

Exhibit No.:
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Carrying Costs Deferral,
Discrete Adjustments*
Witness: *Kimberly K. Bolin*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *WR-2022-0303*
Date Testimony Prepared: *February 8, 2023*

**MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION**

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2022-0303

*Jefferson City, Missouri
February 2023*

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KIMBERLY K. BOLIN
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1 **DEPRECIATION AND CARRYING COSTS DEFERRALS**

2 Q. How many water and sewer systems has MAWC purchased since MAWC's last
3 rate case, Case No. WR-2020-0344?

4 A. MAWC has purchased or is in the process of finalizing the purchase of eight
5 systems since its last rate case, Case No. WR-2020-0344, despite Mr. LaGrand's assertion on
6 page 16, lines 10 through 12 of his rebuttal testimony, that it is "virtually impossible" for water
7 or sewer companies to earn the authorized rate of return under the regulatory construct in
8 Missouri. MAWC's decisions to undertake discretionary purchases of additional systems are
9 not consistent with MAWC's claim that traditional ratemaking is not sufficient in Missouri.

10 Q. On page 2, line 5 through page 4, line 15 of his rebuttal testimony, Mr. Robinett
11 compares the plant in service accounting ("PISA") mechanism, which is available for electric
12 utilities, to MAWC's proposed depreciation and carrying costs deferrals. Are Missouri electric
13 utilities able to utilize the Water and Sewer Investment Rate Adjustment ("WSIRA")
14 mechanism?

15 A. No. Currently, only a water or sewer corporation that provides water or sewer
16 service to more than 8,000 customer connections may file a petition with the Commission to
17 recover costs through the WSIRA.

18 Q. When does an electric utility recover costs through the PISA mechanism?

19 A. An electric utility recovers the costs through the PISA mechanism when the
20 utility files a rate case. In that rate case, an amortization of the costs is established and included
21 in rates.

22 Q. When does MAWC recover the costs associated with WSIRA-eligible plant?

1 A. MAWC is allowed to file a change to the WSIRA surcharge twice in a
2 twelve-month period. One hundred eighty days after MAWC files its WSIRA application, the
3 WSIRA rates become effective and MAWC may start charging customers. MAWC does not
4 have to wait to file a rate case to begin recovery of the costs associated with WSIRA-eligible
5 plant, unlike the electric utilities utilizing PISA.

6 Q. Are electric utilities allowed to recover 100% of the depreciation expense and
7 return on plant additions through the PISA deferral mechanism?

8 A. No. Electric utilities are only allowed to recover 85% of all depreciation expense
9 and return associated with the qualifying plant. On the other hand, MAWC is allowed to
10 recover 100% of the costs associated with WSIRA-eligible plant through the WSIRA
11 mechanism.

12 Q. Under MAWC's deferral proposal, is MAWC requesting to only recover 85%
13 of the depreciation and carrying costs associated with plant additions?

14 A. No. MAWC proposes to recover 100 % of the depreciation expense and carrying
15 costs (return on) associated with non-WSIRA eligible plant.

16 Q. If an electric utility elects PISA treatment, can the utility make an application
17 for a rate adjustment that accounts for the impact weather, conservation, or both, can have on
18 increases or decreases in revenues such as the Revenue Stabilization Mechanism ("RSM")
19 proposed by MAWC in this case?

20 A. No.

21 Q. Does the PISA mechanism contain a cap on the amount a utility can raise
22 customers' rates?

1 A. Yes. Under the PISA mechanism, if an electrical corporation's average overall
2 rate exceeds a compound annual growth rate of more than 2.85%¹, the electrical cooperation
3 shall not recover any amount in excess of the 2.85% as a performance penalty. For example,
4 if an electrical utility files for a rate case and the incremental revenue requirement increase
5 would cause the overall customer rate (base rate plus the fuel adjustment clause rate, the
6 Renewable Energy Standard Rate Adjustment Mechanism rate, and the Demand Side
7 Investment Mechanism rate) to increase by more than 2.85%, then the utility would not be
8 allowed to recover the amount of incremental revenue that caused the customers' overall rate
9 to exceed 2.85%.

