

**Exhibit No.:** \_\_\_\_\_

**Issue(s):**

Water Plant Premature  
Retirement and Rate  
Case Expense

**Witness // Type of Exhibit:**

Bolin/Direct

**Sponsoring Party:**

Public Counsel

**Case Nos.:**

WR-2000-281 and SR-2000-282

**DIRECT TESTIMONY**

**OF**

**KIMBERLY K. BOLIN**

**FILED<sup>2</sup>**

APR 03 2000

Missouri Public  
Service Commission

Submitted on Behalf of the Office of the Public Counsel

**Missouri-American Water Company**

Case Nos.: WR-2000-281 and SR-2000-282


April 3, 2000

In the matter of Missouri-American Water )  
 Company's tariff sheets designed to implement )  
 General rate increases for water and sewer ) Case Nos. WR-2000-281 and  
 Service provided to customers in the Missouri ) SR-2000-282  
 Area of the Company. )

STATE OF MISSOURI )  
 ) SS  
COUNTY OF COLE )

1. My name is Kimberly K. Bolin. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached, hereto and made a part hereof for all purposes, is my direct testimony consisting of pages 1 through 10 and Schedules KKB-1 and KKB-2.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Kimberly Bolin  
Kimberly K. Bolin

  
Bonnie S. Howard, Notary Public

My Commission expires May 3, 2001.

**DIRECT TESTIMONY**

**OF**

**KIMBERLY K. BOLIN**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NOS. WR-2000-281/SR-2000-282**

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

A. Kimberly K. Bolin, P.O. Box 7800, Jefferson City, Missouri 65102.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed by the Office of the Public Counsel of the State of Missouri (OPC or Public Counsel) as a Public Utility Accountant I.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

A. I graduated from Central Missouri State University in Warrensburg, Missouri, with a Bachelor of Science in Business Administration, major in Accounting, in May 1993.

**Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF THE PUBLIC COUNSEL?**

A. Under the direction of the Chief Public Utility Accountant, I am responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION (COMMISSION)?**

A. Yes. Please refer to Schedule KKB-1, attached to this direct testimony, for a listing of cases in which I have previously submitted testimony.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

2 A. The purpose of my direct testimony is to express the Public Counsel's recommendations regarding  
3 the appropriate regulatory treatment of the premature retirement of the existing St. Joseph water  
4 treatment plant and rate case expense.

5  
6 **WATER PLANT PREMATURE RETIREMENT**

7 **Q. PLEASE EXPLAIN THE ISSUE.**

8 A. The Company is building a new water treatment plant in St. Joseph, Missouri, that will replace an  
9 existing water treatment plant that is still operating. When the new plant goes online the old plant  
10 will be retired and the existing plant will no longer be used to provide service to St. Joseph.  
11 However, the existing plant will not be fully depreciated before the plant's retirement. As of April  
12 30, 2000, the net plant investment associated with the old St. Joseph water treatment plant will be  
13 approximately \$3,332,906.

14 **Q. PLEASE DESCRIBE THE CONCEPT OF "USED AND USEFUL."**

15 A. The "used and useful" test is commonly used by regulatory commissions to determine if an item  
16 should be included in rate base. Under this concept, only plant or property currently providing  
17 utility service to the public is allowed rate base treatment.

1 **Q. PLEASE EXPLAIN THE ACCOUNTING TERMS " RETURN OF" AND**  
2 **" RETURN ON" .**

3 A. If an expenditure is recorded on the income statement as an expense it is compared dollar for dollar  
4 to revenues. This comparison is referred to as a "return of" because a dollar of expense is matched  
5 by a dollar of revenue.

6 "Return on" occurs when an expenditure is capitalized within the balance sheet because it increased  
7 the value of a balance sheet asset or investment. This capitalization is then included in the rate base  
8 calculation, which is a preliminary step in determining the earnings the company achieves on its  
9 total regulatory investment.

