

# EXHIBIT

Exhibit No.:

213

Issue(s):

Lead Service Lines—  
Accounting Treatment/  
Main Break Expense

Witness/Type of Exhibit:

Roth/Surrebuttal

Sponsoring Party:

Public Counsel

Case No.:

WR-2017-0285

## SURREBUTTAL TESTIMONY

FILED  
March 23, 2018  
Data Center  
Missouri Public  
Service Commission

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

February 9, 2018

CPC Exhibit No. 213  
Date 3-06-18 Reporter XF  
File No. WR-2017-0285

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

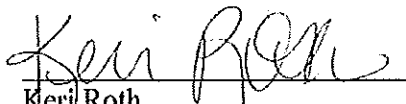
In the Matter of Missouri-American Water            )  
Company's Request for Authority to Implement        )  
General Rate Increase for Water and Sewer         )  
Service Provided in Missouri Service Areas.        )        Case No. WR-2017-0285

**AFFIDAVIT OF KERI ROTH**

STATE OF MISSOURI    )  
                                  )    ss  
COUNTY OF COLE     )

Keri Roth, of lawful age and being first duly sworn, deposes and states:


1. My name is Keri Roth. I am a Public Utility Accountant III for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
Keri Roth  
Public Utility Accountant III

Subscribed and sworn to me this 9<sup>th</sup> day of February 2018.



JERENA BUCKMAN  
My Commission Expires  
August 23, 2021  
Cole County  
Commission # 13764037

  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2021.

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**SURREBUTTAL TESTIMONY**  
**OF**  
**KERI ROTH**  
**MISSOURI AMERICAN WATER COMPANY**  
**CASE NO. WR-2017-0285**

1 **I. INTRODUCTION**

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

3 **A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.**

4 **Q. Are you the same Keri Roth who has filed direct and rebuttal testimony on behalf of the**  
5 **Office of the Public Counsel (“OPC”) in this case?**

6 **A. Yes.**

7 **Q. What is the purpose of your surrebuttal testimony?**

8 **A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony from the**  
9 **Missouri Public Service Commission Staff (“Staff”) and Missouri American Water Company**  
10 **(“MAWC” or “Company”) regarding the accounting treatment for the lead service line**  
11 **replacement program accounting authority order (“AAO”) and main break expense.**

12 **II. LEAD SERVICE LINES – ACCOUNTING TREATMENT**

13 **Q. What is MAWC’s proposed accounting treatment for the costs associated with the AAO**  
14 **in this case?**

15 **A. As previously stated in my rebuttal testimony, MAWC witness, Mr. Brian LaGrand, has**  
16 **proposed cost recovery treatment in his direct testimony. Mr. LaGrand states on page 22,**  
17 **lines 10 – 16:**

18           The Company is requesting the regulated asset be included in rate base as plant  
19           in service, earn the Company’s authorized rate of return and recover the

1 associated amortization expense. The Company proposes that the regulatory  
2 asset amortizes using the same rate as the Company depreciates its Company  
3 owned services, 2.92% (approved in WR-2015-0301). The Company further  
4 requests that the Company's future costs of replacement for customer owned  
5 lead services lines be included in rate base as plant in service (NARUC  
6 account 345.0).

7 MAWC is requesting to move the costs associated with lead service line replacements  
8 recorded in account 186 – Miscellaneous Deferred Debits, which has been approved in the  
9 Commission's *Report and Order* in case numbered WU-2017-0296, to account 345 –  
10 Customer Services, with a depreciation rate of 2.92%. This will give MAWC the opportunity  
11 to earn a return of the costs through depreciation expense and a return on the costs when  
12 applying the rate of return to total rate base. MAWC is further requesting to book future costs  
13 related to lead service line replacements to account 345 – Customer Services and remove the  
14 regulatory asset from its books.

15 **Q. What rate of return is MAWC requesting to apply to account 345 – Customer Services?**

16 A. In MAWC witness, Mr. Brian LaGrand's direct testimony on page 22, lines 10 – 12, he  
17 explains the regulatory asset for lead service line replacements should be included in rate base  
18 and earn the Company's authorized rate of return.

19 **Q. Does OPC believe MAWC's request is reasonable?**

20 A. No rate of return should be granted because none of the expenditures were prudent or lawful  
21 as explained extensively in Dr. Geoff Marke's direct, rebuttal, surrebuttal testimonies. Going  
22 forward, a short-term debt rate may be warranted as discussed extensively by Mr. Charles R.  
23 Hyneman in his testimony in case numbered WU-2017-0296.

