

Exhibit No.:
Issues: Water & Sewer Cost Allocations, Arnold
Rates, Miscellaneous Fees, Fire Tariffs
Witness: Brian W. LaGrand
Exhibit Type: Rebuttal-Rate Design
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2017-0285
SR-2017-0286
Date: January 17, 2018

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2017-0285
CASE NO. SR-2017-0286**

**REBUTTAL TESTIMONY
RATE DESIGN**

OF

BRIAN W. LAGRAN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

Exhibit No. 24
Date 3/9/18 Reporter ML
File No. WR-2017-0285

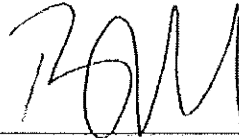
Exhibit 24
WR-2017-0285
Rebuttal Testimony – Rate Design of
Brian W. LaGrand

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2017-0285
RATES FOR WATER AND SEWER)	CASE NO. SR-2017-0286
SERVICE)	

AFFIDAVIT OF BRIAN W. LAGRAN

Brian W. LaGrand, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony Rate Design of Brian W. LaGrand"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



Brian W. LaGrand

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 22nd day of January 2018.



Notary Public

My commission expires:



**REBUTTAL TESTIMONY
RATE DESIGN
BRIAN W. LAGRAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286**

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**REBUTTAL TESTIMONY
RATE DESIGN**

BRIAN W. LAGRAND

I. INTRODUCTION

1 **Q.** Please state your name and business address.

2 **A.** My name is Brian W. LaGrand, and my business address is 727 Craig Road, St. Louis,
3 Missouri 63141.

4 **Q.** Are you the same Brian W. LaGrand who previously submitted direct testimony
5 and rebuttal-revenue requirement testimony in this proceeding?

6 **A.** Yes.

II. OVERVIEW

8 **Q.** What is the purpose of your rate design rebuttal testimony in this proceeding?

9 **A.** The purpose of my rate design rebuttal testimony is to respond to the Staff Report on
10 Class Cost of Service and Rate Design (“Rate Design Report”) filed by the Missouri
11 Public Service Commission (“Commission”) Staff (“Staff”), on the following issues:
12 1) Allocation of Missouri-American Water Company (“MAWC” or the “Company”)
13 corporate costs between water and sewer, 2) Arnold Sewer, and 3) Miscellaneous Fees.
14 Additionally, I will respond to the direct testimony of the City of Jefferson City witness
15 Matthew Schofield regarding private fire tariffs.

III. MAWC CORPORATE COST ALLOCATION

17 **Q.** Please describe the MAWC corporate costs that are allocated to the various water
18 and sewer districts.

1 A. These are costs that are charged to the MAWC cost center. Costs include items such
2 as administrative costs, American Water Works Service Company allocated costs, rents
3 for corporate offices, liability insurance that benefit the entire state, and cannot be
4 directly charged to a water or sewer district.

5 **Q. How did the Company allocate corporate costs to the water and sewer districts?**

6 A. The Company used two different factors to allocate costs. First, the number of
7 customers was used to allocate depreciation and amortization. Second, for all other
8 operating expenses, the number of service orders was used as the allocation factor.

9 **Q. Has the Company proposed using service orders in prior rate cases?**

10 A. No, this is the first time.

11 **Q. Why did the Company choose service orders as the allocation factor for most
12 corporate costs?**

13 A. After reviewing corporate costs with state operations personnel, the consensus was that
14 water operations require far more time and resources primarily due to the large number
15 of service orders generated by water customers. Therefore, the Company felt using
16 service orders as the primary allocation factor was reasonable.

17 **Q. What is the breakdown of service orders between the water and sewer operations?**

18 A. As shown in Table BWL-1, service orders for the water operations are over 99% of the
19 orders, and the sewer operations have very few service orders. The data presented is a
20 three year average from 2014 through 2016.

