

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2003-0500

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. Kimberly K. Bolin, P.O. Box 2230, Jefferson City, Missouri 65102.

3 **Q. ARE YOU THE SAME KIMBERLY K. BOLIN WHO FILED DIRECT AND**
4 **REBUTTAL TESTIMONIES IN THIS CASE?**

5 A. Yes.

6 **Q, WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

7 A. The purpose of my surrebuttal testimony is to respond to Missouri-American Water Company
8 (Missouri-American or Company) rebuttal testimony on the following issues: acquisition adjustment,
9 St. Joseph water treatment plant excess capacity, St. Joseph retired treatment plant, American Water
10 Resources and affiliated transactions, security accounting authority order (AAO) and advertising. I
11 have also attached copies of customer correspondence the Office of Public Counsel (Public Counsel
12 or OPC) has received.

13

ACQUISITION ADJUSTMENT

1
2 **Q. HAS MR. JENKINS OR MR. GRUBB INCLUDED ANY POSSIBLE EXPENSE**
3 **INCREASES DUE TO THE ACQUISITIONS IN THEIR ANALYSIS OF THE**
4 **BENEFITS OF THE ACQUISITIONS?**

5 A. No. The Company has only included possible savings due to the acquisitions. The Company has not
6 included any possible increases in operating expenses due to the acquisitions.

7 **Q. HAS THE PUBLIC COUNSEL RECEIVED PHONE CALLS AND**
8 **CORRESPONDENCE FROM MISSOURI-AMERICAN WATER CUSTOMERS IN THE**
9 **NEWLY ACQUIRED AREAS CONCERNING PROBLEMS WITH ESTIMATED METER**
10 **READINGS?**

11 A. Yes. Several customers have reported to us that after the acquisitions in Florissant and Webster
12 Groves that their meters were not read. Instead the Company produced estimated meter reading
13 which were extremely larger estimates of water usage than these customers had ever experienced
14 with the prior municipalities.

15 **Q. IS IT POSSIBLE THAT SOME OF THE EMPLOYEE REDUCTIONS AND THE**
16 **REDUCTION OF OPERATING EXPENSE MIGHT HAVE OCCURRED EVEN IF**
17 **THE ACQUISITION OF THE NEWLY ACQUIRED DISTRICTS HAD NOT TAKEN**
18 **PLACE?**

19 A. Yes, it is possible that the newly acquired districts might have reduced employee levels and operating
20 expense, even if the acquisition had not taken place. Public utilities are very complex organizations
21 with many overlapping activities and functional areas. Utilities are constantly organizing and
22 reorganizing functions within their structure to streamline production capabilities and achieve
23 efficiencies. It is very difficult to determine and measure the “cause and effect” relationship that may

1 exist between taking an action and identifying and measuring the effect of that action. Many utility
2 companies have implemented cost reduction programs in recent years. There is no evidence that prior
3 owners would not have implemented some the same cost reductions.

4 **Q. WHY IS IT DIFFICULT TO VERIFY THE ACTUAL SAVINGS WHICH ARE**
5 **RELATED TO THE ACQUISITIONS?**

6 A. What one party may believe is the result of an acquisition may actually be nothing more than an
7 operating efficiency of an ongoing concern. There is an incentive in the traditional regulatory process
8 for the utility to identify any reductions in work force and operating costs as acquisition related. With
9 this inherent incentive it becomes more difficult in the future to truly identify and quantify
10 acquisitions related costs savings as oppose to non-acquisition related cost savings.

11 **Q. HAVE UTILITIES PREVIOUSLY BROUGHT THIS ISSUE BEFORE THE**
12 **MISSOURI PUBLIC SERVICE COMMISSION (COMMISSION)?**

13 A. Yes. In the past, several utilities have tried to demonstrate purported savings to the acquisition. This
14 is often referred to as the "benefits test." However, actual savings that may result from an acquisition
15 are very difficult to verify and prove. All or a portion of the savings might have resulted from
16 prudent management decisions other than the acquisition. It is difficult to determine if the savings are
17 related to the acquisition or whether the savings would have eventually occurred anyway.

