

Exhibit No.:

*Issues: True-Up Items, Unamortized
Balance of Security AAO,
Tank Painting Expense,
Fire Hydrant Painting Expense*

Witness: Kimberly K. Bolin.

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: WR-2008-0311

Date Testimony Prepared: September 30, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NOS. WR-2008-0311 & SR-2008-0312

*Jefferson City, Missouri
September 2008*

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REBUTTAL TESTIMONY

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KIMBERLY K. BOLIN

MISSOURI-AMERICAN WATER COMPANY

CASE NOS. WR-2008-0311 & SR-2008-0312

Q. Please state your name and business address.

A. Kimberly K. Bolin, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (Commission) as a Utility Regulatory Auditor V.

Q. Are you the same Kimberly K. Bolin who has filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony will address the proposed items in which the Missouri-American Water Company (Missouri-American, MAWC or Company) wishes to include in the true-up audit. I will identify the true-up expenses sought by the Company for which the Missouri Public Service Commission Staff (Staff) does not believe should be included in the true-up process. Also, I will address the direct testimony of Company witness Tyler T. Bernsen regarding the Security Accounting Authority Order (Security AAO) and I will address the Company's proposals included in Frank L. Kartmann's direct testimony for the Tank Painting Tracker and Fire Hydrant Painting Expense.

TRUE-UP ITEMS

Q. In Company witness Edward J. Grubb's direct testimony, he states on page 9, lines 4 and 5, "The specific items MAWC proposes to true-up will be set forth in its Motion for True-up." What items did the Company propose to true-up in its filing?

A. The Company lists the following items in its Recommendation Concerning Test Year and Request for True-Up Audit and Hearing, filed with the Commission on April 15, 2008, as items the Company is proposing to true-up:

- Plant in service and other rate base items (such as depreciation reserve, deferred income taxes, customer advances, contributions, working capital and other deferred regulatory assets and liabilities)
- Revenues (customers, production costs and uncollectible expense)
- Any change in the Commission's annual assessment
- Fuel and Power Expenses
- Chemical Expense
- Purchased Water Expense
- Waste Disposal
- Rate Case Expense
- Labor and Labor related expenses (Employee Levels and Wage Rates and related benefits)
- Uncollectible Expense
- Depreciation Expense
- Income Taxes
- Property Taxes

- Capital Structure
- Tank Painting Expense
- Fire Hydrant Painting Expense

Q. Does the Staff agree with Company's above proposed list of true-up items?

A. No. The Staff does not believe that Waste Disposal, Uncollectible Expense, Property Taxes, Tank Painting Expense and Fire Hydrant Painting Expense should be considered as items to be included in the true-up audit.

Q. Why does the Staff oppose including waste disposal expense and uncollectible expense as items to be examined in the true-up audit?

A. The Staff performed normalizations for both waste disposal expense and uncollectible expense due to annual fluctuations that occur in both of these expenses. Staff does not believe an examination of either one of these expenses beyond the test year would produce materially different results than what Staff's normalization produced.

Q. Why has Staff proposed not including property taxes as a true-up item?

A. Staff is opposed to including property taxes in the true-up audit because the amount of property tax the Company will have to pay in the future is not known and measurable. No new valuation of the Company's plant in service for purposes of determining assessed value for property tax purposes will be made until the value of the Company's plant at December 31, 2008 is known. No party is proposing to true-up the Company's case through December 31, 2008. The Staff further believes there is no inherent relationship between changes in a utility's plant balances and changes in the amount of property taxes it pays over the same period.

1 Q. Please explain why the Staff is opposed to including tank painting expense in
2 its package of true-up items.

3 A. The Company currently has a tank painting tracker in effect. Staff will update
4 the amount that is in the tracker as of September 30, 2008, which will be either added or
5 subtracted to the Company's rate base. However, Staff does not believe the Company should
6 be allowed an increase in tank painting expense over the current level of \$1 million that is
7 built in the current rates.

