

Exhibit No.:
Issues: Discrete Adjustments, Deferral
Mechanisms, Engineered Coatings,
Lead Service Lines, City of Purcell,
Rate Case Expense, WSIRA Pre-Tax
Return, Earned ROE, Expense
Trackers, Affiliate Transactions
Witness: Brian W. LaGrand
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
Date: February 8, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

SURREBUTTAL TESTIMONY

OF

BRIAN W. LAGRAN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Brian W. LaGrand, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am the Director of Rates for Missouri-American Water Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.



Brian W. LaGrand

February 8, 2023

Dated

**SURREBUTTAL TESTIMONY
BRIAN W. LAGRAND
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

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SURREBUTTAL TESTIMONY

BRIAN W. LAGRAND

I. INTRODUCTION

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Q. Please state your name and business address.

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

Q. Are you the same Brian LaGrand who previously submitted Direct Testimony and Rebuttal Testimony in this proceeding?

A. Yes.

II. OVERVIEW

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony is to respond to issues surrounding the Company's proposed discrete adjustments and utility plant-related deferral mechanisms raised by Missouri Public Service Commission Staff ("Staff") witness Kim Bolin and Office of Public Counsel ("OPC") witness John Robinett; issues related to the proposed capitalization of Engineered Tank Coatings by Staff witness Angela Niemeier; issues related to the deferral of customer lead service line replacements raised by Staff witness Amanda McMellen; issues related to the proposed deferral of costs incurred to operate the City of Purcell water and sewer system raised by OPC witness John Riley; claims by OPC witness Lena Mantle regarding the Company's earned return on equity; recommendations by OPC witness Riley regarding the appropriate pre-tax return for future WSIRA cases; issues related to rate case expense raised by Staff witnesses Ashley Sarver and Courtney Horton; issues related to the Company's proposed expense trackers raised by Staff

1 witnesses Bolin and Sarver, and OPC witness Mantle, and discussion of affiliate
2 transactions raised by Staff witness Bolin.

3 **III. DISCRETE ADJUSTMENTS**

4 **Q. Do any parties address the Company's proposed discrete adjustments?**

5 A. Yes. Both Staff witness Kim Bolin and OPC witness John Robinett recommend that the
6 Commission deny the Company's proposal.

7 **Q. Before addressing the statements of Staff and OPC, can you summarize why the
8 Company is proposing discrete adjustments in this case?**

9 A. As discussed in my Rebuttal Testimony, when discussing the true-up process, the
10 Commission has noted the importance of considering all relevant factors to establish a
11 reasonable expected level of earnings, expenses and investments at a time as close as
12 possible to the period when the rates in question will be in effect.¹

13 The Commission should use all available information to estimate the cost of service the
14 Company will experience in the first year that new rates established in this case are in
15 effect, and set rates that will actually collect that cost of service. Using the most up to date
16 information, as the Company's discrete adjustments do, accomplishes this.

17 **Q. Upon review of the list of the Company's proposed discrete adjustments, Staff witness
18 Bolin states that "MAWC's list of proposed discrete adjustments should be
19 considered akin to implementation of a future test year"2 Do you agree with that
20 statement?**

21 A. No. In a future test year, estimated revenue, plant additions and expense changes that occur

¹ LaGrand RT, p. 9.

² Bolin RT, p. 16.

1 in the first year new rates are in effect are used to estimate the cost of service for that first
2 year. While the purpose of the discrete adjustments incorporates the most recent
3 information into the cost of service, the Company's proposal in this case is far short of a
4 future test year.

5 **Q. Ms. Bolin contends that not all utility plant that is to be placed in service between the**
6 **true-up date of December 31, 2022 and the operation of law date will be known or**
7 **measurable at the time of the Commission's decision in this case. Do you agree with**
8 **this view?**

9 A. No. As I discussed in my Rebuttal Testimony, Staff could begin reviewing these projects
10 now, the Company will provide support as soon as the books are closed and records are
11 available, and all plant included will be in service by the operation of law date.

12 **Q. How soon would the Company be able to provide support to Staff and others in this**
13 **case?**

14 A. The Company intends to provide support for the utility plant discrete adjustments each
15 month, approximately 12 business days after month end. Thus, the UPIS discrete
16 adjustments through February 2023 will be available for audit prior to the filing of true-up
17 testimony in this matter.

18 **Q. What does the Company propose for March, April and May 2023 discrete**
19 **adjustments to plant?**

20 A. The Company proposes two items. First, with the filing of true-up Direct Testimony, the
21 Company will provide support for all plant planned to go in service in March, April and
22 May 2023. Second, the Company proposes providing a reconciliation of the non-WSIRA
23 plant additions made in those three months.

