's direct testimony. My rebuttal testimony also
21 addresses the Company's proposals for tank painting expense, which was included in
22 Greg A. Weeks and Dennis R. William's direct testimony. I will also present the
23 Missouri Public Service Commission Staff's (Staff) opposition of the inclusion of

1 American Water Works Service Company's (Service Company or AWW) Pension Expense
2 and OPEB Expense in the Company's Pension Tracker and OPEB Tracker. Finally I will
3 address changes made to Staff's income tax calculation.

4 **ACCUMULATED DEFERRED INCOME TAXES**

5 Q. Does the Staff agree with the direct testimony of
6 Office of the Public Counsel's witness Ted Robertson that the accumulated
7 deferred income taxes (ADIT) associated with the amortization of the Security AAO
8 be treated as an offset to rate base?

9 A. Yes. However, in the Staff's Direct Cost of Service Report and
10 Accounting Schedules that were filed on March 9, 2010, the Staff made an error in its
11 calculation of ADIT and did not include the accumulated deferred income taxes associated
12 with the amortization of the Security AAO in its ADIT balance.

13 Q. Why does the Staff believe that the accumulated deferred income taxes
14 associated with the Security AAO should be included in the ADIT balance, which is an offset
15 to rate base?

16 A. Deferred taxes are simply the result of timing differences between when a
17 company deducts certain expenses on its tax return and when it deducts the expense for
18 ratemaking purposes. The deferred tax reserve represents, in effect, a prepayment of income
19 tax by the Company's customers.

20 Q. Has the Commission previously ruled that accumulated deferred income taxes
21 associated with an AAO be included as an offset to rate base?

22 A. Yes. In Case No. GR-98-140 the Commission found that accumulated
23 deferred income taxes associated with the Missouri Gas Energy's (MGE) service line

1 replacement deferrals should be included as an offset to rate base. The Commission stated the
2 following in its Report and Order on Rehearing:

3 Deferred income taxes, including MGE's accumulated deferred
4 income taxes for SLRP deferrals, result from the timing difference between
5 when a company currently deducts an expense on its income tax return and
6 when it later deducts the expense on its financial statement records. This is
7 also known as a book-tax timing difference. MGE's accumulated deferred
8 income taxes for SLRP deferrals are created by a book-tax timing difference.

9 The purpose of including an offset to rate base for accumulated
10 deferred income taxes is to recognize that ratepayers have provided money
11 through rates for the payment of taxes that the utility has deferred paying
12 until a later period. The utility may use the ratepayers' money until the
13 payment of the deferred income taxes is made.

14 MGE witness, June Dively, testified to the fact that MGE was
15 "enjoying" the benefits of those deferred taxes. Therefore, MGE's deferred
16 income tax reserve represents a prepayment of income taxes by the
17 ratepayers from which MGE "enjoys" a financial benefit.
18

19 **TANK PAINTING EXPENSE AND TRACKER**

20 Q. Does the Staff support the Company's proposal of increasing the annual
21 amount of tank painting expense from \$1 million to \$1.6 million to be included in its
22 cost of service?

23 A. No. The Staff has recommended an annual tank painting expense before the
24 amortization of the tank painting tracker of \$1,362,620. Staff based its recommended level of
25 tank painting expense upon a two-year average of tank painting expenses (2008 and 2009).

26 Q. Is Staff proposing a continuation of the tank painting expense tracker that was
27 also established in Case No. WR-2007-0217 and continued in the last rate case
28 (Case No. WR-2008-0311)?

29 A. No. Staff believes that tank painting expense is a planned on-going
30 maintenance cost that is incurred every year just like any other maintenance costs the
31 Company incurs. While the expense level for tank painting may fluctuate year to year, this

1 type of maintenance activity does not require special ratemaking treatment that would allow
2 the Company guaranteed dollar for dollar recovery of the expense. Instead, a normalized
3 level of tank painting expense can be established and included in the cost of service.

4 Q. On page 8 of Mr. Weeks direct testimony he states, "...the Tracker facilitates
5 direct auditing of Company financial records to determine its level of expenditures over time
6 on the repainting of its tanks." Does Staff agree with this statement?

7 A. No. Just like any other maintenance expense, the amount of tank painting
8 expense that is incurred every year can be verified and audited without a tank painting tracker.
9 The only purpose of the tracker is to provide the Company with an opportunity for dollar for
10 dollar recovery of the expense.

11 Q. Does the Staff believe the Company's \$1.6 million annual level of tank
12 painting expense is a reasonable amount to be included in the Company cost of service?