8 Q. Is Staff opposed to including fire hydrant painting expense a true-up item to be
9 considered in the true-up audit?

10 A. Not only is Staff opposed to including fire hydrant painting expense in the
11 true-up, Staff is also opposed to Company's proposal to include this expense in the cost of
12 service at this time.

13 **UNAMORTIZED BALANCE OF THE SECURITY AAO**

14 Q. Please describe the "Security AAO."

15 A. In Case No. WO-2002-273, the Commission approved the deferral of costs
16 related to the improvement and enhancement of security at Missouri-American's facilities.
17 The Company was allowed to accumulate the deferral for two years following the terror
18 attacks of September 11, 2001, and continuing through September 11, 2003. The
19 Commission ordered that Missouri-American immediately begin the amortization of the
20 deferral over a ten-year period.

21 Q. Does the Staff's Cost of Service include the amortization of the deferred
22 security costs?

23 A. Yes.

1 Q. Does the Staff agree with the Company's inclusion of the unamortized balance
2 of the Security AAO in rate base?

3 A. No. The Staff proposes to follow the treatment prescribed by this Commission
4 for other AAOs regarding the unamortized deferral balance. This treatment was first
5 prescribed by the Commission in its Order in Case No. GR-98-140 involving Missouri Gas
6 Energy's (MGE's) service line replacement deferrals. In the Commission's Order in Case No.
7 GR-98-140, the Commission noted that, by using a 10-year amortization period to reflect the
8 deferral in rates, it was recognizing a shorter amortization period than the 20 years the Staff
9 had recommended, and had been approved by the Commission for MGE, in prior cases.
10 Given this reduced amortization period, the Commission deemed it proper for the
11 ratepayers and shareholders to share the effect of the regulatory lag by allowing MGE to earn
12 a return of, but not a return on, the deferred balance. The Staff believes this regulatory
13 treatment, which has been accepted by the Commission for other AAOs, should be adopted in
14 this case as well. As previously mentioned, consistent with the treatment ordered for MGE in
15 Case No. GR-98-140, the Staff is recommending a ten-year amortization of deferred security
16 costs in this proceeding.

17 **TANK PAINTING EXPENSE**

18 Q. Does the Staff support Company's proposal of increasing the annual amount of
19 tank painting expense from \$1 million to \$1.6 million to be included in its cost of service?

20 A. No. The Staff recommends maintaining the level of expense (\$1 million)
21 which was agreed to in the Nonunanimous Stipulation Agreement in the last rate case, Case
22 No. WR-2007-0216.

1 Q. Is Staff proposing continuation of the Tank Painting Expense tracker that was
2 also established in the last rate case?

3 A. Yes. As of March 31, 2008, the end of update period, the tank painting tracker
4 had only been in effect for five months. The Staff does not believe this period is a long
5 enough time to judge the effectiveness of the tracker mechanism; therefore, the Staff
6 recommends a continuation of the tracker in this case.

7 Q. On pages 25 and 26 of Company witness Kartmann's direct testimony he
8 states: "...the Company is encouraged to incur an average annual tank painting expense equal
9 to the value of the tracker, no more and no less." Does Staff agree with this statement?

10 A. No. Staff believes the tracker actually encourages the Company to spend **at**
11 **least** \$1 million. If the Company should happen to spend more than the \$1 million amount
12 the Company will still recover the incremental amount through the tracker in future rate cases.

13 Q. Does the Staff believe the \$1.6 million annual level of tank painting expense is
14 a reasonable amount to be included in the Company cost of service?

15 A. No. The Company's proposed level of \$1.6 million for annual tank painting
16 expense is calculated based upon many estimates, such as the total estimated cost to paint all
17 tank exterior and interior surfaces and the life expectancies per paint coating. However, a
18 review by the Staff of the Company's signed contracts for tank painting for the year 2008
19 shows a total expenditure of approximately \$1 million. The Staff believes this is a more
20 reasonable amount to reflect in rates in this proceeding.