1 **Q. How would the Company's proposed reconciliation work?**

2 A. The reconciliation would compare the planned non-WSIRA plant additions for March,
3 April and May 2023 to the actual plant placed in service for those months. If the actual
4 non-WSIRA plant placed in service is more than planned, then no adjustment will be
5 necessary. If the actual non-WSIRA plant placed in service is less than planned, then the
6 revenue requirement on the shortfall will be calculated using the pre-tax rate of return
7 authorized in this case³, and annualized depreciation expense. Each month, one-twelfth of
8 the revenue requirement on the shortfall will be placed into a regulatory liability to be
9 returned to customers in the Company's next rate case. This will continue each month until
10 the effective date of rates in the Company's next rate case. The amounts in this regulatory
11 liability will earn carrying costs for the customers at the pre-tax rate of return authorized
12 in this case.

13 **Q. Does Staff address any of the Company's proposed discrete adjustments to expenses?**

14 A. Yes. Ms. Bolin addressed expenses related to MAWC's labor and benefits costs. As noted
15 by Ms. Bolin, the Company's non-union merit pay increases will be known and
16 measurable. These adjustments were provided as part of the Company's Q4 update to
17 MoPSC DR 0111 at the same time the other true-up information was provided. The
18 information provided also included related benefits changes tied to employee wages.

19 **Q. Staff takes issue with union pay adjustments that aren't effective until December**
20 **2023. Is the Company proposing to include adjustments as described by Staff?**

21 A. No. After investigating, the Company discovered a labeling issue in the Company's

³ In the event a specific return is not authorized by the Commission in this case, the return established in this case for future WSIRA cases can be utilized.

1 workpapers. The latest union rate change that the Company included in discrete
2 adjustments occurred on December 1, 2022.

3 **Q. OPC witness John Robinett generally agrees with Ms. Bolin’s Direct Testimony on**
4 **this matter. Does Mr. Robinett raise other concerns?**

5 A. Yes. Mr. Robinett is concerned that the adjustments are not known and measurable and
6 that the Commission should deny the request, similar to how they denied Mr. Robinett’s
7 request in the recent Evergy case. I have explained in great detail above and in my Rebuttal
8 Testimony that these assets will be in service before new rates take effect. Customers will
9 not be paying for plant that is not in service. The customers are fully protected by the
10 reconciliation I have proposed above.

11 **Q. Mr. Robinett also suggests that the Company include the impact of a pending request**
12 **in Case No. WR-2023-0193 for a special contract rate for a sale for resale customer.**
13 **Does the Company think that should be included?**

14 A. If the special contract is approved by the Commission, then yes the impact could be
15 included. While Mr. Robinett thinks that should be included, I’m unsure if Staff would
16 support the inclusion since the usage would need to be entirely estimated. There are other
17 opportunities to include additional revenues related to acquisitions. The Company expects
18 both Stewartsville and Smithton to close before the end of February. If the rate base and
19 expense from those transactions are included, certainly the revenues should be as well.

20 **Q. Near the end of her Rebuttal Testimony Ms. Bolin suggests that a future test year**
21 **approach would “reduce incentives to provide safe and adequate service at the lowest**

1 **reasonable cost of service.”⁴ Does that concern have any merit?**

2 A. No, it does not, and Ms. Bolin provides no support for this claim. A similar claim was
3 made earlier in her testimony about cost trackers.⁵ There is no evidence that the
4 Commission granting the most basic of new regulatory treatments, ones that are utilized in
5 various combinations in every state American Water operates in, causes the utilities to stop
6 trying to operate efficiently.

7 **IV. DEFERRAL MECHANISMS**

8 **Q. Do any parties address the Company’s proposed utility plant-related deferral**
9 **mechanisms?**

10 A. Yes. The Company’s proposal is addressed by both Staff witness Kim Bolin and OPC
11 witness John Robinett. Neither Ms. Bolin, nor Mr. Robinett support the Company’s
12 proposal.

13 **Q. Ms. Bolin begins with a discussion of regulatory lag. How would you describe**
14 **regulatory lag?**

15 A. Regulatory lag is essentially the difference between the actual cost of service and the cost
16 of service utilized to set rates. Over time, the actual cost of service will tend to increase
17 overall, as the Company makes additional capital investments and experiences cost
18 inflation. The regulatory lag will generally be greater the more time has passed since the
19 implementation of new rates.

20 **Q. In your Direct Testimony you discuss shortfalls in the actual return on equity.⁶ Ms.**

⁴ Bolin RT, p. 16.

⁵ Bolin RT, p. 7.

⁶ LaGrand DT, p. 10.

1 **Bolin characterizes these shortfalls as “alleged.”⁷ Is that an accurate**
2 **characterization?**

3 A. No, it is not. The Company’s inability to earn a reasonable return on equity is in no way
4 “alleged” – it is very real.