Table BWL-1

Order Description	3 Year Average - 2014-16			
	Water	Sewer A	Sewer B	Total
Operational Activity	819	0	0	819
Preventative Maintenance Work Order	29,180	97	4,272	33,549
Corrective Work Order	6,824	0	18	6,842
Turn-On/ Turn-Off Work Order	294,098	2	127	294,227
Collections Work Order	227,188	0	3	227,191
Customer Investigative Work Order	235,040	24	85	235,149
Customer Demolition Work Order	2,006	0	0	2,006
Meter Work Order	261,994	0	1	261,995
Capital RP Work Order	39,198	166	183	39,547
Capital IP Work Order	1	0	0	1
Engineering/Design Work Order	0	0	0	0
Total	1,096,348	289	4,689	1,101,326
Average	99.55%	0.03%	0.43%	100.00%

1

2 **Q. How did Staff allocate corporate costs?**

3 A. As incorporated in the Rate Design Report¹, Staff used several different factors to
4 allocate the corporate costs. Allocation methods Staff used include number of
5 customers, number of bills, revenue, employees, and the hybrid Massachusetts formula.

6 **Q. How does Staff's approach compare to the Company's proposal?**

7 A. The Company and Staff both allocate corporate depreciation and amortization based
8 on the number of customers. However, different factors were used for all other costs.

9 **Q. What is the impact of using Staff's methodology as opposed to the Company's
10 proposed methodology?**

11 A. Staff's methodology allocates \$1,837,325 in additional costs to the sewer customers
12 over the Company's proposal.

13 **Q. What is the impact of that additional cost on the sewer customers?**

¹ Rate Design Report, pages 10, 12

1 A. The Company's revenue requirement proposed in direct testimony for all sewer
2 customers was \$9,896,407.² So, all else being equal, an addition of \$1,837,325 in
3 corporate costs increases that cost to sewer customers by 18.6%.

4 **Q. Did Staff explain why its methodology was used?**

5 A. Staff noted only that its multi-factor approach was used by both Staff and the Company
6 in the prior rate case, and therefore, the same allocation methodology was used.

7 **Q. Did Staff's methodology end up being used in the final order in the Company's**
8 **last rate case?**

9 A. No, it did not. The Report and Order³ in the last rate case states, in part, "The
10 Commission will adopt Missouri-American's limitation on the allocation of corporate
11 expense to small water and sewer companies."

12 **Q. What is the advantages of the Company's proposal in this case?**

13 A. Since the Company is proposing consolidated tariffs for water customers, it is not
14 necessary to utilize twelve different allocation factors to distribute costs with a high
15 level of specificity. In fact, when discussing the allocation of corporate costs, Staff
16 states, "Combining service territories alleviates some of the need for precision."⁴ This
17 is also true for sewer customers as the Company is proposing to consolidate the tariffs
18 for fifteen small sewer service territories into one. The goal of the allocation
19 methodology is essentially to determine how much cost is allocated to water and how
20 much is allocated to sewer. By identifying a true driver of the differences between

² Company Accounting Schedule ("CAS"), p. 1

³ WR-2015-0301, Report and Order, p. 29 (May 26, 2016), page 29

⁴ Rate Design Report, page 12

1 water and sewer customers, the service order methodology is a reasonable,
2 straightforward way to allocate corporate costs.

3 IV. ARNOLD SEWER

4 **Q. What recommendation does Staff make regarding Arnold sewer rates?**

5 A. Staff indicates the cost of service warrants a 29.77% increase to sewer rates in Arnold,
6 including an allowance for a true-up estimate. However, the rates shall not increase
7 beyond present rates until 2019 per the Report and Order in the last rate case.⁵

8 **Q. Does the Company have any issues with Staff's recommendations regarding**
9 **Arnold sewer rates?**

10 A. Yes, two issues. First, Staff's description of the agreement between the Company and
11 the City of Arnold requires clarification; and, second, Staff's characterization of the
12 Report and Order in the last rate case is incorrect.