21 **FIRE HYDRANT PAINTING EXPENSE**

22 Q. Please describe Missouri-American's proposal for fire hydrant painting
23 expense.

1 A. Missouri-American has proposed to begin a three year project in which the
2 Company would sand blast and paint fire hydrants in its St. Louis County District that contain
3 lead based paint. In the past, the Company has not sand blasted the lead based paint off of the
4 fire hydrants, instead the Company has simply repainted the fire hydrants. The removal or
5 sand blasting of the lead based paint is fairly expensive due to the containment of the lead
6 based paint. The Company is requesting special ratemaking for this project. The Company
7 has indicated that if special ratemaking is not considered the Company will not pursue this
8 project.

9 Q. Please summarize the Staff's concerns with the Company's proposed fire
10 hydrant painting project.

11 A. The Staff's main concern with the proposed project is the special ratemaking
12 treatment requested for this project. Generally in ratemaking, the Company incurs expenses
13 before the expenses are included in the Company's cost of service. The Company in this case
14 is asking for the money for this project to be included in the cost of service before they will
15 incur the expense. The Staff is also concerned with the fact that Company witness Kartmann
16 has listed what he characterizes as important reasons why the Company should pursue this
17 special project, but turns around and states the Company will not go forward with the project
18 if they do not receive this special ratemaking.

19 Q. Is Staff also concerned with the expense level that the Company is wishing to
20 include in its cost of service for this proposed project?

21 A. Yes. The Company's expense level of \$1,417,000 for this project is based
22 upon several estimates. The first estimate is the number of hydrants that would need this
23 special treatment. The Company does not know the exact number of fire hydrants in its

1 system that need to have this maintenance performed. Also the Company has estimated that it
2 will take three years to complete this project. The Company has no history in performing this
3 maintenance, thus completing this project in a three year time frame may not be possible.
4 Lastly, the Company has based its price per hydrant on a quote received from a contractor
5 who has performed this type of lead paint abatement for other entities. The Company has not
6 incurred any prior expenses for this maintenance; thus, the Staff cannot verify any actual costs
7 incurred for this activity.

8 Q. On page 29 of Company witness Kartmann's direct testimony in regards to the
9 fire hydrant painting he indicates that Missouri-American "does not expect to perform this
10 work if it does not receive recovery of these expenses in this rate case." If the fire hydrants
11 need maintenance performed to keep the hydrants in a safe and working order shouldn't the
12 Company perform this maintenance regardless of receiving special ratemaking treatment?

13 A. Yes, that would be the Company's obligation, in the Staff's opinion. If the
14 Company needs to perform maintenance to keep plant in safe and working condition the
15 Company should make such expenditures to do so on a timely basis.

16 Q. Are proposals demanding upfront rate recovery before a utility makes certain
17 expenditures troubling to the Staff?

18 A. Yes. In this situation, the Commission would be in effect ultimately making
19 the decision to incur the expense or not, instead of the Company's officers. The Staff does
20 not believe it is appropriate for utility management to seek to place responsibility for such
21 decisions on its regulators.

22 Q. If the Company proceeds with this project would the Company be able to
23 recover these costs in future rate cases?

1 A. If the Company incurs costs for this maintenance, the Staff would review the
2 costs in rate proceedings just as the Staff does for other maintenance expenses and determine
3 an ongoing level of expense for hydrant painting to be included in the Company's cost of
4 service.

5 Q. Does this conclude your rebuttal testimony?

6 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-2008-0311

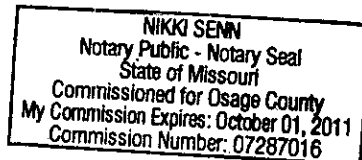
AFFIDAVIT OF KIMBERLY K. BOLIN

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 Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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 29th day of September, 2008.




Notary Public