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Property Tax Expense, Accounting

Authority Order

Brian W. LaGrand

Direct

Missouri-American Water Company

WU-2017-0351

September 11, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WU-2017-0351

DIRECT TESTIMONY

OF

BRIAN W. LaGRAND

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

MAWC Exhibit No. 4
Date 11-08-17 Reporter KE
File No WU-2017-0351

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF THE APPLICATION OF) MISSOURI-AMERICAN WATER COMPANY) FOR AN ACCOUNTING AUTHORITY ORDER) RELATED TO PROPERTY TAXES IN ST.) LOUIS COUNTY AND PLATTE COUNTY)	FILE No. WU-2017-0351
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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 "Direct Testimony of Brian W. LaGrand"; that said testimony were 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 are 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 7th day of September 2017.



Notary Public

My commission expires:



**DIRECT TESTIMONY
BRIAN W. LAGRAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WU-2017-0351**

TABLE OF CONTENTS

I.	Introduction.....	1
II.	Property Taxes	4
III.	Cost Recovery.....	4
IV.	Accounting Authority Order	5

DIRECT TESTIMONY

BRIAN W. LaGRAND

I. INTRODUCTION

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

3 A. My name is Brian LaGrand, and my business address is 727 Craig Road, St. Louis,
4 MO, 63141.

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

6 A. I am employed by Missouri-American Water Company ("MAWC", "Missouri-
7 American" or the "Company") as the Director of Rates and Regulatory Support.

8 **Q. Please summarize your educational background and business experience.**

9 A. I received a Master of Business Administration degree from Washington University in
10 St. Louis in 1998, with a concentration in Finance, and a Bachelor of Science in
11 Business Administration degree from the University of Dayton in 1993, with a major
12 in Accounting. After graduation from the University of Dayton, I was licensed in Ohio
13 as a Certified Public Accountant, and was employed as an Auditor by J.D. Cloud and
14 Associates until 1996. After graduating from Washington University, I spent two years
15 at May Department Stores Company in the Capital Planning & Analysis department,
16 focusing on the evaluation of capital investments. In 2000 I began working for
17 Anheuser-Busch Companies as a Financial Analyst in the Treasury Group. My
18 responsibilities included managing the foreign currency derivative portfolio in Risk
19 Management and running the commercial paper and share repurchase programs in
20 Corporate Finance. In 2005 I moved into the Business & Wholesaler Development

1 Group as a Sr. Business Analyst, where I worked on acquisitions of craft breweries and
2 competitive analysis. In 2010 I joined American Water Works Service Company, Inc.
3 (“Service Company”) as a Manager in the Corporate Finance Group. My focus has
4 included evaluation of acquisition opportunities across the country and the execution
5 of many acquisitions, including several in Missouri. In November of 2016, I was
6 promoted to my current position as Director of Rates and Regulatory Support for
7 MAWC.

8 **Q. What are your current employment responsibilities?**

9 A. My responsibilities as Director of Rates and Regulatory Support include the following:

10 1) Preparing and presenting all rate change applications and supporting documents and
11 exhibits as prescribed by management policies, guidelines and regulatory commission
12 requirements; 2) Preparing rate analyses and studies to evaluate the effect of proposed
13 rates on the revenues, rate of return and tariff structures; 3) Executing the
14 implementation of rate orders, including development of the revised tariff pricing
15 necessary to produce the proposed revenue level; 4) Overseeing the preparation of
16 revenue and capital requirements analyses; and 5) Providing support for financial
17 analyses, including preparation of applicable regulatory commission filings.

18 **Q. Are you generally familiar with the operations, books and records of MAWC?**

19 A. Yes.

20 **Q. Have you previously testified before a regulatory body?**

21 A. Yes, I provided testimony before the Missouri Public Service Commission
22 (“Commission”) in MAWC’s pending general rate case (WR-2017-0285), in MAWC’s

1 pending Accounting Authority Order Case for the replacement of lead service lines
2 (WU-2017-0296), in MAWC's 2012 acquisition of Saddlebrooke Water and Sewer
3 (WA-2012-0066), and I have testified before the Illinois Commerce Commission.

4 **Q. What is the purpose of your direct testimony in this proceeding?**

5 A. The purpose of my testimony is to describe and support MAWC's request that the
6 Commission issue an Accounting Authority Order ("AAO") that will allow MAWC to
7 record and defer on its books as a regulatory asset the cost of additional property taxes
8 in St. Louis County and Platte County as a result of recent changes to the tax
9 calculations by the governmental entities.