5 **Q. Staff disagrees with the Company’s claim that the primary driver of regulatory lag is**
6 **due to plant investments because the Company is able to utilize the WSIRA**
7 **mechanism. Do agree with that assertion?**

8 A. No. The WSIRA program certainly helps to mitigate lag, but it by no means eliminates it.
9 In the Company’s most recent WSIRA, investments were made between May 2022 and
10 October 2022. The rates took effect in January 2023, so the Company incurred
11 depreciation expense and financing costs for 8 months on the investments made in 2022.

12 **Q. Staff claims that to the extent the Company does experience regulatory lag on plant**
13 **investments, only 11.0% of investments made are not addressed with the WSIRA**
14 **mechanism. This is significantly lower than your claim that approximately 30.0%⁸**
15 **of investments are not eligible for WSIRA. Was your estimate overstated?**

16 A. No. In fact, my estimate was understated. Staff is not including all relevant factors when
17 they say WSIRA covers 89.0% of the new investments. Staff failed to include WSIRA-
18 related retirements in their calculations. This is a significant oversight because the change
19 in overall utility plant includes retirements, where Staff’s WSIRA investment amounts do
20 not. When the retirements are included, the amount of plant included in WSIRA decreases
21 from 89.0% to 79.7% for investments through June 30, 2022. As shown in Table BWL-1,

⁷ Bolin RT, p. 18.

⁸ LaGrand DT, p. 14.

1 through December 31, 2022, only 64.7% of total plant is included in WSIRA. This is
2 significantly less than what Staff claims.

Table BWL-1

	Dec-20	Jun-22	Dec-22
Total Utility Plant in Service	3,033,173,979	3,495,252,652	3,765,419,537
Increase in Plant from Dec 2020		462,078,673	732,245,558
WSIRA Plant Additions		411,330,492	527,608,355
WSIRA Plant Retirements		(43,122,399)	(54,082,057)
Plant, Net of Retirements in WSIRA		368,208,093	473,526,298
Plant, Net of Retirements not in WSIRA		93,870,580	258,719,260
WSIRA as a % of Total Plant		89.0%	72.1%
Net WSIRA as a % of Total Plant		79.7%	64.7%

3
4 **Q. Staff next discusses the Company's proposed depreciation deferral, and recommends**
5 **that if the Commission approves the proposal, the reduction to depreciation from**
6 **plant retirements should also be included as part of the deferral. Does the Company**
7 **agree with Staff on this recommendation?**

8 A. Yes. Just as with the WSIRA investments, the Company would net the depreciation
9 savings from non-WSIRA retired assets against any deferred depreciation. Excluding the
10 retirement savings from the deferral would be improper.

11 **Q. Staff notes that depreciation isn't a cash outlay, and it is the return of the investment**
12 **over a period of time. Do you agree with Staff?**

13 A. Yes. Depreciation expense is not a cash expense. However, I would note that the Company
14 does not keep its books and records on a cash basis. I also agree that depreciation is a
15 return of the investment over time. All the Company's proposed depreciation deferral does
16 is to ensure that the entire amount of the investment is returned over time, not just a portion.

17 **Q. Staff identifies similar concerns about the proposed carrying cost deferral as raised**
18 **with the depreciation deferral. However, they identify one issue unique to the**

1 carrying cost deferral – that the Company will continue to earn a return on retired
2 assets.⁹ Is this accurate?

3 A. No, it is not. When the Company retires an asset, the original cost is removed from utility
4 plant, and an equal amount is removed from accumulated reserve.¹⁰ The net effect is zero
5 impact to rate base. So unlike depreciation expense, there is no revenue requirement impact
6 related to the return on retired plant.

7 **Q. Can you provide an example demonstrating the impact of a retirement that would
8 occur after the completion of a rate case?**

9 A. Yes. Table BWL-2 shows a simplified example. In the example, the utility rates were set
10 in a rate case based on a rate base of \$10,000,000 and a 10% rate of return, generating a
11 \$1,000,000 revenue requirement. After the rate case, the utility retires an asset with an
12 original cost of \$500,000. This retirement causes no change to the rate base, nor to the
13 revenue requirement. Therefore customers are not paying a return on plant that has been
14 retired.

Table BWL-2

	Rate Case Outcome	Retire Asset Post Test Year	Impact After Retirement
Utility Plant in Service	\$15,000,000	(\$500,000)	\$14,500,000
Accumulated Reserve	(5,000,000)	500,000	(4,500,000)
Net Plant (Rate Base)	\$10,000,000	\$0	\$10,000,000
Rate of Return	10.0%		10.0%
Revenue Requirement	\$1,000,000		\$1,000,000

15
16 **Q. In your Direct Testimony you provided an example of how the deferral mechanisms**

⁹ Bolin RT, p. 21.

¹⁰ 1976 Uniform System of Accounts, *Accounting instruction 10 – Additions and Retirements of Utility Plant*

1 **would work.¹¹ What was the purpose of that example?**

2 A. The purpose was two-fold. First, it was to show a simple example of the potential scale of
3 the deferrals. Second, it was to show the impact to customers.