24 **Q. Has MAWC proposed an annual dollar amount, going forward, of customer-owned lead  
25 service line replacements to include in the Company's future test year cost of service?**

1 A. No. However, MAWC witness Mr. Bruce W. Aiton has attached schedules to his rebuttal  
2 testimony of his testimony filed in case numbered WU-2017-0296. On page 9, lines 20 – 21  
3 of his direct testimony in case numbered WU-2017-0296, Mr. Aiton explains that the  
4 Company’s preliminary surveys indicate approximately 30,000 lead service lines remaining  
5 on MAWC’s systems. Mr. Aiton goes on to explain page 10, lines 1 – 2, of his direct  
6 testimony in case numbered WU-2017-0296, that MAWC does not have an exact count of  
7 lead service lines that would be replaced under the Company’s 10-year proposal. This is a  
8 huge concern for OPC and aligns directly with OPC’s concerns of using a future test year.  
9 The Company is not confident in their own numbers, so it would be inappropriate to build a  
10 cost of service on a guess.

11 Mr. Aiton further explains on page 10, lines 6 – 11, in his direct testimony in case WU-2017-  
12 0296, that MAWC initially estimated the average cost to replace a lead service line to be  
13 approximately \$3,000 - \$5,500, with some as high as \$11,000. Additionally, on page 4, lines  
14 6 – 7, of Mr. Aiton’s surrebuttal testimony in case numbered WU-2017-0296, Mr. Aiton  
15 updates his costs estimate to be approximately \$6,000 across all replacements.

16 MAWC’s estimates are all over the board. This is just one more example of why a future test  
17 year is inappropriate, in addition to the numerous other reasons discussed by OPC witness Dr.  
18 Marke.

19 **Q. What is Staff’s proposed accounting treatment for the costs associated with the AAO in**  
20 **this case?**

21 A. Staff witness Ms. Amanda C. McMellen explains in her rebuttal testimony that Staff has  
22 included the balance of the AAO at June 30, 2017 in rate base and proposes to amortize the  
23 costs over 10 years beginning with the effective date of the Report and Order in the current  
24 case.<sup>1</sup>

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<sup>1</sup> Amanda C. McMellen rebuttal testimony, page 3, lines 10 - 12

1 **Q. What is wrong with Staff's proposal?**

2 A: The average service life of customer service lines is 65 years. Staff's proposal for MAWC to  
3 recover costs over a 10 year period when the life of the service line is 65 years is unreasonable.  
4 The average service life of the customer service lines is further discussed in OPC witness, Mr.  
5 John A. Robinett's surrebuttal testimony.

6 **Q. What is OPC's proposal regarding cost recovery of dollars booked by MAWC to**  
7 **Account 186 – Miscellaneous Deferred Debits for customer-owned lead service line**  
8 **replacements?**

9 A. As previously stated in my rebuttal testimony, OPC proposes zero recovery of the dollars  
10 booked to account 186 – Miscellaneous Deferred Debits, due to OPC's opposition to the lead  
11 service line replacement program which has been discussed extensively throughout OPC  
12 witness Dr. Marke's direct, rebuttal, and surrebuttal testimonies.

13 **III. MAIN BREAK EXPENSE**

14 **Q. In your rebuttal testimony, did OPC accept Staff's calculation of main break expense?**

15 A. Yes. OPC believed Staff's calculation of 598 main break incidents per year is reasonable, as  
16 it takes into consideration the high number of main break incidents caused by the 2014 polar  
17 vortex by normalizing these months and does not calculate a future test year amount.

18 **Q. Has MAWC proposed an alternate solution to resolve the issue regarding the**  
19 **normalization of the polar vortex main breaks?**

20 A. Yes. MAWC witness Ms. Nikole L. Bowen has proposed updating the main break data and  
21 using a three year average for mains breaks and costs during 2015, 2016, and 2017.<sup>2</sup>

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<sup>2</sup> Nikole L. Bowen rebuttal testimony, page 39, lines 13 - 16

1 **Q. Would OPC oppose this alternate solution?**

2 A. No. OPC believes using the most recent 2017 data in the averaging calculation more  
3 accurately captures actual costs and this would eliminate the issue regarding the 2014 polar  
4 vortex main break incidents.

5 **Q. Does this conclude your surrebuttal testimony?**

6 A. Yes.