Exhibit No.:	
Issues:	Revenue Requirement, Present Rate Revenues, Rate Base, Depreciation Expense, Amortization Expense, Rate Case Expense
Witness:	Brian W. LaGrand
Exhibit Type:	Rebuttal-Revenue Requirement
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 REVENUE REQUIREMENT

OF

BRIAN W. LAGRAND

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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 RATES FOR WATER AND SEWER SERVICE	)))))	CASE NO. WR-2017-0285 CASE NO. SR-2017-0286

AFFIDAVIT OF BRIAN W. LAGRAND

Brian W. LaGrand, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony Revenue Requirement 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.

BWL

Brian W. LaGrand

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 12th **day of** January **2018.**

Mary Beth Hercules
Notary Public

My commission expires:

MARY BETH HERCULES
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires April 26, 2020
Commission # 96546828

REBUTTAL TESTIMONY
REVENUE REQUIREMENT
BRIAN W. LAGRAND
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

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REBUTTAL TESTIMONY
REVENUE REQUIREMENT

BRIAN W. LAGRAND

I. INTRODUCTION

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 W. LaGrand who previously submitted direct testimony in this proceeding?

A. Yes.

II. OVERVIEW

Q. What is the purpose of your revenue requirement rebuttal testimony in this proceeding?

A. The purpose of my revenue requirement rebuttal testimony is to respond to the Staff Report on Cost of Service filed by the Missouri Public Service Commission ("Commission") Staff ("Staff"), and to the direct testimony of the Office of Public Counsel ("OPC") and other intervenors on the following topics: 1) Revenue Requirement, 2) Present Rate Revenues, 3) Rate Base, 4) Depreciation Expense, 5) Amortization Expense, and 6) Rate Case Expense

III. REVENUE REQUIREMENT

Q. Did Staff propose a revenue requirement in the Staff Report filed on November 30, 2017?

A. Yes. Using Staff's mid-point after-tax return of 6.86%, Staff calculated an additional revenue requirement of $1,577,332. Additionally, Staff included $17,147,016 for an estimate of items that will be included in the true up.

Q. How does Staff's revenue deficiency compare to the deficiency calculated by the Company and filed in direct testimony?

A. The Company requested additional revenues of $89,405,258, which results in a difference of $87,827,926. When Staff's true up estimate is included, the gap shrinks to $70,688,381. In either case, there are significant differences between the Company's position and Staff's position.

Q. Is the Company's request for a future test year the biggest reason for the difference?

A. No, not at all. That's a common misperception. The future test year request in this case accounts for less than 30% of the requested increase. The vast majority of the requested increase would still exist under the methodology utilized in prior rate cases. For example, as I will explain in greater detail later in my testimony, nearly all of the difference in present rate revenues is independent of the future test year.

Q. What are the main drivers of the differences between the Company and Staff?

A. Table BWL-1 shows the main categories of differences as well as the split between the traditional true up period and the Company's proposed future test year.

Table BWL-1

	True-Up	Future Test Yr	Total
Company Request	**64,229,238**	**25,176,020**	**89,405,258**
Cost of Capital & Structure	(26,493,986)	(1,853,948)	(28,347,934)
Revenues	(14,922,624)	(1,785,203)	(16,707,827)
Operating Expense	(6,398,523)	(14,190,037)	(20,588,560)
Rate Base	2,568,287	(7,346,832)	(4,778,544)
Total Differences	**(45,246,846)**	**(25,176,020)**	**(70,422,866)**
Staff Recommendation	**18,982,392**	**0**	**18,982,392**

Note: Staff Recommendation is slightly increased in an updated EMS run after the initial filing

Q. Will the Company be addressing these differences in rebuttal testimony?

A. Yes. The largest difference is in the cost of capital and capital structure. MAWC witness Ann Buckley will be discussing cost of capital, and addressing Staff witness Jeffrey Smith's recommended 9.25% return on equity and Office of the Public Counsel ("OPC") and Missouri Industrial Energy Consumers ("MIEC") witness Michael Gorman's recommended 9.00% return on equity. MAWC witness Scott Rungren will be discussing the capital structure and addressing Staff's recommendation that the Company use the consolidated capital structure of American Water rather than the Company's stand-alone capital structure. MAWC witness Nikole Bowen will be addressing most of the operating expense issues. MAWC witness Greg Roach and I will be discussing revenues. Mr. Roach will address declining customer base usage, and I will discuss present rate revenues. The last category of differences is rate base, which I will address along with depreciation expense.