10 Q. Is there a performance penalty or rate cap for MAWC similar to the PISA 2.85%
11 rate cap when MAWC utilizes WSIRA?

12 A. Generally, there is no ongoing performance penalty or overall rate cap for
13 MAWC. During a rate case, MAWC's incremental revenue requirement increase is not limited
14 in amount, with the exception noted below. MAWC is, however, limited to collecting an
15 amount of WSIRA revenues which is not more than 15% of the water or sewer base revenue
16 requirement in the utility's most recent general rate proceeding. Once that 15% limit is reached,
17 MAWC can no longer apply for WSIRA rate increases until a general rate case is processed.

18 Q. Do you agree with Mr. Robinett that the electric PISA mechanism is
19 significantly different from, and contains more customer protections than MAWC's proposed
20 depreciation and carrying cost deferrals?

21 A. Yes.

¹ Effective January 1, 2024, the revenue requirement impact cap will be 2.5%. Section 393.1656, RSMo.

1 Q. Would the Staff withdraw its opposition to MAWC's depreciation and carrying
2 cost deferral even if it were revised to be more consistent with the electric PISA mechanism?

3 A. No. The WSIRA mechanism provides sufficient earnings protection in regard
4 to MAWC's plant additions, making MAWC's proposal to also defer depreciation and carrying
5 costs for the additions both unnecessary and unduly slanted against customers.

6 **DISCRETE ADJUSTMENTS**

7 Q. Mr. LaGrand states on page 7, lines 17 through 18 of his rebuttal testimony that
8 in my direct testimony I noted that acquisitions will be included as part of the true-up process.
9 Is this correct?

10 A. Not exactly. On page 5, line 21 of my direct testimony I included rate base
11 for newly acquired systems and revenue and expenses for newly acquired systems as items
12 that Staff proposes to update through year-end 2022. Two of MAWC's newly acquired systems
13 are expected to close in February 2023. These two systems would not be included in Staff's
14 true-up audit.

15 Q. On page 8, lines 19 and 20 of his rebuttal testimony, Mr. LaGrand's lists items
16 that MAWC recommends including in Staff's true-up audit but were not listed in your direct
17 testimony. Does Staff agree these items should be included in the true-up?

18 A. Staff agrees that the prepaid pension asset balance and the deferred lead service
19 line deferral as of December 31, 2022, should be included. In this particular case only, Staff is
20 agreeing to update maintenance expense due to Staff only having two years of data that separate
21 the expenses into hydrant, main break, and other maintenance categories. Staff does not agree

1 that the customer usage should be updated. Staff determined a normalized customer usage level
2 in its direct testimony.

3 Q. On page 10, lines 15 through 17 of his rebuttal testimony, Mr. LaGrand asserts
4 that Staff could review the discrete adjustments for investment projects for prudence now.
5 Is prudence the only item that needs to be reviewed when determining if plant is included in
6 rate base?

7 A. No. Staff also reviews invoices and change orders to determine the proper
8 amount of the project costs to include in rate base. For example, Staff would not include any
9 late charges or charges that are due to MAWC's mismanagement of the construction of a project
10 in its later stages. Review of these items in most cases cannot occur until the project is almost
11 finished and the invoices and data may not be available for review at the end of the rate case.
12 Staff must also determine that the plant is used and useful, which sometimes involves a site
13 visit to ensure that the project is operating and providing service to the customers.

14 Q. Does MAWC agree that a reconciliation process is appropriate to demonstrate
15 the actual investments made were at least equal to the amount of any estimation included
16 in rates?