18 **ST. JOSEPH WATER TREATMENT PLANT EXCESS CAPACITY**

19 **Q. ON PAGE 25 OF COMPANY WITNESS FRANK KARTMANN'S REBUTTAL**
20 **TESTIMONY HE STATES THAT, IN THE COMMISSION ORDER IN CASE**
21 **NO. WR-2000-281, THE COMMISSION DID NOT REJECT THE COMPANY**
22 **ARGUMENTS REGARDING ALLOWING RECOVERY OF EXCESS CAPACITY.**

1 **DID THE COMPANY FILE TESTIMONY IN WR-2000-281 IN OPPOSITION**
2 **TO THE DISALLOWANCE OF THE EXCESS CAPACITY?**

3 A. Yes. The Company filed surrebuttal testimony prepared by John S. Young Jr. in opposition of
4 disallowing a portion of the St. Joseph treatment plant from rate base for excess capacity. However,
5 the mere fact that the Commission did not summarize the Company's position in the Report and
6 Order does not prove that the Commission failed to consider the Company's position when it
7 determined that the Missouri Public Service Commission Staff's (Staff) method was correct.

8 **Q. MR. KARTMANN REVEALS IN HIS TESTIMONY THAT PREMIUM PORK, LLC**
9 **HAS MADE COMMITMENTS TO OPEN OPERATIONS IN ST. JOSEPH AND**
10 **THAT PREMIUM PORK PROCESSING ESTIMATES IT WILL USE 2.7 MGD IN**
11 **THE FUTURE. IS PUBLIC COUNSEL OPPOSED TO ALLOWING THE COMPANY**
12 **TO INCREASE ITS PLANT-IN-SERVICE IN THE FUTURE IF MGD**
13 **PRODUCTION INCREASES ABOVE 23 MGD?**

14 A. No. As I stated in my direct testimony, rate base should only include values associated with plant that
15 is used and useful in the provision of service to current customers. If a utility has built excess
16 capacity that is not currently necessary for the provision of service to current customers, the
17 associated cost or value should not be included in the overall cost of service on which rates are set.
18 The Commission should allow the Company to increase its plant-in-service once the excess capacity
19 of the plant becomes needed. This approach properly matches the rate base to the customer's needs.
20 However, current ratepayers should not pay for plant that a possible future customer may need.
21 Public Counsel will review actual capacity levels in each rate case, so that proper matching will occur.

22 **ST. JOSEPH RETIRED TREATMENT PLANT**

1 Q. IN THE COMPANY'S CALCULATION OF ITS PROPOSAL TO AMORTIZE THE
2 RETIREMENT OF THE OLD ST. JOSEPH WATER TREATMENT PLANT HAS
3 THE COMPANY INCLUDED THE SALE AMOUNT OF THE WATER TREATMENT
4 PLANT?

5 A. No. The Company's calculation is the net plant investment (plant minus accumulated depreciation)
6 associated with the retired St. Joseph water treatment plant , which was \$2,832,906 plus \$344,955 for
7 the cost of removing the plant from service. The Company fails to mention the Company no longer
8 owns the water treatment plant in its direct and rebuttal testimony and also does not subtract the sale
9 amount of \$115,000 from its calculation.

10 Q. THE COMPANY HAS CHARACTERIZED THIS ISSUE AS A RECOVERY OF AN
11 INVESTMENT. IS THIS A CORRECT CHARACTERIZATION OF THIS ISSUE
12 IN THIS CASE?

13 A. No, this is no longer an issue of the Company not receiving a return of an investment through
14 depreciation, this an issue of a loss incurred by the Company. Likewise, if the Company had
15 experienced a gain, that would be recognized. The Company has sold the old St. Joseph treatment
16 plant The ratepayers do not get to share any gains from the sale of utility plant, therefore, the
17 ratepayers should not have to share any loss from the sale of utility plant.

