

Exhibit No.:
Issues: Tank Painting Tracker,
Acquisition Adjustment
Witness: Kimberly K. Bolin.
Sponsoring Party: MoPSC Staff
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Case No.: WR-2011-0337
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MISSOURI PUBLIC SERVICE COMMISSION
REGULATORY REVIEW DIVISION
UTILITY SERVICES

SURREBUTTAL TESTIMONY
OF
KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337

Staff Exhibit No. 20
Date 2-21-12 Reporter JL
File No WR-2011-0337

Jefferson City, Missouri
February 2012

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KIMBERLY K. BOLIN**

MISSOURI-AMERICAN WATER COMPANY

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1 A. I will address Staff's recommendation to discontinue the tank painting tracker.
2 Alternatively, if the tank painting tracker is to be continued, Staff recommends the tracker
3 dollar level should be set at Staff's annualized tank painting expense amount. Additionally, I
4 also address the reasons why the Commission should continue the practice of valuing rate
5 base of acquired companies at net book value and not allowing any acquisition adjustments,
6 discounts or premiums.

7 **TANK PAINTING TRACKER**

8 Q. MAWC witness Weeks states on page 4, lines 3 through 6 of his Rebuttal
9 Testimony that one of the reasons a tracker mechanism is appropriate for tank painting
10 expense is that tank painting is a seasonal expense. Does Staff agree with this statement?

11 A. No. Just because an expense may be considered seasonal in nature does not
12 necessitate the need for a tracker of the expense. Other construction activities and
13 maintenance expenses, such as scheduled main replacements and grass cutting are also
14 considered seasonal in nature and do not require a tracker mechanism. Also, Staff analyzed
15 tank painting expense incurred by the Company for the past five years. In doing so, Staff
16 has removed any effects of seasonality when proposing the proper annual expense level.

17 Q. If the Commission were to find that the tank painting tracker continues to
18 be appropriate, does Staff agree with the Company's proposed annual tracker level of
19 \$1,600,000?

20 A. No. If a tank painting tracker was deemed appropriate by this Commission,
21 the Staff asserts that its annualized amount (as stated before consideration of the tracker
22 amortization) of \$1,370,136 should be the level used to set the tank painting tracker instead of
23 the Company's level of \$1,600,000.

1 Q. What is the basis for Staff's position that the Company's level for the tank
2 painting tracker is inappropriate?

3 A. The Company has based their proposed amount upon the 2009 and 2010 levels
4 of tank painting expense incurred. Staff reviewed the past five years of tank painting
5 expense when determining its annualized level of tank painting and found that a three year
6 average of tank painting expense was an appropriate normalized amount when compared
7 to the costs incurred during the other years. Also, in Mr. Weeks Rebuttal Testimony, at
8 page 5, he states that the Company incurred approximately \$1,300,000 of tank painting
9 expense in 2011. This would indicate that Staff's tracker amount (\$1,370,136) is more
10 on target than the Company's proposed tracker amount of \$1,600,000.

11 **ACQUISITION ADJUSTMENTS**

12 Q. What is original cost?

13 A. The term "original cost," as defined in the National Association of Regulatory
14 Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for water utilities is:

15 "Original cost," as applied to utility plant, means the cost of
16 such property to the person first devoting it to public service.

17 The deduction of depreciation, amortization, and CIAC from the original cost results in a net
18 original cost recorded on the seller's regulatory books and records. Thus, any property
19 acquired is valued on the books and records of the purchaser at the same value that
20 the seller placed on it. This principle is referred to as the "original cost/first devoted to
21 public service" concept.

1 Q. In Mr. Robertson's Rebuttal Testimony, pages 20-21, he cites how he believes
2 the Generally Accepted Accounting Principles (GAAP) required the Company to book the
3 purchase. Does the USOA provide such guidance?