10 **Q. PUBLIC COUNSEL WITNESS MR. TED BIDDY HAS DETERMINED THAT THE**  
11 **COMPANY SHOULD HAVE REHABILITATED THE EXISTING WATER**  
12 **TREATMENT PLANT INSTEAD OF CONSTRUCTING A NEW WATER TREATMENT**  
13 **PLANT. UNDER MR. BIDDY'S PROPOSAL WOULD ALL OF THE EXISTING**  
14 **WATER TREATMENT PLANT HAVE BEEN RETIRED?**

15 A. No. The Company would not have retired all of the existing plant. The amount of plant that the  
16 Company would have retired is \$944,843. The items that would have to be retired are the filters,  
17 sedimentation basins, the chemical treatment plant, and other miscellaneous. water treatment  
18 structures.

1 **Q. IS THE PROPERTY IN QUESTION CURRENTLY PROVIDING UTILITY**  
2 **SERVICE TO THE PUBLIC?**

3 A. Yes. The existing St. Joseph water treatment plant is currently providing utility service to  
4 Missouri-American Water customers; however, after the construction of the new water treatment  
5 plant is completed the existing plant will not provide service or benefit to the public. The Company  
6 is planning to disable the plant, once the new plant is online. The Company has estimated that it  
7 will cost \$500,000 to disable the plant. This amount is included in the \$3,332,906 of unrecovered  
8 investment mentioned above.

9 **Q. WHEN IS THE NEW PLANT TO BE COMPLETED AND OPERATING?**

10 A. The new plant is to be completed and fully operational by April 30, 2000, the Commission ordered  
11 true-up date for this case.

12 **Q. WHAT IS DEPRECIATION?**

13 A. As applied to depreciable utility plant, depreciation means the loss in-service value not restored by  
14 current maintenance, incurred with the consumption or prospective retirement of utility plant in the  
15 course of service from causes which are known to be in current operation and against which the  
16 utility is not protected by insurance. Among the causes to be given consideration are wear and tear,  
17 decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and  
18 requirements of public authorities, etc.

1 **Q. WHAT IS THE VALUE OF THE EXISTING PLANT THAT WOULD HAVE**  
2 **REMAINED IN THE EXISTING RATE BASE UNDER PUBLIC COUNSEL'S**  
3 **PROPOSAL?**

4 A. \$1,888,063. This amount should be added to Public Counsel witness Mr. Biddy's determination of  
5 the value of the new St. Joseph water treatment plant of \$36,307,591.

6 **Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION.**

7 A. As of approximately April 30, 2000, the river source water treatment plant in St. Joseph will no  
8 longer be used and useful. It will be physically disconnected from the Company's distribution  
9 system serving St. Joseph. The Company is entitled to the opportunity to earn a fair return on  
10 prudent investments that are used and useful in rendering utility service. However, the ratepayers  
11 should not have to pay for plant that is no longer rendering utility service. In addition, new  
12 customers should not be expected to pay for plant that served past customers, that may no longer be  
13 on the system.

14  
15 **RATE CASE EXPENSE**

16 **Q. HOW DID YOU CALCULATE YOUR RATE CASE EXPENSE ANNUALIZATION?**

17 A. I examined the invoices and employee expense reports provided to me from Company in OPC data  
18 request number 1015 and determined which expenses were incurred due to this rate case. I then  
19 divided the expenses incurred for this rate case by two.

1 **Q. WHY DID YOU DIVIDE YOUR CURRENT RATE CASE EXPENSE AMOUNT BY**  
2 **TWO?**

3 A. I divided the current rate case expense by two because the Company has a history of filing a rate  
4 case every two years. During the past decade the Company has filed a rate case on the average of  
5 every two years. The Company has filed the following four rate cases in the past decade: Case No.  
6 WR-91-211 (filed November 20, 1990), Case No. WR-93-212 (filed December 30, 1992), Case No.  
7 WR-95-205/SR-95-206 (filed on November 23, 1994), and Case No. WR-97-237/SR-97-238 (filed  
8 on December 13, 1996).

9 If the Company is not in an annual filing mode, the frequency of occurrence should be analyzed and  
10 the costs normalized (averaged) over that period of time necessary to complete the cycle for the  
11 activity to occur. The actual amount of rate case expense prudently incurred for this rate case  
12 normalized for a two-year cycle of rate case occurrences is the most appropriate amount to include  
13 in the cost of service.