4 **Q. What was the impact to customers?**

5 A. Less than \$1.00 per month for residential customers.

6 **Q. Staff takes issue with several of your assumptions, including the annual capital
7 investments, the amount that would not be eligible for WSIRA and the retirement
8 rate assumption. Are Staff's concerns valid?**

9 A. No. As stated above, the purpose of the example was to demonstrate the potential scope
10 of the deferrals and the impact to customers, so some simplifying assumptions were used.
11 Staff claims it is more appropriate to include annual capital spending of \$235 million, 11%
12 of the total capital eligible for the deferral, and a 9.1% retirement rate. I would point out
13 that the Company recently filed its 2023 – 2027 5-year capital plan with the Commission,
14 and the average annual capital spend in that plan is \$565 million. I explained earlier in this
15 testimony that Staff's 11% amount is incorrect, and should be approximately 35%. The
16 Company agrees with Staff on the proper way to treat retirements in the depreciation
17 deferral.

18 **Q. Does OPC witness Robinett agree with Staff witness Bolin regarding the deferral
19 mechanisms?**

20 A. Yes. Mr. Robinett does not think the Commission should grant either proposal.

21 **Q. Does OPC raise any issues not raised by Staff?**

¹¹ LaGrand RT, pp. 14-17.

1 A. Yes. OPC refers to the PISA statutes that are available to electric utilities and states that
2 the purpose of the statutes was to “help facilitate the emergence of renewable generating
3 facilities and the accelerate the replacement of aging transmission and distribution
4 infrastructure.”¹²

5 **Q. Do the parameters of the PISA statute apply to MAWC?**

6 A. No, since MAWC is not an electric utility investing in renewable generating facilities.

7 **Q. OPC laments that the Company is requesting similar deferrals to those included in**
8 **the PISA statute, but not including any of the consumer protections. What protects**
9 **consumers under the Company’s proposal?**

10 A. The customers are protected via the rate case process. The Commission will only authorize
11 rates that are appropriate, and only after an extensive rate case process. Before any of the
12 deferrals are included in rates, the investments that caused the deferrals would be reviewed
13 during the rate case process. If any investments are found to be imprudent, they would not
14 be included.

15 **V. CAPITALIZATION OF ENGINEERED COATINGS**

16 **Q. Do any parties address the Company’s proposal to capitalize engineered coatings?**

17 A. Yes. Staff witness Angela Niemeier recommends the Company continue to expense this
18 investment.¹³

19 **Q. Does the Company agree with Staff’s recommendation?**

20 A. No. Staff has indicated that the Company has expensed these costs previously, which is
21 true. However, in prior years, the Company had a tank painting tracker, which allowed

¹² Robinett RT, p. 3.

¹³ Niemeier RT, pp. 3-6.

1 these costs, which are very inconsistent, to be applied against an amount included in rates.
2 The tracker was discontinued in Case No. WR-2015-0301. Staff's reasoning is that
3 Accounting Instruction 8 in the Uniform System of Accounts (USOA) says that the first
4 coat of painting can be included in the investment costs. Since the application of
5 engineered coatings is subsequent to the storage tank being placed in service, Staff argues
6 that it should therefore be expensed. While Staff accurately cites the USOA, Staff fails to
7 fully consider the nature of an engineered coating. As described in detail by Company
8 witness Rebecca Losli in her Direct Testimony¹⁴ these engineered coatings are a significant
9 component of storage tank rehabilitation. The coatings serve to protect the tank from
10 weather and corrosion, much like a roof protects a building. Roofs, notably, are included
11 in utility plant per Accounting Instruction 8.

12 **Q. If the Commission determines that capitalization of these costs is not appropriate,**
13 **what do you recommend?**

14 A. If the capitalization of these costs is not approved, the Commission should reinstate the
15 tank painting tracker that existed prior to Case No. WR-2015-0301 and allow the Company
16 to track the actual costs against a level of expense included in rates.

17 **Q. Why is that appropriate?**

18 A. It is appropriate because the engineered coatings costs are directly related to safety, vary
19 from year to year, and are the type of expenditure that should be encouraged by the
20 Commission's approach to recovery.

¹⁴ Losli DT, pp. 26-34.

1 **VI. CUSTOMER LEAD SERVICE LINE REPLACEMENTS**

2 **Q. Has the Commission authorized the Company to defer costs associated with the**
3 **replacement of customer-owned lead service lines?**

4 A. Yes. As noted by Ms. McMellen the Commission authorized deferral in Case No. WR-
5 2017-0285.

6 **Q. What treatment did the Commission order in that case?**

7 A. The Commission allowed the Company to defer \$1.7 million of costs through December
8 2017, amortize those costs over 10 years, and apply MAWC's long-term debt rate as
9 calculated in Staff's Cost of Service Report to the unamortized balance.