13 **Q. Can you clarify the referenced "agreement" between the Company and the City**
14 **of Arnold regarding any "caps," or limitations, on rate increases?**

15 A. Yes. Prior to acquiring the Arnold system, the Company agreed that rates would not
16 increase more than 20% in the first rate case, and not more than 15% at the second rate
17 case after the acquisition. The rate commitment was valid for 4 years, expiring in May
18 of 2019. At the time of acquisition, Arnold residential sewer rates were \$73.00 per
19 quarter for 15,000 gallons of usage, or \$24.33 per month for 5,000 gallons of usage. In
20 the last rate case, the rates were increased 20% to \$29.20, and that is where they are

⁵ Rate Design Report, page 13

1 today. An increase in this case of up to 15% (to \$33.58) would be consistent with the
2 agreement.

3 **Q. Staff states⁶ “As ordered in Case No. WR-2015-0301, Arnold’s rates will not
4 increase beyond present rates until 2019 . . .” Do agree with Staff’s
5 characterization of what was ordered in the last rate case regarding Arnold and
6 its rates?**

7 **A.** No. In reviewing the Report and Order from the last rate case, it states⁷, “If Arnold’s
8 rates need to rise above \$33.58 per month, the promised rate, to cover its share of costs,
9 Missouri-American’s shareholders shall be responsible for those extra costs.”

10 **Q. Does the Report and Order prohibit Arnold’s rate from increasing in this case?**

11 **A.** No, it does not.

12 **Q. Does the Company have a recommendation regarding the Arnold rates in this
13 case?**

14 **A.** Yes. The Company proposes that the Commission set the Arnold rates to reflect its
15 cost of service. If that rate is more than \$33.58, the Company’s tariff should reflect a
16 negative surcharge for the customer bill, effective until May of 2019, to bring the rate
17 down to the agreed upon limit. This will ensure that any overage is fully borne by the
18 Company’s shareholders, and not by other ratepayers. In May 2019, when the
19 agreement expires, the Company will remove the negative surcharge and Arnold

⁶ Rate Design Report, page 13

⁷ WR-2015-0301, Report and Order, p. 29 (May 26, 2016)

1 customers will pay their Commission established rate. If Arnold's cost of service rate
2 is lower than the limit the Company agreed to, then no special treatment is required.

3 **V. MISCELLANEOUS FEES**

4 **Q. Does Staff make a proposal regarding Miscellaneous Fees?**

5 A. No. Staff indicated that it will make a recommendation regarding Miscellaneous Fees
6 in rebuttal testimony.

7 **Q. Staff does state that, "For each type of fee, MAWC proposes that the applicable
8 fee would be the highest charge that currently exists for the greatest number of
9 customers across the tariffed rates." Is that an accurate description of MAWC's
10 proposal?**

11 A. No. The Company did not propose to use the "highest charge that currently exists."
12 The Company proposed using the Commission approved service charge, for each type
13 of charge, that the largest number of customers currently utilize. That charge is not
14 necessarily the highest. For example, the returned check charge proposed by the
15 Company is \$12.00. Some service areas currently have a \$25.00 returned check charge,
16 but the \$12.00 charge is experience by the most customers, so that was the one
17 proposed.

18 **VI. PRIVATE FIRE TARRIFS**

19 **Q. Please describe City of Jefferson City witness Schofield's concern about the
20 private fire tariffs as expressed in his direct testimony.**

21 A. Chief Schofield's primary issue with the private fire tariff appears to be that, in his
22 view, the private fire tariff is driving builders to design buildings to avoid the building

1 codes requiring fire suppression systems. Additionally, he would like to see the tariff
2 dramatically reduced, restructured or eliminated.

3 **Q. What is the current tariffed rate for private fire in Jefferson City?**

4 A. That depends on the size of the service, however as an example a 2” or less service is
5 \$4.40 per month, and a 4” service is \$17.50 per month.

6 **Q. What rates is the Company proposing for private fire in this case?**

7 A. In this case, the proposed rate for a 2” or less service is \$8.98 per month and for a 4”
8 service \$35.71.

9 **Q. What is the basis for the proposed increase?**

10 A. Currently, there is a large disparity in the private fire rates between District 1, of which
11 Jefferson City is a part, and Districts 2 and 3. In order to develop one statewide rate as
12 part of the Company consolidated tariff proposal, the District 1 rates are proposed to
13 increase.

14 **Q. Does this conclude your rate design rebuttal testimony?**

15 A. Yes, it does.