18 AMERICAN WATER RESOURCES AND AFFILIATED TRANSACTIONS

19 Q. THE COMPANY HAS STATED THAT IT DOES NOT BELIEVE AN AFFILIATE
20 TRANSACTION RULE IS NECESSARY AT THIS TIME BECAUSE MISSOURI-
21 AMERICAN'S RELATIONSHIP WITH NON-REGULATED BUSINESSES OF
22 AMERICAN WATER HAS NOT CHANGED (WITH ONE EXCEPTION) IN THE
23 LAST TEN YEARS. DOES PUBLIC COUNSEL AGREE WITH THE COMPANY?

1 A. No. An affiliated transaction rule is needed now more than ever. The recent mailing of letters
2 promoting the water service line protection program is an example of why the rule is needed. The
3 Company allowed American Water Resources to use its customer's names and addresses in mailing
4 these letters, which were sent on Missouri-American Water letterhead and signed by the president of
5 Missouri-American Water Company.

6 **Q. COULD SENDING OF LETTERS PROMOTING A SERVICE OFFERED BY**
7 **AMERICAN WATER RESOURCES ON MISSOURI-AMERICAN COMPANY**
8 **LETTERHEAD CAUSE CONFUSION FOR SOME OF MISSOURI-AMERICAN**
9 **WATER CUSTOMERS?**

10 A. Yes. Customers could easily believe that the service line protection plan is being offered by Missouri
11 American Water Company. Some customers may not be able to tell the difference between the
12 corporate entities.

13 **Q. COMPANY WITNESS MR. GRUBB ASSERTS THAT THE GAS AND ELECTRIC**
14 **AFFILIATE TRANSACTIONS RULES NEED TO BE MORE TAILORED FOR THE**
15 **WATER INDUSTRY. DOES PUBLIC COUNSEL BELIEVE THE AFFILIATE**
16 **TRANSACTION RULES FOR GAS AND ELECTRIC UTILITIES COULD BE**
17 **USED FOR THE WATER INDUSTRIES WITHOUT ANY TAILORING?**

18 A. Yes. The rules listed in my direct testimony on pages 22 through 25 do not need to be altered for
19 compliance by Missouri-American. Many of these rules could be followed at little cost to the
20 Company, such as not disclosing confidential public utility information without prior Commission
21 approval and maintaining its books of account and records completely separate from its non-regulated
22 affiliates.

SECURITY AAO

1
2 Q. COMPANY WITNESS MR. GRUBB STATES ON PAGE 26 THAT THE SECURITY
3 AAO SOLELY BENEFITS THE RATEPAYERS. IF GRANTED RECOVERY OF
4 THIS AAO WOULD THE COMPANY AND ITS SHAREHOLDERS RECEIVE A
5 BENEFIT?

6 A. Yes. The Company is avoiding the detrimental effects of regulatory lag thus insulating the
7 shareholders from risk. The Commission has found in a previous case that,

8 "Lessening the effect of regulatory lag by deferring costs is beneficial to a company
9 but not particularly beneficial to ratepayers.:" Missouri Public Service Company,
10 Cases Nos. EO-91-348 and EO-91-360, Report and Order, page 10

11 This AAO insulates the Company's shareholders from a significant majority of the risks associated
12 with regulatory lag that may have occurred if the security construction projects were completed and
13 placed in service before the operation of law date of this case.

14 Q. IN THE COMPANY APPLICATION FOR AN ACCOUNTING AUTHORITY ORDER,
15 CASE NO. WO-2002-273, DID THE COMPANY GIVE EXAMPLES OF
16 POSSIBLE SECURITY COSTS FOR DEFERRAL THROUGH THE AAO?

17 A. Yes.

18 Q. WERE LEGAL COSTS FOR PURSUING THE AAO ONE OF THE POSSIBLE
19 SECURITY COSTS.

20 A. No.

21 Q. ARE YOU AWARE OF ANY OTHER REQUEST BY A REGULATED UTILITY TO
22 INCLUDE THE LEGAL COSTS OF PURSUING AN ACCOUNTING AUTHORITY
23 ORDER IN THE ACTUAL ACCOUNTING AUTHORITY ORDER?

