

In the Matter of the Application of )  
Missouri-American Water Company for an ) File No. WU-2017-0296  
Accounting Order Concerning MAWC's )  
Lead Service Line Replacement Program. )

COMES NOW Missouri-American Water Company (“MAWC” or “Company”), and, as its Statement of Position concerning the issues contained in the *List of Issues, Order of Witnesses, Order of Cross-Examination, and Order of Opening Statements* filed on September 19, 2017, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

**MAWC Position:** Yes. Lead service lines are difficult to avoid. They can be encountered on the utility side or customer side during water main construction and relocation projects or service line repairs and renewals. Removing lead service lines in their entirety will complement the other mitigation work the utility performs including providing stable water quality and treatment to minimize corrosion, compliance sampling and following good management practices. Replacing such lead service lines in conjunction with main replacements is a cost-effective, efficient, and responsible way to address the health and safety concerns associated with partial lead service line replacements. Accordingly, MAWC proposes to replace the entire lead portion of the service line from the newly installed water main to the customer's home when such lead containing service lines are discovered. The estimated lead service line replacements

from January 1, 2017 through May 31, 2018 totaling up to \$9.5 million (\$5.8 million after tax) would amount to 12.1% of net income as presented in MAWC's 2016 Annual Report filed with the Commission. Further, if the AAO is not granted, MAWC will likely try to avoid and postpone main replacement projects with known lead service lines to avoid increasing the risk of potential exposure to lead associated with a partial replacement.

The portion of any such replacement where MAWC owns the service line will be recorded on MAWC's books like any other capital project. The Commission should grant MAWC an AAO allowing it to defer the costs associated with the replacement of customer-owned lead service lines and requests that such order include the following language:

- a) That Missouri-American Water Company is granted an Accounting Authority Order whereby the Company is authorized to record and defer on its books a regulatory asset that represents the cost of all customer-owned lead service line replacements made beginning in 2017 and to calculate a monthly carrying charge on the balance in that regulatory asset account equal to the weighted average cost of capital from the Company's last general rate case for use with the Infrastructure Replacement Surcharge, whether established by agreement or in accordance with Section 393.1006.4, RSMo; and,
- b) That MAWC may defer and maintain this regulatory asset on its books until the effective date of the Report and Order in MAWC's next general rate proceeding; and,
- c) That this regulatory asset will remain in place until all eligible costs are amortized and recovered in rates.

*(Naumick, Dir., Reb., and Sur., All; Aiton, Dir., Reb., and Sur., All; and, LaGrand, Dir., Reb., and Sur., All)*

**2. If the Commission grants an AAO, what carrying costs should be utilized in regard to the balance of the costs deferred?**

**MAWC Position:** As indicated above, the carrying costs on the balance of the regulatory asset associated with the requested AAO should be recorded at the Company's pre-tax cost of capital

because of the nature of the underlying projects (thousands of ongoing, short-term projects, which are completed and placed into service in a very short time period).

*(LaGrand, Dir., p. 8-9; LaGrand Reb., p. 4-6; and, LaGrand Sur., p. 3-4)*

**3. Does MAWC's tariff permit the company to replace customer-owned service lines?**

**MAWC Position:** Yes. Although the tariff language neither requires MAWC to nor prohibits MAWC from replacing a Customer Water Service Line,<sup>1</sup> from a cost of service perspective, customer-owned lead service line replacements are similar to restoration costs routinely incurred on infrastructure replacements. Restoration costs include costs to replace disturbed pavement, pavement base, sidewalk, curbing, and landscaping as well as costs related to damages to the property of others, and other general costs relating to restoring areas to their prior conditions. Including replacement of customer-owned lead service lines as restoration costs is appropriate for safety reasons when the line is disturbed by water main infrastructure work.

MAWC does not propose to change this tariff or the Customer's basic responsibility for the Customer Water Service Line in this case, even where MAWC has replaced a Customer Water Service Line. The resulting line will belong to the Customer and responsibility for repairs and maintenance remains with the Customer.

**4. Has MAWC demonstrated the necessity of replacing customer-owned lead service lines?**

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<sup>1</sup> This is for good reason, in almost every main replacement in St. Louis County, it is necessary to replace some portion of a Customer Water Service Line in order to complete the main replacement.

**MAWC Position:** Yes. MAWC's testimony shows that performing partial lead service line replacements increases the risk of potential exposure to lead in drinking water and that replacing customer-owned lead service lines in conjunction with main replacements is a cost-effective, efficient, and responsible way to address the health and safety concerns otherwise present with lead service lines.

*(Aiton Dir., p. 3-11; Aiton Reb., 5; Aiton Sur. 4-6; Naumick Dir., p. 4-16; Naumick Sur., p. 2-10; Naumick Sur., p. 2-6)*

**5. What is the cost of MAWC's proposed program to replace customer-owned lead service lines?**

**MAWC Position:** The Company is seeking an AAO for LSLR program costs it has incurred from January 1, 2017 through May 31, 2018. The total cost is not, and will not be, known until the work has been completed, but the Company has demonstrated that the lead service line replacement costs are significant and material. MAWC estimates the average cost of a service line replacement to be approximately \$6,000 and that the total costs during this period may exceed \$9 million.

*(LaGrand Dir., p. 4-5, 8; Aiton Reb., p. 1-5; Aiton Sur., p. 2-4; Naumick Sur., p. 7-9)*

**6. If the Commission grants an AAO, what is the starting date of the amortization of the deferred account?**

**MAWC Position:** Any amortization should start with the effective date of the Report and Order in MAWC's next general rate proceeding.

*(LaGrand Reb., p. 4-5)*

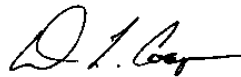
7. If the Commission grants an AAO, does the Commission classify any deferred cost related to this application as a “deferred debit” per NARUC USOA Account 186, or does the Commission make a determination that the deferred costs are a “regulatory asset”, as defined by generally accepted accounting principles.

**MAWC Position:** The identified costs should be recorded in NARUC account 186 Miscellaneous Deferred Debits. The Commission need not make a regulatory asset determination.

*(LaGrand Dir., p. 6; LaGrand Sur., p. 3)*

**WHEREFORE,** MAWC submits this Statement of Position for the Commission’s consideration.

Respectfully submitted,



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ATTORNEYS FOR MISSOURI-AMERICAN

WATER COMPANY

**CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail or by U.S. Mail, postage prepaid, on September 21, 2017, to the following:

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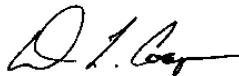
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