4 A. Yes. Utility Plant Instructions number 2 states:

5 **2. Utility Plant to be Recorded at Cost**

6 A. All amounts included in the accounts for utility plant,
7 acquired as an operating unit or system, shall be stated at the
8 cost incurred by the person who first devoted the property to
9 utility service and all other utility plant shall be included in the
10 accounts at the cost incurred by the utility except as otherwise
11 provided in the texts of the intangible plant account. Where the
12 term "cost" is used in the detailed plant accounts, it shall have
13 the meaning stated in this paragraph.

14 The USOA requirement for recording the cost of acquired assets is in conformity with the
15 original cost concept.

16 Q. In Mr. Robertson's Rebuttal Testimony, he cites many cases in which the
17 Commission has rejected the rate recovery of acquisition adjustments. Does Staff recommend
18 the Commission continue its past practice of endorsing the original cost concept?

19 A. Yes. The rate base of a public utility represents the reasonable value of all
20 property which is in service and devoted to public use. Because the value of a utility's
21 property remains unchanged with a change in ownership, it does not affect the value of its
22 property in service and devoted to the public use. Thus, no recalculation of the utility's
23 property or rate base is appropriate.

24 Q. Does the Staff agree with Public Counsel's assertion that a utility should not
25 be allowed to recover the costs associated with an acquisition based on the acquired utility's
26 net book value when the purchase price is less than book value?

1 A. No. Staff is of the opinion that acquisition adjustments, both premiums and
2 discounts, should not be recovered through rates.

3 Q. If the Commission were to allow utilities to use the purchase price as the rate
4 base value for acquired properties when the purchase price is lower than the original net book
5 value, does this provide an incentive for utilities to purchase other utilities at a lower price
6 than net book value?

7 A. No. If a utility is unable to recover anything less than book value, then this
8 may not provide the utility much incentive to negotiate a lower purchase price. This is
9 particularly important in regard to so-called “troubled” utility properties, whose market value
10 may be significantly less than their net book value. Also, by consistently applying the
11 standard of using net book value for ratemaking purposes, a purchasing utility will be able
12 to negotiate for a purchase price with knowledge of the Commission’s consistent practice
13 concerning rate base valuation, whether purchases are made at a premium or discount.

14 Q. Mr. Robertson states in his Rebuttal Testimony, page 15, lines 12 through 14,
15 “Except for possibly an extreme case such as a stronger utility acquiring a failing utility
16 (i.e., a utility lacking competent management and resources) Public Counsel believes that a
17 utility should not be allowed to recover the costs associated with an acquisition based on the
18 acquired utility’s net book value when the purchase price is less.” Does Staff agree with
19 Mr. Robertson’s statement?

20 A. No. Staff foresees problems and potential disputes in defining what a
21 “stronger utility” and failing utility” are, if Public Counsel’s standard is applied. The inherent
22 uncertainty of how acquired assets should be valued for rate base purposes under Public
23 Counsel’s proposed approach in this case argues for a consistent policy towards rate base

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1 valuation of acquired properties. Staff asserts net book value should be consistently used
2 for rate base in all acquisitions, regardless of the utilities involved in the transaction, and
3 regardless of whether the transaction is entered into with an acquisition premium or discount.

4 Q. Does this conclude your Surrebuttal Testimony?

5 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

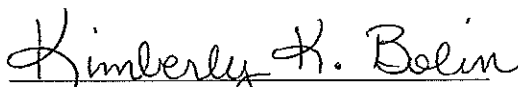
In the Matter of Missouri-American Water)
Company's Request for Authority to)
Implement A General Rate Increase for)
Water and Sewer Service Provided in)
Missouri Service Areas)

Case No. WR-2011-0337

AFFIDAVIT OF KIMBERLY K. BOLIN

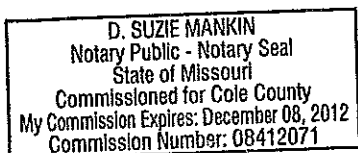
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

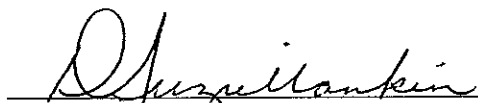
Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that 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

Subscribed and sworn to before me this 2nd day of February, 2012.





Notary Public