17 A. Yes. Mr. LaGrand states on page 11, lines 9 through 11 of his rebuttal testimony
18 that MAWC agrees to submit a reconciliation of the actual investments as of May 31, 2023.
19 However, he does not specify what should happen in the next rate case if the plant additions
20 included in customer rates as part of the discrete adjustments were not actually **placed in**
21 **service by May 31 2023**. His testimony says nothing about a possible refund to customers of
22 the costs associated (depreciation and return on) with projects not achieving used and useful
23 status as of the operation of law date (May 31, 2023).

Surrebuttal Testimony of
Kimberly K. Bolin

1 Q. If the Commission would approve discrete plant additions placed in service by
2 May 31, 2023, does Staff recommend that any costs associated with plant that is not placed in
3 service by May 31, 2023, be refunded to customers?

4 A. Yes. If the Commission would determine it is appropriate to include discrete
5 plant additions, Staff recommends that any depreciation expense and return on plant that is not
6 in place by May 31, 2023, be refunded to customers either as a bill credit or through a deferral
7 in the next rate case. Just to clarify, as an example, if the plant goes into service June 30, 2023,
8 but was included in rates, one month of depreciation expense and return on the plant should be
9 refunded to the customers.

10 Q. MAWC witness Derek Linam, on page 4, lines 7 through 11 of his rebuttal
11 testimony, lists three projects that will not be finished by the true-up date of December 31,
12 2022, as previously planned when MAWC filed its direct testimony. Is this an example of why
13 Staff is concerned with including plant that is planned to be in service before the May 31, 2023,
14 operation of law date?

15 A. Yes. It is not uncommon for delays to occur when constructing plant.

16 Q. Mr. LaGrand, on page 11, lines 18 through 22 of his rebuttal testimony,
17 lists several expenses that he believes will be known and measurable. Is Staff opposed to
18 including items that are known and measurable but will occur past the true-up date of
19 December 31, 2022?

20 A. Not under all circumstances. If an expense item is known and measurable and
21 inclusion of the adjustment does not skew the matching principle, Staff may recommend
22 making a discrete adjustment. For example, new insurance (other than group) rates that are
23 effective in January 2023, is an item that is known and measurable and can be easily reviewed

1 by Staff. Staff would consider making a discrete adjustment to reflect the new insurance rates
2 in its cost of service. On the other hand, a payroll increase occurring in December 2023 is an
3 example of an item that would not be included in Staff's cost of service as a discrete adjustment.
4 Even if the payroll increase is a known and measurable item, the timing of the increase would
5 violate the matching principle.

6 Q. What is the Commission's criteria for determining whether an event outside the
7 test year should be included in rate base?

8 A. The Commission stated on pages 112 and 113 in the *Amended Report and Order*
9 for Case No. ER-2019-0374:

10 The criteria for determining whether an event outside the test year should
11 be included is whether the proposed adjustment: 1) is known and
12 measurable; 2) promotes the proper relationship of investment, revenues
13 and expenses; and; 3) is representative of the conditions anticipated
14 during the time the rates will be in effect.

15 Q. On page 9, lines 17 and 18 of his rebuttal testimony, Mr. LaGrand cites a
16 Commission order for the proposition that discrete adjustments satisfy the known and
17 measurable standard if they occur close to the time the rates in question will be in effect.² Does
18 this order also address that the revenue-expense-rate base relationship should match?

19 A. Yes. The Commission states:

20 The Commission has no desire to entertain isolated adjustments, but
21 seeks a "package" of adjustments designed to maintain the proper
22 revenue-expense-rate base match at a proper point in time.

23 Q. Does this conclude your surrebuttal testimony?

24 A. Yes it does.

² In re *Kansas City Power & Light Company*, 26 Mo. P.S.C (N.S.) 104, 109 (1983).

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement General Rate Increase for Water)
and Sewer Service Provided in Missouri)
Service Areas)

Case No. WR-2022-0303

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 *Surrebuttal Testimony of Kimberly K. Bolin*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Kimberly K. Bolin
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 2nd day of February 2023.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D. Suzie Mankin
Notary Public