10 **Q. How were deferred customer-owned lead service line replacement costs treated in**
11 **Case No. WR-2020-0344?**

12 A. As again noted by Ms. McMellen, the parties agreed in the Stipulation and Agreement to
13 the same treatment as ordered by the Commission in Case No. WR-2017-0285, with new
14 costs deferred through December 2020, carrying costs included at the long-term debt rate,
15 an amortization period of 10 years, and MAWC's long-term debt rate applied to the
16 unamortized balance.

17 **Q. How is the Company's proposed treatment of these costs different in this case?**

18 A. The Company is not proposing any change to the treatment of the deferred costs related to
19 the replacement of customer owned lead service lines.

20 **Q. Ms. McMellen states that Staff disagrees with the Company's proposed change. What**
21 **change is Staff suggesting the Company is making?**

22 A. Ms. McMellen states that Staff "continues to recommend including carrying costs at the
23 long-term debt rate in the AAO balance, but not to include any return on the total

1 unamortized balance in the revenue requirement.”¹⁵ This statement is inconsistent with
2 both the treatment ordered by the Commission in Case No. WR-2017-0285 and the
3 treatment agreed to in the Stipulation and Agreement in Case No. WR-2020-0344. In both
4 of those cases the Company’s long-term debt rate is applied to the unamortized balance
5 when determining the revenue requirement.

6 **Q. Did the Commission specifically address the appropriate return to be applied to this**
7 **deferral in Case No. WR-2017-0285?**

8 A. Yes. The Report and Order in that case noted that:

9 Instead of including the LSLR Program costs for 2017 in plant
10 in service, Staff recommends the Commission allow MAWC to
11 earn a return on the expense and amortize the expense and
12 carrying costs over ten years, with the unamortized amount
13 included in rate base. Staff justifies this inclusion in rate base by
14 stating that when the Commission agrees a project associated
15 with an AAO is necessary, the deferred amount is typically
16 included in rate base along with a return on the expenditure.¹⁶

17 The Commission agreed with Staff’s recommendation that the Company be allowed to earn
18 a return on the deferral, however the appropriate return was established as the Company’s
19 long-term debt rate.¹⁷

20 **Q. Is the Company proposing to earn a full rate base return on the unamortized balance**
21 **of the deferred customer-owned lead service line replacements?**

22 A. No. The Company is simply including in the revenue requirement the long-term debt return
23 on the unamortized balance, consistent with the treatment in the prior two cases.

¹⁵ McMellen RT, p. 3.

¹⁶ Case No. WR-2017-0285, Report and Order, p. 19.

¹⁷ Case No. WR-2017-0285, Report and Order, p. 23.

1 **VII. PURCELL WATER & SEWER**

2 **Q. OPC witness John Riley recommends the Commission exclude entirely any deferred**
3 **costs related to the City of Purcell Water & Wastewater systems.¹⁸ Do you agree**
4 **with this recommendation?**

5 A. No. As described in the Direct Testimony of Company witness Jennifer Grisham¹⁹, the
6 Company stepped in to operate the City of Purcell systems after they were left without
7 anyone to operate those systems. The Company did this at the request of Staff, the Missouri
8 DNR, and local elected officials. The Company did eventually complete an acquisition of
9 the systems on October 28, 2022, after operating them for nearly two years. The Company
10 operated these systems in good faith to help ensure the Purcell residents had access to safe
11 and reliable water and wastewater services.

12 **Q. How much has the Company currently deferred related to the operations of the**
13 **Purcell systems?**

14 A. The final deferred costs through the closing date of October 28, 2022 are \$237,529. The
15 Company is proposing to amortize these costs over 5 years, which is a monthly
16 amortization expense of \$3,959.

17 **Q. Mr. Riley implies that the Company is seeking rate base treatment²⁰ on this deferral.**
18 **Is that accurate?**

19 A. No. The Company is not seeking a rate base return on this deferral.

20 **Q. How do these amounts differ from the amounts Mr. Riley describes in his testimony?**

21 A. Mr. Riley identifies a deferral of approximately \$203,000. While he doesn't identify the

¹⁸ Riley RT, pp. 2-4.

¹⁹ Grisham DT, p. 10.

²⁰ Riley RT, p. 3

1 period in his testimony, this is likely the Company's deferred balance of \$203,138 through
2 September 2022. The amortization expense Staff included in their Direct Testimony was
3 based on an earlier deferral balance.

