

Exhibit No.: 800
Issue: Net Book Value of Plant
Witness: Kimberly K. Bolin
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: WA-2019-0299
Date Testimony Prepared: April 14, 2020

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING

**DIRECT TESTIMONY CONCERNING THE
ASSESSMENT OF NET BOOK VALUE
OF PORT PERRY SERVICE COMPANY, LLC**

OF

KIMBERLY K. BOLIN

**CONFLUENCE RIVERS UTILITY
OPERATING COMPANY, INC.**

CASE NO. WA-2019-0299

*Jefferson City, Missouri
April 2020*

*Staff Exhibit 800
5/19/2020 JNB
WA-2019-0299*

Direct Testimony of
Kimberly K. Bolin

1 was the first annual report after Port Perry's last rate increase request. Staff did not use any
2 annual reports after the year 2010 going forward as Confluence was able to produce invoices
3 for work performed from 2011 forward.

4 Q. Did Staff review each invoice provided in response to Staff Data Request
5 No. 0018?

6 A. Yes. Staff reviewed each invoice provided in response to Staff Data Request
7 No. 0018 and determined if the invoice was for a capital improvement or for an expense. Staff
8 also reviewed each invoice to determine if it was for a new customer tap on; if it was, Staff
9 credited the contributions in aid of construction ("CIAC") by the same amount.

10 Q. What is CIAC?

11 A. CIAC represents ratepayer funded capital. Per Port Perry's tariffs, Port Perry is
12 to collect from a new customer connecting to the water and sewer system a CIAC (connection)
13 charge. This amount offsets rate base since the ratepayer has funded the capital addition,
14 not the utility, and thus the utility should not earn a return on the addition. Over time, as the
15 plant associated with the CIAC depreciates, the amount of CIAC that offsets rate base is reduced
16 through an amortization.

17 Q. What is rate base, and how is it used in setting a revenue requirement and
18 calculating rates?

19 A. Rate base represents the amount of net capital investment made by a utility in
20 order to provide safe and adequate service to its customers. A reasonable rate of return is
21 applied to a company's rate base to determine the utility's required net operating income. It has
22 been Staff's position in prior cases that rate base associated with acquired assets should be
23 based upon the remaining net book value of those assets.

Direct Testimony of
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1 Q. What is net book value?

2 A. Net book value for an asset or group of assets is the original cost of the asset(s)
3 incurred by a company who first devoted the property to utility service, minus accumulated
4 depreciation and CIAC.

5 Q. Does the net book value of assets change if the ownership of a utility is
6 transferred to another entity?

7 A. No. The original cost incurred is still the same regardless if a new owner
8 purchases a utility. The amount of accumulated depreciation and CIAC would remain the same
9 at the date of transfer, thus the net book value would not change.

10 Q. Is the net book value of the assets the only item included in rate base?

11 A. No. Other items such as Materials and Supplies, Prepayments, and Customer
12 Deposits are also included in a rate base.

13 Q. Will a determination of rate base need to be made in any subsequent rate case
14 determining rates for Port Perry customers?

15 A. Yes. In every rate case proceeding rate base is a necessary item that is
16 calculated and reviewed for determining just and reasonable rates to be charged to the
17 company's customers.

18 Q. Will the determination of net book value in this proceeding impact the current
19 rates Port Perry customers are being charged?

20 A. No. Even if the Commission were to approve Confluence's application, it will
21 continue to charge the existing rates under Port Perry's current tariff applicable to these
22 properties until Confluence files a subsequent rate case with the Commission.

Direct Testimony of
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1 Q. Will net book value be reviewed in future rate cases associated with the
2 Port Perry system?

3 A. Yes. In future rate case proceedings, the rate base associated with the Port Perry
4 assets will be reviewed and an amount of rate base will be determined and considered in
5 establishing new rates.

6 Q. Did Staff calculate net book value in its original recommendation?

7 A. Yes.

8 Q. Did Staff update its net book value calculation?

9 A. Yes. Staff updated its original calculation after receiving copies of invoices that
10 were not provided earlier in this proceeding

11 Q. What was the net book value listed in Staff's Report Regarding the Net Book
12 Value of the Subject Utility Assets Being Purchased ("Staff Report") filed March 24, 2020, in
13 this case?

14 A. Staff's net book value as of March 31, 2019, is \$82,755 (\$22,811 for water rate
15 base and \$59,944 for sewer rate base). Staff also updated this rate base net book value
16 to December 31, 2019, which is \$79,262 (\$21,169 for water rate base and \$58,093 for sewer
17 rate base).

18 Q. Has Staff made any changes and/or corrections to its net book valuation since
19 filing its Report?

20 A. Yes. After further discussion with the Office of the Public Counsel ("OPC")
21 Staff's calculated net book value as of March 31, 2019, is \$81,462 (\$21,753 for water rate base
22 and \$59,709 for sewer rate base). The updated rate base book value as of December 31, 2019,
23 is \$77,936 (\$20,070 for water rate base and \$57,866 for sewer rate base). Attached as

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1 Schedule KKB-d1 is a table which shows plant, accumulated depreciation reserve, CIAC, and
2 CIAC amortization for each year beginning December 31, 2010.