Q. In light of the recent change in the Federal tax rates, is the Company proposing any changes to their rate request?

A. Yes. As detailed in the rebuttal testimony of Company witness John Wilde, the Company is proposing several changes to reflect many of the impacts of the Tax Cuts and Jobs Act of 2017 in association with the Commission granting the Company's request for a future test year. First, the Company will provide to customers the entire benefit of the reduction in the Federal corporate tax rate from 35% to 21%. Second, the Company has reflected the best current estimate of the changes in Accumulated Deferred Income Taxes to account for the changes that impact investment during the rate case period. This includes the elimination of bonus depreciation, taxability of Contributions in Aid of Construction and revaluing the incremental book-tax depreciation difference using a 21% Federal tax rate. Because these tax changes are complicated and difficult to ascertain with precision at this time, the Company is proposing two separate AAO mechanisms to address these tax benefits. Please see the rebuttal testimony of MAWC witness James Jenkins for more details.

Q. What is the impact of that proposal on the revenue requirement and the requested increase in this case?

A. The impact on the requested rate increase in this case, in conjunction with the future test year, is a reduction from $89,405,258 to $69,095,805. This is a reduction of $20,309,453. Again, please see the rebuttal testimony of MAWC witness John Wilde for more details.

Q. Will the Company be providing true up data in this case?

A. Yes. The Company will submit true up data by January 31, 2018.

Q. Does the Company agree with the list of true up items Staff provides on pages 11 and 12 of the Staff Report – Cost of Service?

A. Yes, with a few additions that have been previously discussed. The Company will also provide true up information on main break expense, Rate J normalization, and customer usage through December 2017.

IV. PRESENT RATE REVENUES

Q. What level of present rate revenues did Staff calculate?

A. Staff calculated present rate revenues of $296,650,341, including both water and sewer revenues.[1]

Q. How does this compare to the Company's calculation?

A. In Company Accounting Schedule ("CAS") 8, provided with my direct testimony, the Company calculated present rate revenue of $279,843,403.

Q. Is that calculation still accurate?

A. The Company's calculation is actually slightly overstated. Due to a minor calculation error, present rate revenues were overstated by $155,355. The corrected amount would be $279,688,048.

Q. What is the difference between the Company's calculation and Staff's calculation?

A. Based on the company's original filing, the difference is $16,806,938:

[1] Staff Accounting Schedule 9, Total Company, Line REV-10

Table BWL-2

	MAWC	Staff	Difference
Residential	$177,161,196	$192,526,737	$15,365,541
Commercial	52,430,126	54,445,267	2,015,141
Industrial	16,101,627	16,080,967	(20,660)
Other Public Authority	5,410,391	5,501,902	91,511
Sale for Resale	10,435,866	10,755,323	319,457
Private Fire	5,000,939	4,909,780	(91,159)
Miscellaneous Revenue	359,698		(359,698)
Other Revenues	3,420,163	3,695,695	275,532
Total Water Revenues	**$270,320,006**	**$287,915,671**	**$17,595,665**
Total Sewer Revenues	9,523,397	8,734,670	(788,727)
Total Present Rate Revenue	**$279,843,403**	**$296,650,341**	**$16,806,938**

Q. This difference is substantial. What are the main drivers?

A. As you can see, the most substantial difference is in the residential water revenues. This is primarily driven by customer usage assumptions. Additional differences include customer counts, and a calculation issue with Staff's residential usage in St. Joseph and Parkville. I will describe and comment on those below.

Q. Is the Company's proposal for a future test year a significant contributor to this difference?

A. No, it is not. The net impact in the future test year is $1,785,203, or a little over 10% of the total revenue difference. Additional declining residential usage through the midpoint of the future test year contributes $1,706,756 of the difference. Differences in meter charges and fees increase the difference by $183,949, while price adjustments to sale for resale contracts and other sewer items reduce the difference by $105,502.

Q. Are there other areas of concern in Staff's calculation of present rate revenues?

A. Yes. I will explain in detail Staff assumptions the Company disagrees with, specifically related to the levels of Rate J usage and the methodology for calculating the customer charges. Additionally, the Company included the impact of losing a large water district as a customer, which Staff did not include in their calculations.

a. RESIDENTIAL REVENUES

Q. Please describe Staff's approach to calculating residential present rate water revenues.

A. For all residential customers, Staff calculated a simple five-year (60-month) average of daily usage per customer through June 30, 2017, with recently acquired systems having shorter periods based on the available data[2]. That per customer usage was then applied to the annualized meter count as of June 30, 2017, using the Company's currently approved tariffs to determine total volumetric residential revenues. The same meter count was used to calculate the fixed residential revenues, also using the currently approved tariffs[3].

Q. How does this compare to the Company's approach to projecting present rate residential water revenues?

A. As I described in my direct testimony[4], the Company began with average customers for 2016, and added customers through organic growth, as well as the Wardsville and Pevely Farms acquisitions. To determine usage, we divide residential consumption into two components: base usage and non-base usage. Base usage is average billed usage for February, March and April, annualized for twelve months, while non-base usage is the actual usage above base usage. A declining trend is applied to base usage, based on a 10 year trend of residential base usage from 2007 through 2016. For non-

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[2] Staff Report - Cost of Service, page 59
[3] Staff Report - Cost of Service, page 60
[4] LaGrand Dir, pages 16-17

base usage the Company used a 10 year average. This usage projection per customer is applied to the number of customers to determine total usage. Company witness Greg Roach will be addressing declining usage in his rebuttal testimony.