4 **Q. What position did Staff take on the Purcell deferral?**

5 A. Staff amortized the deferred Purcell costs over 60 months, the same period proposed by
6 the Company.

7 **Q. Will the Company be providing the final deferral information as part of the true-up
8 in this case?**

9 A. Yes.

10 **Q. Has the Company acquired other distressed systems that it operated prior to
11 acquisition?**

12 A. Yes. Prior the acquisition of Rogue Creek Water and Wastewater, the Company operated
13 that system and deferred all associated costs of operation. In the Stipulation and Agreement
14 in Case. No. WR-2020-0344, the deferred costs for Rogue Creek were amortized over 60
15 months.²¹

16 **Q. Did OPC offer testimony in that case that the Commission should exclude the Rogue
17 Creek costs from the Company's cost of service?**

18 A. No, they did not.

19 **VIII. RATE CASE EXPENSE**

20 **Q. Did any party address rate case expense in Rebuttal Testimony?**

21 A. Yes, Staff witnesses Ashley Sarver and Courtney Horton address rate case expense. Ms.

²¹ WR-2020-0344, Stipulation and Agreement, p. 5.

1 Sarver addresses the concept of “50/50 sharing” and responds to OPC witness John Riley’s
2 recommendations, while Ms. Horton addresses normalization of rate case expense.

3 **Q. Do you agree with Ms. Sarver’s proposed 50/50 sharing recommendation?**

4 A. I do not, for all the reasons previously stated in my Rebuttal Testimony.²²

5 **Q. Do you agree with Ms. Horton’s proposed normalization of rate case expense?**

6 A. I do not, for all the reasons previously stated in my Rebuttal Testimony.²³

7 **Q. If the Commission orders a cost sharing, what do you recommend?**

8 A. Were the Commission to order rate case expense be shared between the Company and
9 customers, the Commission should utilize Staff’s sharing proposal and not that of OPC
10 witness John Riley. I addressed the shortcomings of Mr. Riley’s proposal in my Rebuttal
11 Testimony.²⁴ The Commission should continue to allow full recovery of costs associated
12 with customer notices for local public hearings, costs incurred from PWC related to Staff’s
13 review of audit workpapers, and amortization of costs related to the depreciation study
14 performed in Case No. WR-2020-0344. Additionally, the Commission should include all
15 prudently incurred costs in the determination of rate case expense, and allow the Company
16 to include unamortized costs related to the Company’s prior rate case.

17 **IX. WSIRA PRE-TAX RETURN**

18 **Q. What does OPC witness John Riley propose regarding both income taxes generally
19 and the return applicable to future WSIRA cases filed by the Company?**

20 A. Mr. Riley suggests the Commission ignore certain taxes entirely when determining the

²² LaGrand RT, pp. 14-17.

²³ LaGrand RT, pp. 13-14.

²⁴ LaGrand RT, pp. 18-19.

1 revenue requirement in this case. Please see the Surrebuttal Testimony of Company
2 witness Melissa Ciullo for further discussion. Regarding the future WSIRA return, Mr.
3 Riley suggests that the tax portion of the pre-tax return be excluded from the rate. In other
4 words, he suggests the Company should include no tax expense in the WSIRA revenue
5 requirement.

6 **Q. Does Mr. Riley recommend excluding deferred taxes from the calculation of rate base**
7 **in future WSIRA cases?**

8 A. Curiously, he does not.

9 **Q. What is the combined effect of Mr. Riley's proposal?**

10 A. Mr. Riley would have the Commission exclude income tax expense, which reduces the
11 revenue requirement, but also still include the Accumulated Deferred Income Tax Liability,
12 which also reduces the revenue requirement.

13 **Q. So Mr. Riley is proposing to selectively exclude the impact of taxes only where it**
14 **reduces the Company's revenue requirement?**

15 A. Yes.

16 **Q. Does the Company agree with Mr. Riley's recommendation?**

17 A. No. Mr. Riley is also making similar recommendations about taxes for the Company's
18 overall revenue requirement in this case. Please see the Surrebuttal Testimony of Company
19 witness Melissa Ciullo for further discussion of Mr. Riley's tax proposals.

20 **X. EARNED RETURN ON EQUITY**

21 **Q. OPC witness Lena Mantle addresses the Company's assertion that it cannot earn its**
22 **authorized ROE. Can you summarize her testimony?**

1 A. Yes. Ms. Mantle generally believes that my statements around the Company’s ability to
2 earn its authorized ROE are not accurate. She anchors her arguments on the claim that
3 since the Company’s recent cases were settled via “black box,” there is not an authorized
4 ROE for the Company to compare to. Ms. Mantle further claims that MAWC has
5 experienced no such shortfall.

6 **Q. Have the Company’s last four rate cases been settled via “black box” as Ms. Mantle**
7 **claims?²⁵**

8 A. No. Case No. WR-2020-0344 was entirely settled, but Case Nos. WR-2011-0337, WR-
9 2015-0301, and WR-2017-0285 all had some topics addressed in an evidentiary hearing,
10 including topics that impacted the revenue requirement.