1 A. No, I am not aware of any such request or Commission order that includes the legal costs of pursuing
2 an accounting authority order as a cost to be recovered in the accounting authority order. This
3 Company has not previously recovered legal costs pursuant to any of its earlier AAOs

4 **Q. SHOULD COMPANY BE ALLOWED TO RECOVER COSTS INCURRED TO PURSUE**
5 **THIS ACCOUNTING AUTHORITY ORDER?**

6 A. Yes. Legal expenses are analyzed and included in each and every rate case. A normalized level of
7 legal and/or outside services expense has been determined in this rate case. Normalized legal
8 expenses in a rate case is appropriate because the level of legal activities fluctuates and while the
9 nature of the need for legal service may vary, the fact that the Company incurs legal expense does not.

10 **Q. DOES PUBLIC COUNSEL BELIEVE THE ON-GOING COSTS FOR SECURITY**
11 **MEASURES SHOULD BE RECOVERED BY THE COMPANY?**

12 A. Yes, as an annualized expense to be included in the costs of service on a going forward basis, not as
13 an annualized expense plus a past expense through the AAO.

14 **Q. HAVE THE CAPITAL EXPENDITURES MADE BY THE COMPANY FOR**
15 **SECURITY MEASURES BEEN INCLUDED IN THE COMPANY'S RATE BASE**
16 **FOR THIS RATE CASE?**

17 A. Yes, the capital expenditures for security measures have been included in the Company's rate base
18 and the Company will earn a return on these investments.

19 **Q. ARE DEFERRED CARRYING COST AND DEPRECIATION EXPENSE ACTUAL**
20 **DOLLARS OF INVESTMENT FUNDED BY THE COMPANY?**

1 A. No. The carrying cost and deprecation expense associated with the AAO are not actual dollars of
2 investment funded by the Company. Neither the carrying cost nor the deprecation expense causes
3 the Company to forego any actual outlay of cash..

4 Q. WOULD ALLOWING THE COMPANY THE DEFERRAL RESULT IN THE
5 RATEPAYERS PAYING MORE THAN 100 PERCENT OF THE ANNUAL COST
6 FOR SECURITY MEASURES.

7 A. Yes, it would.

8 ADVERTISING

9 Q. COMPANY WITNESS MR. DOUGLAS LEHMAN STATES IN HIS REBUTTAL
10 TESTIMONY, THAT MISSOURI AMERICAN WATER COMPANY WAS UNABLE TO
11 OBTAIN COPIES OF A NUMBER OF ADS, BUT WAS ABLE TO PRODUCE THE
12 PAID INVOICES WITH DESCRIPTIONS OF ADS. HE BELIEVES THIS IS
13 ADEQUATE DOCUMENTATION TO INCLUDE THE ADS. DO YOU AGREE?

14 A. No. The ads in which Mr. Lehman proposes including have been deemed institutional adverting by
15 all parties, including the Company. Institutional advertising should not be allowed in rates because it
16 is used to enhance the Company's public image. Institutional advertising is not necessary to provide
17 safe and adequate service to its customers.

18 Q. HAVE YOU EXAMINED ADVERTISING EXPENSES FOR OTHER UTILITIES?

19 A. Yes, I have.

20 Q. WERE THE OTHER UTILITIES ABLE TO PROVIDE COPIES OF ALL OF THE
21 ADS THAT WERE INCLUDED IN THE TEST YEAR FOR THAT COMPANY?

1 A. Yes. The Companies were able to provide a copy of each print ad and copies of scripts and /or
2 video/audio copies for radio and television ads. The Companies also provided paid invoices for each
3 ad.

4 CUSTOMER CORRESPONDENCE

5 **Q. HAS THE OFFICE OF PUBLIC COUNSEL RECEIVED PHONE CALLS AND**
6 **LETTERS FROM CUSTOMERS IN OPPOSITION TO THIS RATE INCREASE?**

7 A. Yes, the Office of Public Counsel has received approximately 87 calls and 59 letters in opposition to
8 this increase. Attached to my testimony as Appendix A are copies of e-mails and letters our office
9 has received.

10 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

11 A. Yes.