13 A. No. The Company's proposed level of \$1.6 million for annual tank painting
14 expense is calculated based upon many estimates, such as the total estimated cost to paint all
15 tank exterior and interior surfaces and the life expectancies per paint coating. Staff believes
16 the use of the Company's historical tank painting costs is the best method for establishing a
17 normalized level of tank painting expense. Historical costs are also used to establish
18 normalized levels for other maintenance expenses, besides tank painting expense.

19 **FIRE HYDRANT PAINTING EXPENSE**

20 Q. What is MAWC's proposal for fire hydrant painting expense?

21 A. MAWC has proposed to begin a three year project in which the Company
22 would sand blast and paint fire hydrants in its St. Louis Metro District that contain lead based
23 paint. In the past, the Company has not sand blasted the lead based paint off of the fire

1 hydrants, instead the Company has simply repainted the fire hydrants. The removal or sand
2 blasting of the lead based paint is fairly expensive due to the required containment of the lead
3 based paint. The Company is requesting an annualized level of hydrant painting expense in
4 the amount of \$200,000 be included in the Company's cost of service.

5 Q. What is the Staff's concern with the Company's proposed fire hydrant
6 painting project?

7 A. As of October 31, 2009 (the update period for this case), the Company has not
8 incurred any fire hydrant painting lead removal expenses or began the fire hydrant painting
9 project. Generally in ratemaking, the Company incurs expenses before the expenses are
10 included in the Company's cost of service. The Staff's main concern with the proposed
11 project is the special ratemaking treatment requested for this project.

12 Q. If the Company proceeds with this project would the Company be able to
13 recover these costs in future rate cases?

14 A. If the Company incurs costs for this maintenance, the Staff would review the
15 costs in subsequent rate proceedings just as the Staff does for other maintenance expenses and
16 if prudently incurred, determine an ongoing level of expense for hydrant painting to be
17 included in the Company's cost of service.

18 **PENSION AND OPEB TRACKERS**

19 Q. What changes to the Pension and OPEB trackers is the Company proposing in
20 this rate case proceeding?

21 A. The Company is seeking to include the Service Company's pension and OPEB
22 expenses in the respective trackers that have been established for MAWC ratemaking
23 purposes. The Company would include the Service Company's Pension and OPEB expense

1 as part of the baseline for the trackers, which would be compared to the actual expense
2 incurred during a future rate case proceeding. The difference between the actual expense
3 incurred and the annualized expense amount included in the baseline for the trackers would
4 then be amortized over a five year period just as the MAWC only pension and OPEB
5 expenses are amortized.

6 Q. What is the Staff's position as to the Company's proposal to include
7 Service Company expenses in the Pension and OPEB trackers?

8 A. The Staff is opposed to including the Service Company Pension and OPEB
9 expenses as part of the Pension an OPEB trackers. The Service Company is a non-regulated
10 wholly-owned subsidiary of American Water Works Company (AWW), which provides
11 services to AWW's other wholly-owned subsidiaries. The Service Company provides
12 services to MAWC and in return MAWC compensates the Service Company for said services.

13 Q. Is the Company requesting ratemaking treatment of costs incurred by a
14 non-regulated entity?

15 A. Yes. The Company is requesting ratemaking treatment for the costs of another
16 AWW subsidiary (AWWS) that is a non-regulated subsidiary.

17 Q. Does MAWC have control over the costs incurred by AWWS?

18 A. No. MAWC and AWWS are two separate and distinct subsidiaries of AWW.
19 The Service Company allocates its costs, except for direct costs which can be clearly
20 identified as specific costs incurred for a specific subsidiary, to all of the AWW subsidiaries
21 including MAWC, based upon different criteria such as revenues, employees and plant. Thus,
22 MAWC does not have any control of the costs incurred by AWWS that are
23 allocated to MAWC.

1 **INCOME TAX RATE CHANGE**

2 Q. Has the Staff changed the income tax rates from what was used in the Staff's
3 Accounting Schedules that were filed with its Cost of Service Report?

4 A. Yes. In the Staff's direct Accounting Schedules, the Staff used district specific
5 income tax rates. The tax rates were based upon each district's revenue, instead of being
6 based upon the total MAWC revenue. The Staff believes that the tax rate for determining
7 income tax should be based upon total MAWC revenue, because the Company does not file
8 separate income tax returns for each district, but files one tax return for total MAWC
9 revenues. Thus the tax rate should be the same for all districts.

10 Q. Does this conclude your rebuttal testimony?

11 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)
Services Provided in Missouri Service Areas)

Case No. WR-2010-0131

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Kimberly K. Bolin
Kimberly K. Bolin

Subscribed and sworn to before me this 15th day of April, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D. Suzie Mankin
Notary Public