11 **Q. OPC claims that since the Commission never authorized a specific ROE, the**
12 **Company can’t claim it has an earned ROE shortfall. Do you agree?**

13 A. No. While Ms. Mantle is technically correct that the Commission has not made a decision
14 about MAWC’s appropriate ROE, it is misleading to suggest there is no basis for the
15 Company’s claim. As I described in great detail in my Direct Testimony²⁶, there were
16 ROE ranges included in the Stipulations in Case Nos. WR-2015-0301 and WR-2017-0285.
17 The Commission approved these Stipulations. I do not believe the Commission would
18 approve a Stipulation that contained any terms that were unreasonable. My conclusion that
19 over the last 10 years, the Commission has found an ROE between 9.50% and 10.00% to
20 be reasonable for MAWC remains accurate. Additionally, beginning with Case No. WR-
21 2011-0337 and continuing through this case, Staff has never recommended an ROE lower

²⁵ Mantle RT, p. 6.

²⁶ LaGrand DT, pp. 7-9.

1 than 9.25% and OPC has never recommended an ROE lower than 9.00%, and yet, outside
2 of one drought year, the Company's actual returns have never even reached those
3 recommended levels.

4 **Q. OPC highlights the Company's actual ROE between 2012 and 2021 as ranging from**
5 **7.46% to 11.19%.²⁷ Is this accurate?**

6 A. Yes, however OPC again provides a misleading framing. OPC's implication is that the
7 ROEs fluctuate within that range, which is incorrect, and misleading. An ROE of 11.19%
8 occurred in the record drought year of 2012. The next highest ROE in that period is 8.86%
9 in 2014 – 233 basis points lower than the 2012 return. Excluding 2012, the average return
10 drops to 8.23%.

11 **Q. OPC notes that MAWC is not guaranteed a return and that the Commission sets rates**
12 **that give MAWC an opportunity to earn the ROE in its revenue requirement. Do you**
13 **agree with that characterization?**

14 A. I agree that MAWC is not guaranteed a return, and nowhere in this case do I, or any other
15 Company witness argue that our return should be guaranteed. I also agree, in theory, that
16 rates are set to give the Company an *opportunity* to earn a reasonable return. However, the
17 reality is very different. The Company cannot, in normal circumstances within the current
18 regulatory framework, earn a reasonable return and make investments to replace aging
19 infrastructure. This is why the Company continues to propose improvements to the
20 regulatory framework in Missouri – future test year in past cases, discrete adjustments in
21 this case, deferral mechanisms, trackers, and an RSM.

²⁷ Mantle RT, p. 5.

1 **XI. PROPOSED EXPENSE TRACKERS**

2 **a. Expense Trackers Generally**

3 **Q. The Company has proposed new trackers in this case for production costs, bad debt,**
4 **and property taxes. Do other parties provide testimony related to these trackers?**

5 A. Yes. Staff witness Kim Bolin discusses the use of trackers generally, and the Company's
6 bad debt, production cost and property tax trackers specifically. OPC witness Lena Mantle
7 also addresses the stand-alone production cost tracker.

8 **Q. Do either Staff, OPC or any other party support the Company's proposed expense**
9 **trackers?**

10 A. No, they do not.

11 **Q. Staff takes issue with the use of trackers generally. Can you summarize Ms. Bolin's**
12 **opposition to the use of expense trackers?**

13 A. Ms. Bolin says that under the normal ratemaking approach in Missouri, that neither
14 customers nor the utility is allowed to be reimbursed through the rate case process for any
15 prior under- or over-recovery of costs, either for the total cost of service or for individual
16 components of the cost of service. Therefore, the use of trackers should depend on unique
17 and unusual circumstances. She further identifies circumstances where a tracker may be
18 justified. These include 1) costs that show significant up-and-down volatility and are
19 difficult to estimate; 2) new costs where there is little historical experience and are difficult
20 to estimate; and 3) costs imposed by newly promulgated Commission rules.²⁸

21 **Q. Do you agree with Ms. Bolin's views on expense trackers?**

22 A. No. While Ms. Bolin does list some reasons that have been used at points in the past to

²⁸ Bolin RT, pp.2-3.

1 support trackers, those reasons are not exclusive. The Commission's authority in this area
2 is quite general (See Section 393.140(4) and (8), RSMo), and the Commission has
3 discretion to utilize tracker mechanisms where it deems appropriate.

4 **Q. Lastly, Ms. Bolin claims the use of trackers will eliminate the utility's incentive to**
5 **operate efficiently.²⁹ Do you agree with that claim?**

6 A. No. First, Ms. Bolin provides no evidence whatsoever to support that claim. Secondly,
7 this view ignores the economic incentives that exist for regulated utilities in Missouri. The
8 Company would prefer to reduce operating expenses to allow those funds to be redeployed
9 to capital projects. For every \$1 reduction in operating expenses, the Company can invest
10 \$8 in capital, with no impact to customer rates. This approach benefits both the Company
11 and the customers. The Company's net income increases due to the additional rate base,
12 and the customers will enjoy the use of new infrastructure investments without an
13 incremental impact to the rates they pay. The Company does not make a profit on operating
14 expenses, so the incentive to reduce operating expenses does not go away simply because
15 of an expense tracker.