3 Q. What changes were made as a result of discussions with OPC?

4 A. Staff removed from plant and added to expense a couple of items in invoices
5 that Staff originally considered as plant additions. Also, Staff added tap on fees to CIAC that
6 were inadvertently omitted from Staff's calculation of CIAC. Lastly, Staff moved certain plant
7 additions to the correct account within the Uniform System of Accounts (USOA) that were
8 assigned to the wrong USOA account.

9 Q. What is the net book value agreed to in the Stipulation and Agreement as to
10 Net Book Value ("Stipulation and Agreement") filed in this case?

11 A. The net book value agreed to in the Stipulation and Agreement as of
12 December 31, 2019, is \$20,070 for water and \$57,866 for sewer. This is the same number that
13 Staff is proposing as the net book value in this testimony.

14 Q. Does Staff support the Stipulation and Agreement in this case?

15 A. Yes.

16 Q. The Commission's March 24, 2020, Order Setting Procedural Schedule
17 mentions an "acquisition premium." What is an acquisition premium?

18 A. An acquisition premium is when a utility pays more than net book value for a
19 utility's assets.

20 Q. Is Confluence requesting ratemaking treatment for an acquisition premium in
21 this proceeding?

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1 A. Based on information provided by Confluence in this proceeding, Confluence is
2 not seeking to recoup any acquisition premium from ratepayers as a result of this proposed
3 transaction in the current proceeding, and will not seek to do so in subsequent rate proceedings.

4 Q. Is it Staff's position that Confluence has the financial capability to purchase the
5 Port Perry system for the agreed purchase price?

6 A. Yes, and the fact that Confluence will not recoup any premium paid will not
7 result in a detriment to the public interest.

8 Q. Does this conclude your direct testimony in this proceeding?

9 A. Yes, it does.

Rate Base for Port Perry Service Company

Case No. WA-2019-0299

Corrected as of March 27, 2020

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	3/31/2019	12/31/2019
Water											
Plant in Service	\$ 248,455	\$ 249,651	\$ 252,284	\$ 255,367	\$ 263,774	\$ 266,202	\$ 269,674	\$ 269,674	\$ 269,674	\$ 269,674	\$ 269,674
Accumulated Depreciation Reserve	\$ 194,831	\$ 199,438	\$ 203,263	\$ 207,442	\$ 199,748	\$ 205,049	\$ 206,884	\$ 212,278	\$ 217,673	\$ 219,022	\$ 223,068
CIAC	\$ 143,639	\$ 144,835	\$ 146,730	\$ 149,176	\$ 153,052	\$ 154,051	\$ 157,523	\$ 157,523	\$ 157,523	\$ 157,523	\$ 157,523
Amortization of CIAC	\$ 103,548	\$ 106,438	\$ 109,357	\$ 112,322	\$ 115,335	\$ 118,403	\$ 121,534	\$ 124,685	\$ 127,836	\$ 128,624	\$ 130,987
Net Plant in Service	\$ 13,533	\$ 11,816	\$ 11,648	\$ 11,071	\$ 26,309	\$ 25,505	\$ 26,801	\$ 24,558	\$ 22,314	\$ 21,753	\$ 20,070
Sewer											
Plant in Service	\$ 267,346	\$ 268,299	\$ 271,408	\$ 272,437	\$ 276,659	\$ 277,504	\$ 279,258	\$ 279,258	\$ 279,258	\$ 279,258	\$ 279,258
Accumulated Depreciation Reserve	\$ 104,807	\$ 110,163	\$ 115,596	\$ 121,105	\$ 126,726	\$ 132,457	\$ 138,214	\$ 143,989	\$ 149,764	\$ 151,208	\$ 155,539
CIAC	\$ 152,316	\$ 153,269	\$ 154,810	\$ 155,839	\$ 158,570	\$ 159,415	\$ 160,429	\$ 160,429	\$ 160,429	\$ 160,429	\$ 160,429
Amortization of CIAC	\$ 65,492	\$ 68,552	\$ 71,651	\$ 74,802	\$ 78,024	\$ 81,316	\$ 84,624	\$ 87,941	\$ 91,259	\$ 92,088	\$ 94,576
Net Plant in Service	\$ 75,715	\$ 73,419	\$ 72,653	\$ 70,295	\$ 69,387	\$ 66,948	\$ 65,239	\$ 62,781	\$ 60,324	\$ 59,709	\$ 57,866
Total Rate Base	\$ 89,248	\$ 85,235	\$ 84,301	\$ 81,366	\$ 95,696	\$ 92,453	\$ 92,040	\$ 87,339	\$ 82,638	\$ 81,462	\$ 77,936

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of)
Confluence Rivers Utility Operating) Case No. WA-2019-0229
Company, Inc., for Authority to Acquire)
Certain Water and Sewer Assets and for a)
Certificate of Convenience and Necessity)

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW Kimberly K. Bolin and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Direct Testimony; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Kimberly K. Bolin
Kimberly K. Bolin