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Issue: Capitalized Expenses
Witness: Stephen B. Moilanen, P.E.
Sponsoring Party: MoPSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

**COMMISSION STAFF DIVISION
ENGINEERING ANALYSIS DEPARTMENT**

REBUTTAL TESTIMONY

OF

STEPHEN B. MOILANEN, P.E.

INDIAN HILLS UTILITY OPERATING COMPANY

CASE NO. WR-2017-0259

Staff Exhibit No. 109
Moilanen Reporter XF
File No. WR-2017-0259

*Jefferson City, Missouri
October 2017*

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REBUTTAL TESTIMONY

OF

STEPHEN B. MOILANEN, P.E.

INDIAN HILLS UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2017-0259

Q. Please state your name and business address.

A. My name is Stephen B. Moilanen. My business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, MO 65102.

Q. What is your position at the Commission?

A. I am a Utility Regulatory Engineer in the Engineering Analysis Unit, Operational Analysis Department, Commission Staff Division.

Q. Are you the same Stephen B. Moilanen who previously filed direct testimony in this preceding?

A. Yes. My direct testimony was in regards to accounting treatment of pipe repairs at Indian Hills Utility Operating Company (IHUOC), and pre-engineering expenses at IHUOC.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Office of Public Counsel (OPC) witness John A. Robinett regarding the booking of distribution system and services repair expense.

DISTRIBUTION SYSTEM AND SERVICES REPAIR EXPENSE

Q. What is OPC's position regarding the booking of distribution system and services repair expense?

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1 A. On page 2, lines 4 and 5 of Mr. Robinett's direct testimony, he states
2 "OPC recommends that the leak repairs be capitalized and placed into Account 343
3 Transmission and Distribution Mains."

4 Q. Based on your review of Mr. Robinett's testimony, what is OPC's
5 rationale for this position?

6 A. There is one fact that OPC uses as a basis in holding this position.
7 Mr. Robinett states on page 2, lines 9 and 10 of his direct testimony that "during the
8 month of July 2017, the system had approximately one-third the amount of water loss
9 that existed in January 2017." He then concludes that because the volume of repair
10 expenses has diminished, the amount spent on leak repairs during the test year is
11 inappropriate to include as a yearly Operation and Maintenance Expense.

12 Q. Does OPC have the opinion that there should be some amount designated
13 as a yearly expense for leak repair? Yes. On page 2, lines 13 and 14, Mr. Robinett states
14 "...OPC realizes that an annual expense amount needs to be built into rates for leak
15 repair." Therefore, OPC agrees with Staff that some level of yearly expense is
16 appropriate for leak repair, but has concerns with the *amount* that is to be expensed
17 yearly for leak repairs.

18 Q. Does Staff agree with OPC that the repair expenses during the test year
19 were abnormal and should be reduced as an ongoing yearly expense?

20 A. Yes, though OPC and Staff treated the booking of the abnormal repair
21 costs differently. Staff's rationale for addressing the large number of leak repairs during
22 the test year is provided in the direct testimony of Staff Witness Jennifer K. Grisham.

23 Q. Why does Staff disagree with placing the leak repair costs into Utility
24 Plant Accounts (Plant Accounts), as OPC proposes?

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1 A. The National Association of Regulatory Utility Commissioners (NARUC)
2 Uniform System of Accounts (USOA) is designated by the Missouri Department of
3 Economic Development via 4 CSR 240-50 to be prescribed for use by all water utilities
4 under the jurisdiction of the Public Service Commission (PSC). Within the USOA,
5 specific guidelines are provided for which expenses shall be included in Plant Accounts
6 and which shall be included within Operation and Maintenance Expense Accounts
7 (Maintenance Accounts). From this guidance, it is clear to Staff that leak repair expenses
8 should be included in Maintenance Accounts.

9 Q. How does the nature of the repairs fit with the descriptions provided in the
10 USOA for Class A and B Water Utilities in regards to maintenance expenses?

11 A. On page 38 of the 1973 NARUC USOA for Class A and B Water Utilities
12 (revised in 1976), a list of maintenance items is provided to describe work that qualifies
13 as operating expenses. Item 3 within the list states: "Work performed specifically for the
14 purpose of preventing failure, restoring serviceability or maintaining life of plant." This
15 conforms to the description of pipe repairs because one of the purposes of a pipe repair is
16 to restore proper function of the distribution system. A leak affects pressures within the
17 distribution system and can adversely affect the functionality of taps within a customer's
18 home or business. In addition, if left unrepaired, a leak could worsen and further erode
19 the serviceability of the distribution system.

20 Furthermore, Item 6 within the list states: "Testing for, locating, and clearing
21 trouble." Leaks can create erosion and cause water damage to property. In addition, any
22 water lost due to leaks is a financial loss for the company because that water is not
23 transferred through a customer's meter or included in the calculation of that customer's

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1 bill. For these reasons, a water leak qualifies as “trouble”, and a leak repair conforms to
2 the definition of Item 6 as described.

3 Q. How does the nature of the repairs fit with the descriptions provided in the
4 USOA for Class A and B Water Utilities in regards to expenses charged to Plant
5 Accounts?

6 A. The nature of the repairs do not fit with the definition of expenses charged
7 to plant accounts. The NARUC USOA for Class A and B Utilities includes instructions
8 for additions and retirements of utility plant on pages 32 to 34. Part C, Item 1, on page
9 33 of these instructions state that a minor item of property shall be charged to a
10 maintenance account unless a substantial addition results. Although a leak repair often
11 includes installation of a physical asset (such as a clamp), this does not constitute as a
12 “substantial addition” because the installation of such an item alone does not act as an
13 operating unit or system, but rather restores functionality to a system that is already
14 existing.

15 Q. Can you reiterate your position regarding the booking of pipe repair
16 expenses?

17 A. Yes. For the reasons described above, pipe repair expenses should be
18 booked to Maintenance Accounts, rather than Plant Accounts.

19 Q. Does this conclude your rebuttal testimony?

20 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In The Matter of The Rate Increase Request Of)
Indian Hills Utility Operating Company, Inc.)

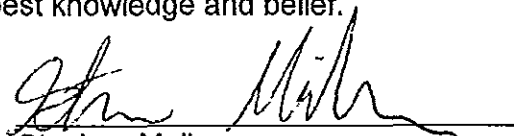
Case No. WR-2017-0259

AFFIDAVIT OF STEPHEN MOILANEN

State of Missouri)
) ss
County of Cole)

COMES NOW Stephen Moilanen, and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Rebuttal Testimony*, and that the same is true and correct according to his best knowledge and belief.

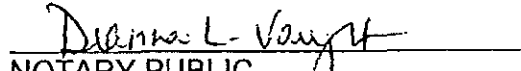
Further the Affiant sayeth not.



Stephen Moilanen

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 26th day of October, 2017.



NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 28, 2019 Commission Number: 15207377