16 **b. MAWC's Proposed Production Cost Tracker**

17 **Q. Staff witness Bolin does not support the proposed production cost tracker. Why not?**

18 A. Ms. Bolin states that these are standard costs incurred by most water and sewer utilities
19 and are not appropriate for an expense tracker.

20 **Q. Do you agree with Ms. Bolin's position on the production cost tracker?**

21 A. No. Production costs, especially chemicals, have experienced significant increases since

²⁹ Bolin RT, p. 7.

1 the Company's last rate case. While the Company's understanding is that Staff will include
2 the current prices for production costs in their true up calculation, it's unclear where these
3 prices will go in the future. The production cost tracker protects both the Company and
4 customers. For example, chemical prices may revert to a normal level, leaving the
5 customer paying more in rates that they should, or they may continue their dramatic
6 increase and leave the Company without recovery.

7 **Q. Do you have any examples of production costs that have declined?**

8 A. Yes. In a recent general rate case, Ameren requested a reduction to their rates.

9 **Q. OPC witness Lena Mantle also does not support the Company's proposed production
10 cost tracker. Why not?**

11 A. Ms. Mantle states that these costs are not new, it's irrelevant if they are outside the
12 Company's control, and she further believes the general nature of my description of the
13 costs that would be included would result in future disagreements if the tracker is approved
14 by the Commission.

15 **Q. Do you agree with Ms. Mantle's claims about costs within the Company's control?**

16 A. No. Ms. Mantle is correct, to an extent, that many costs are outside the control of the
17 Company. However, she fails to acknowledge that production costs are uniquely critical
18 to the provision of safe and reliable water and wastewater services because of their direct
19 impact on public health.

20 **Q. Ms. Mantle claims that you have only generally described the costs that would be
21 included as production costs. Are your descriptions too general and would that cause
22 problems in the future if a tracker is granted?**

23 A. I listed exactly what is included in the production costs, so I don't see any risk of future

1 disagreements. However, to give Ms. Mantle and other parties specificity to the costs the
 2 Company proposes to include, please see Table BWL-2 below. All production costs have
 3 been captured in these accounts for over 10 years. Were this list to change, the Company
 4 would include that information in the next general rate case.

Table BWL-3

Category	Water NARUC	Sewer NARUC	MAWC G/L Account	Account Description
Fuel and Power	A603	A703	51510011	Purchased Power - Source of Supply
Fuel and Power	A623	A721	51510012	Purchased Power - Pumping
Fuel and Power	A643	A743	51510013	Purchased Power - Water Treatment
Fuel and Power	A665	A743	51510014	Purchased Power - Transmission & Distribution
Fuel and Power	A905	A905	51510015	Purchased Power - Customer Accounting
Fuel and Power	A921	A921	51510016	Purchased Power - Admin & General
Fuel and Power	A621	A721	51520000	Fuel for Power Production
Chemicals	A641	A741	51800000	Chemicals
Purchased Water	A602	A702	51010000	Purchased Water
Waste Disposal	A643	A743	51110000	Waste Disposal

5
 6 **Q. Ms. Mantle states that the return the utility receives in its revenue requirement is**
 7 **based on the risks the utility is taking in providing service to its customers.³⁰ Do you**
 8 **agree with Ms. Mantle?**

9 A. Ms. Mantle states elsewhere in her Rebuttal Testimony that it's impossible to know what
 10 return is included in the Company's revenue requirement due to the black box settlements
 11 in the Company's most recent rate cases.³¹ I find it curious that now, when it benefits her
 12 argument, Ms. Mantle now seems to know exactly what return is included in the
 13 Company's revenue requirement, as well as the specific risks for which this previously
 14 unknowable return compensates the Company. To the extent a production tracker would,
 15 or would not, impact the Company's risk, please see the testimony of Company witness
 16 Ann Bulkley.

³⁰ Mantle RT, p. 31.

³¹ Mantle RT, p. 6.

1 **XII. AFFILIATE TRANSACTIONS**

2 **Q. Does Staff witness Bolin address affiliate transactions?**

3 A. Yes. Ms. Bolin responds to OPC witness Marke’s Direct Testimony about opening a new
4 rulemaking proceeding to address potential affiliate rules for water utilities. In Ms. Bolin’s
5 view, the issue is more appropriately resolved in the existing Case No. AW-2018-0394.³²

6 **Q. Does the Company agree with Staff?**

7 A. Yes. While the Company does not believe that water and sewer utilities should be subject
8 to affiliate rules, we do agree with Staff that the open case related to affiliate transaction
9 rules is the more appropriate venue to resolve the issue of applicability the rules to the
10 Company.

11 **Q. Does this conclude your Surrebuttal Testimony?**

12 A. Yes.

³² Bolin RT, p. 24.