10
11 **II. PROPERTY TAXES**

12 **Q. Please describe the additional property taxes that MAWC will incur.**

13 A. As a result of a change in the way the County Assessors for St. Louis and Platte counties
14 calculate depreciation and resulting property values, the amount of property tax
15 expense the Company will incur, beginning in 2017, in those two counties will increase
16 significantly. Please see the direct testimony of Company witness John Wilde for
17 information about the changes to the property tax calculations by the governmental
18 entities and the amounts.

19
20 **III. COST RECOVERY**

21 **Q. If this AAO is granted, where would MAWC propose to record the costs resulting**
22 **from the increase in property taxes associated with county changes in the**
23 **calculation of Modified Accelerated Cost Recovery ("MACR") class lives?**

1 A. In NARUC account 186 – Miscellaneous Deferred Debits.

2

3 **Q. Over what time period would the deferred costs be incurred?**

4 A. The deferred costs in the AAO would include the increased property taxes for calendar
5 year 2017, and the prorated portion of increased property taxes for 2018. The prorated
6 portion would cover the period until the effective date of new rates from the Company's
7 pending rate case, estimated to be June 2017.

8

9 **Q. What is the estimated amount of the deferred costs to be incurred?**

10 A. The additional property taxes for 2017 are estimated to be \$4.4 million in St. Louis
11 County, and \$0.4 million for Platte County. For 2018, the estimated additional property
12 taxes for St. Louis County are \$6.1 million, and \$0.4 million for Platte County. The
13 total deferral is estimated to be \$4.8 million for 2017 and \$2.7 million for 2018 (\$6.5
14 million prorated for 5 months). Please see the testimony of Company witness John
15 Wilde for more information about the estimated costs.

16

17 **Q. Has MAWC addressed the possible recovery of these costs in its pending general**
18 **rate case (WR-2017-0285)?**

19 A. Yes. In my Direct Testimony in Case No. WR-2017-0285, the Company requests
20 that the proposed regulatory asset be included in base rates and amortized over three
21 years.

22

23

IV. ACCOUNTING AUTHORITY ORDER

1 **Q. What is your understanding as to the circumstances under which the Commission**
2 **may grant an Accounting Authority Order?**

3 A. It is my understanding that there is no express standard for the exercise of the
4 Commission's authority in this regard and, thus, it is a discretionary matter for the
5 Commission. Having said this, the Commission has many times analyzed accounting
6 authority order applications by asking whether the utility has incurred a cost that is
7 extraordinary, unusual or unique.

8

9 **Q. Why should this expense be deferred through an AAO?**

10 A. As Company witness John Wilde states in his direct testimony, the new property tax
11 assessments being imposed by St. Louis County and Platte County result from an
12 unusual, unique and extraordinary change in the calculation of MACR class lives.
13 Consequently, MAWC's property tax liability is larger than it would have been absent
14 these unusual and extraordinary circumstances.

15

16 **Q. Is the amount of these replacements significant to MAWC?**

17 A. Yes. The estimated additional property taxes for 2017 and prorated for 2018 are \$7.5
18 million (\$4.6 million after tax) and would amount to 9.6% of net income as presented
19 in MAWC's 2016 Annual Report filed with the Commission.

20

21 **Q. What happens if the AAO is denied?**

22 A. If the AAO is denied, the Company will not have a chance to recover prudently
23 incurred property tax expense that has increased above what was authorized in the
24 Company's prior rate case proceeding. Without the approval, therefore, the

1 Company will not have a reasonable opportunity to earn the authorized return
2 established in its last general rate case.

3

4 **Q. What is your recommendation to the Commission?**

5 A. I recommend the Commission grant MAWC an AAO allowing MAWC to record and
6 defer on its books a regulatory asset that represents the cost of the additional property
7 taxes in St. Louis County and Platte County.

8

9 **Q. What language does MAWC ask the Commission to adopt in regard to an**
10 **Accounting Authority Order?**

11 A. MAWC asks that the Commission issue an order that includes the following language:

12 a) That Missouri-American Water Company is granted an Accounting Authority
13 Order, whereby the Company is authorized to record on its books a regulatory
14 asset, which represents the increase in Missouri property taxes for the counties
15 of St. Louis and Platte associated with the counties' change in the calculation
16 of MACRs class lives.; and,

17 b) That MAWC may maintain this regulatory asset on its books until the effective
18 date of the Report and Order in MAWC's pending general rate proceeding
19 (WR-2017-0285) and, thereafter, until all eligible costs are amortized and
20 recovered in rates.

21

22 **Q. Does that conclude your direct testimony?**

23 A. Yes it does.