14 **Q. HOW IS THE RATEPAYER PROTECTED FROM RATE VOLATILITY WHEN**  
15 **EXPENSES FLUCTUATE FROM YEAR TO YEAR AS THEY DO FOR RATE CASE**  
16 **EXPENSE?**

17 A. A normalization of the expense is performed to protect the ratepayer from rate volatility, which  
18 smoothes out the level of fluctuating expenses of cyclical events in the cost of service. This  
19 approach stabilizes rates and develops a reasonable level of expenses that may occur in the future.



1 **Q. PLEASE PROVIDE AN EXAMPLE OF ANOTHER EXPENSE THAT IS**  
2 **NORMALIZED OVER A PERIOD OF TIME DUE TO THE EXPENSE'S**  
3 **FLUCTUATING CYCLICAL NATURE.**

4 A. Tank painting expense is an expense that is not incurred every year; thus, a normalized level is  
5 included in the company's cost of service. The Commission has stated that tank painting expense is  
6 not an expense that is deferred and amortized over a period of time, but is normalized due to its  
7 cyclical nature (See Missouri-American Water Company Case No. WR-89-265, Report and Order,  
8 pages 11 – 13).

9 An example of an expense that is not normalized is insurance expense. A company incurs  
10 insurance expense every year, albeit at possibly different levels each year, but the company still  
11 incurs the expense every year, unlike tank painting expense and rate case expense.

12 **Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN RATEMAKING AND**  
13 **FINANCIAL REPORTING.**

14 A. The goal of ratemaking is to determine an on-going amount of rate base, revenue, and expenses that  
15 will occur in the future. The company is then given an opportunity to earn a reasonable rate of  
16 return based upon these amounts. For expenses that fluctuate from year to year or to recognize  
17 cyclical events, normalization procedures are used to stabilize rates while providing the utility the  
18 opportunity to recover the expenses incurred over the cycle of occurrence.

1 Financial reporting is the reporting of the **actual** investments, revenues and expenses that the  
2 Company incurs during a specific period, normally one year. Management of earnings is not  
3 considered in financial reporting.

4 **Q. IN WHICH ACCOUNT HAS THE COMPANY RECORDED RATE CASE EXPENSE**  
5 **FOR CASE NO. WR-2000-281/SR-2000-282?**

6 A. Missouri-American Water Company has recorded the rate case expense in Account Number 182  
7 (Deferred Rate Proceedings Account). The USOA account title for Account Number 182 is  
8 Extraordinary Property Loss.

9 **Q. IN WHICH ACCOUNTS HAS THE COMPANY RECORDED EXPENSES INCURRED**  
10 **FOR CASE NO. WO-98-204?**

11 A. Missouri-American Water Company has recorded the expenses incurred for Case No. WO-98-204  
12 in Account Numbers 182.000 and 186.021 (Single Tariff Pricing Case Deferred Account).

13 **Q. WHAT IS THE PROPER WAY TO RECORD RATE CASE EXPENSE?**

14 A. Rate case expense should be recorded directly to the USOA Account Number 928, Regulatory  
15 Commission Expense. The expenses booked in Account Number 928 for the test year and the true-  
16 up period should be examined to determine a **normalized** level of rate case expense to include in  
17 the cost of service. The USOA defines Account 928 as:

18 The account shall include all expenses (except pay of regular employees only  
19 incidentally engaged in such work) properly includible in utility operating  
20 expenses, incurred by the utility in connection with formal cases before regulatory  
21 commissions, or other regulatory bodies, or cases in which such a body is a party,

1 including payments made to a regulatory commission for fees assessed against the  
2 utility for pay and expense of such commission, its officers, agents and employees.

3 As I discussed above, the Company has recorded rate case expense in Account Number 182.

4 Company should not record rate case expense in this account. The USOA states for Account 182 –

5 Extraordinary Property Loss:

6 When authorized or directed by the Commission, this account shall include  
7 extraordinary losses, net of income taxes, on property abandoned or otherwise  
8 retired from service which are not provided for by the accumulated provisions for  
9 depreciation or amortization and which could not reasonably have been foreseen  
10 and provided for, and extraordinary losses, such as unforeseen damages to  
11 property, which could not reasonably have been anticipated and which are not  
12 covered by insurance or other provisions.

13 Rate cases, like the painting of a water storage tank, occur on a cyclical basis. The cycles during  
14 which these events occur are longer than a year. Therefore, it is appropriate to review the cost over  
15 the entire cycle and normalize the cost assigned to any one year within the cycle.

