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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

REBUTTAL TESTIMONY
OF
KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344

Jefferson City, Missouri
January 2021

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REBUTTAL TESTIMONY OF
KIMBERLY K. BOLIN
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Rebuttal Testimony of
Kimberly K. Bolin

1 A. No. The amount of bad debt write offs incurred from March 1, 2020, through
2 September 30, 2020, is \$1,145,801. This amount does not exceed the \$2,600,000 threshold
3 level for deferral and potential later recovery.

4 Q. Is it possible the bad debt expense level will eventually exceed \$2,600,000?

5 A. Yes. However, at this time it has not.

6 Q. Does Staff recommend the incurred level of MAWC's COVID-19 costs and
7 savings (with bad debts adjusted to equal net write-offs) be allowed ratemaking treatment in
8 this case?

9 A. Yes. The COVID-19 pandemic is an extraordinary event that has affected daily
10 life in the U.S. to a degree not previously seen from a disease outbreak within living memory.
11 In addition, the costs MAWC has incurred as of September 2020 exceed the 5% of net income
12 and thus meet the materiality standard applicable for AAO deferrals.

13 Q. How did Staff calculate net income for purposes of determining the materiality
14 of MAWC's COVID-19 deferral?

15 A. Staff used the net income amount derived from its filed accounting schedules in
16 this case to determine net income.

17 Q. What amount is Staff recommending be included in the deferral as of
18 September 30, 2020?

19 A. Staff recommends the amount of deferral as of September 30, 2020, should be
20 \$2,405,220.

21 Q. Over what period should these costs be amortized?

22 A. Staff believes a 5-year amortization is appropriate. This would result in an
23 annual amortization of \$481,044.

1 Q. Will Staff recalculate the COVID-19 AAO as part of Staff's true-up audit?

2 A. Yes. Staff will include the COVID-19 AAO costs up through December 31,
3 2020, as part of its true-up audit.

4 **ACCUMULATED FUNDS USED DURING CONSTRUCTION (AFUDC)**

5 Q. Does Staff agree with OPC witness Robert E. Schallenberg that the AFUDC
6 accrual approach currently being used by MAWC is inappropriate?

7 A. Yes. MAWC is using an AFUDC rate that is comparable to its overall rate of
8 return. Staff's position is that the AFUDC rate should be calculated assuming that short-term
9 debt is used as the first source of financing for all construction activities, with any excess of
10 Construction Work in Progress (CWIP) over the short-term debt balance assumed to be
11 financed by MAWC's proportionate shares of common equity, preferred equity, and long-term
12 debt included in its current capital structure. In this case, it appears that for many years MAWC
13 has not had average CWIP balances that are larger than its average short-term debt balances,
14 thus the short-term debt should have been used in the manner recommended by Staff to allow
15 customers a proportionate benefit from MAWC's use of this low-cost source of capital.

16 Q. Has MAWC's AFUDC rate been questioned in any previous rate cases?

17 A. Not to my knowledge. It appears MAWC has been using the same methodology
18 to calculate AFUDC for some time.

19 Q. Does Staff recommend that the Commission accept Mr. Schallenberg's
20 adjustment of AFUDC back to 2002?

21 A. No. Staff recommends the Commission adjust the AFUDC that has been booked
22 to plant during the test year, update and true-up period in this case. As stated before, MAWC
23 has been calculating AFUDC in its current manner for some time without objection from other

1 parties in general rate cases. In addition, the National Association of Regulatory Utility
2 Commissioners (NARUC) Uniform System of Accounts (USOA) for Class A water utilities
3 does not provide a specific formula or methodology to use in calculating AFUDC.

4 Q. Does the NARUC USOA for electric utilities provide a formula for calculation
5 of the AFUDC rate?

6 A. Yes and this is what Staff recommends MAWC should follow for the test year
7 going forward. The formula uses short-term debt rate for CWIP first, then applies the
8 combination of the other financing (debt and equity) next to the remaining CWIP balance. The
9 rate is calculated on an annual basis.

10 Q. If the Commission does not agree with Staff's use of short-term debt first in the
11 calculation of the AFUDC, does Staff recommend an alternative solution?

12 A. Yes. If the Commission believes MAWC is properly calculating AFUDC,
13 then the short-term debt balances should be included in American Water Works Company's
14 (AWC) capital structure for this case.

15 Q. Why would this alternative approach to reflecting short-term debt financing in
16 rates be appropriate?

17 A. Under almost all circumstances, short-term debt has a lower cost to utilities than
18 alternative sources of financing such as long-term debt and common equity. If short-term debt
19 is not used to establish a utility's AFUDC rate, then to allow customers to benefit from this
20 low-cost financing it would be necessary to include short-term debt in the utilities' capital
21 structure. If neither approach is used, customer rates will be set based upon an implicit
22 assumption that the utility has little or no outstanding short-term debt. If the utility did have
23 outstanding short-term debt, this result would be obviously inequitable.

1 Q. What amount of AFUDC does Staff recommend to remove from its case?

2 A. Staff recommends that \$1,065,264 be removed from plant in service to reflect
3 the correct amount of AFUDC for the test year and update period. Staff will update its
4 adjustment in its true-up audit.

5 **AFFILIATED TRANSACTIONS**

6 Q. In Dr. Geoff Marke's direct testimony, page 19, lines 2 through 6 he
7 recommends the Commission order MAWC create a new Cost Allocation Manual (CAM) using
8 existing standards for other regulated utilities and stakeholder input. Does Staff support OPC
9 witness Marke's recommendation?

10 A. Creation of a CAM is required under the existing affiliate transaction rules
11 for electric and gas utilities. If the Commission decides water and sewer utilities with over
12 8,000 customers should be included in the affiliate transactions rule as part of Case
13 No. AW-2018-0394, a CAM should be created as soon as reasonably possible so that MAWC
14 will be in compliance with such rules.

15 Q. Does this conclude your rebuttal testimony?

16 A. Yes.