16 I would also point out Missouri American Water Company does not have an accounting authority  
17 order issued by this Commission authorizing it to defer these costs, especially to an USOA account  
18 that does not make any reference to regulatory expense.

19 **Q. HAVE YOU INCLUDED THE EXPENSES INCURRED FOR CASE NO. WO-98-**  
20 **204 IN YOUR RATE CASE ANNUALIZATION?**

21 A. No, I have included only rate case expenses for the current rate case (Case No. WR-2000-281/SR-  
22 2000-282). To include the expenses incurred for the cost of service and rate design case (WO-98-  
23 204) would be double recovery from the ratepayers. The issues of cost of service and rate design

1 will be issues again in this very rate case; thus, the expenses the Company will incur to present its  
2 proposal have been or will be included in my rate case annualization.

3 **Q. WHAT IS THE ANNUALIZED AMOUNT OF RATE CASE EXPENSE YOU ARE**  
4 **PROPOSING THAT THE COMPANY RECEIVE?**

5 A. I am proposing that the Company should receive \$88,055 (See Schedule KKB-2) for rate case  
6 expense for this rate increase case. However, this amount is not a final number, since the current  
7 rate case is not complete. The final costs to be incurred for this case are unknown at this time. The  
8 \$88,055 includes rate case expense incurred up to December 31, 1999.

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A. Yes.

Direct Testimony of  
Kimberly K. Bolin  
Case Nos. WR-2000-281/SR-2000-282

**CASE PARTICIPATION**  
**OF**  
**KIMBERLY K. BOLIN**

<u>Company Name</u>	<u>Case Number</u>
St. Louis County Water Company	WR-95-145
Missouri-American Water Company	WR-95-205
Steelville Telephone Company	TR-96-123
St. Louis Water Company	WR-96-263
Imperial Utility Corporation	SR-96-427
Missouri-American Water Company	WA-97-45
Associated Natural Gas Company	GR-97-272
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Gascony Water Company, Inc.	WA-97-510
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	ER-99-247 GR-99-246 HR-99-245
Laclede Gas Company	GR-99-315

Direct Testimony of  
Kimberly K. Bolin  
Case Nos. WR-2000-281/SR-2000-282

<u>Month</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Amount Disallowed</u>	<u>Reason For Disallowance</u>
Apr-99	Am Water Works Service Co	\$ 1,996.41		
May-99	Am Water Works Service Co	\$ 607.62		
Jun-99	Am Water Works Service Co	\$ 10,423.52		
Jun-99	Petty Cash	\$ 33.35	33.35	Donuts, Bagels, & Beverages
Jul-99	Am Water Works Service Co	\$ 14,982.65		
Jul-99	Brydon, Swearngen & England	\$ 38.75		
Jul-99	Miscellaneous	\$ 297.73	297.73	Lunch for office
Aug-99	Am Water Works Service Co	\$ 7,666.02		
Aug-99	Brydon, Swearngen & England	\$ 3,541.75		
Sep-99	Am Water Works Service Co	\$ 14,159.92		
Sep-99	Brydon, Swearngen & England	\$ 274.33		
Oct-99	Am Water Works Service Co	\$ 2,100.90		
Oct-99	R.L. Amman, Jr.	\$ 32.89		
Nov-99	Am Water Works Service Co	\$ 13,373.57		
Nov-99	Am Water Works Service Co	\$ 1,043.69		
Nov-99	Brydon, Swearngen & England	\$ 4,680.00		
Nov-99	Brydon, Swearngen & England	\$ 4,533.75		
Nov-99	Brydon, Swearngen & England	\$ 145.66		
Dec-99	Am Water Works Service Co	\$ 9,493.22		
Dec-99	Am Water Works Service Co	\$ 13,609.37		
Dec-99	Brydon, Swearngen & England	\$ 22,634.57		
Dec-99	Gannett Fleming	\$ 16,820.00		
Dec-99	Gannett Fleming	\$ 5,875.00		
Dec-99	James E. Salser	\$ 27,848.21		
Dec-99	Miscellaneous	\$ 325.61	97.92	Only used 1/2 of ticket
	Total	\$176,538.49	429	
	Total Expense for WR-2000-281		\$176,109.49	
	Years		2	
	Total Annualized Rate Case Expense		\$ 88,054.75	