Q. Does the Company agree with Staff's methodology or projected usage levels?

A. No, we do not. Staff's methodology is flawed because using a simple 60-month average fails to account for the declining trend in base usage. Staff provides limited rationale for this methodology beyond saying that usage patterns have changed for various reasons. Again, Company witness Greg Roach addresses this question in greater detail in his rebuttal testimony.

Q. What is the overall impact of the difference in residential customer usage assumptions?

A. As shown in Table BWL-3, the vast majority of the difference is in District 1. Staff's usage per customer is almost 8,000 gallons per year higher. That is more than one entire month of typical usage for that district. Staff's approach would essentially result in the Company receiving revenue on 13 (not 12) months of usage each year.

Table BWL-3

	Customers	Annual Usage (000 gallons) per Customer	Annual Usage (000 gallons) Total	Annual Revenue
MAWC Assumptions				
District 1	360,331	74.1	26,709,011	$110,573,479
District 2	34,608	51.1	1,769,886	8,385,367
District 3	34,272	48.1	1,648,022	6,167,559
Total	**429,212**	**70.2**	**30,126,919**	**$125,126,405**
Staff Assumptions				
District 1	359,659	81.9	29,472,930	$122,014,557
District 2	34,506	74.4	2,566,581	12,159,948
District 3	33,994	52.7	1,792,741	6,709,154
Total	**428,159**	**79.0**	**33,832,252**	**$140,883,659**
Differences				
District 1	(672)	7.9	2,763,919	$11,441,079
District 2	(102)	23.2	796,695	3,774,581
District 3	(278)	4.7	144,719	541,595
Total	**(1,053)**	**8.8**	**3,705,333**	**$15,757,255**

Note: Staff number for District 2 includes incorrect usage for St. Joseph and Parkville

Q. Are there any corrections to the projections the Company thinks Staff should make?

A. Yes, there are a few. The Company has discussed these with Staff and our understanding is that these corrections will be made. First, there was an inadvertent calculation error in the average daily usage amount for St. Joseph and for Parkville. For St. Joseph, six additional months of usage were included when calculating annual usage per customer, resulting in the daily usage being overstated. Staff used 0.2022 for average daily usage, while the correct amount under Staff's methodology should be 0.1437. This difference overstates present rate revenue by $2,877,288. Additionally, there was a minor error in the Parkville usage calculation. For the March average use per customer in every year of Staff's five year average, the calculation uses the March customers, but applies the April usage. This overstates present rate revenues by $11,379. Second, when calculating the average daily revenue, Staff divided the annual amount by 365 days. However, when converting the daily usage back to annual usage to calculate the annual revenue, Staff multiplied by 365.25 days[5]. As long as the same days are used in both cases, the results will be the same, but this difference overstates present rate revenues by $96,430.

Q. Are there any other concerns with Staff's calculation of present rate volumetric residential revenues?

A. Yes. The Company's data that Staff utilizes to produce their usage assumption is based on the number of customers. The workpapers provided to Staff at the beginning of this case include the number of customers and their usage history over the past 10 years. From this data, Staff calculated average daily usage per customer over a five year period. When incorporating data provided as part of the June 30, 2017 update, Staff used the number of meters rather than the number of customers. The end result is that for a 60 month period, the first 54 months would be based on customer count, and the last 6 months on meter count. While the Company strongly disagrees with Staff's methodology for determining residential usage, we recommend that Staff use the customer count for all periods in their calculations for consistency purposes.

Q. Did other parties file testimony about residential customer usage?

A. Yes, OPC witness Lena Mantle provided testimony on usage. Company witness Roach is addressing the issues raised in her testimony.

Q. Given the significance of the residential usage assumptions, what do you recommend to the Commission?

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[5] Staff Report - Cost of Service, page 60

A. I recommend the Commission adopt the Company's usage projections, which are based on robust statistical analysis, and reject Staff's proposed five year average.

Q. If the Commission were to adopt a five year average for residential customers, do you have any recommendations regarding the appropriate time period for the average?

A. In the event the Commission orders a five year average, the average should be included in the true-up and taken over the five year period ending with December 2017. This is the most recent period used and will capture the most recent effect of declining use per customer. Nevertheless, the Company believes that Mr. Roach's calculations are far more accurate and based on actual data and nationally recognized trends.

Q. What issues does the Company have with Staff's calculation of present rate fixed residential revenues?

A. To determine the fixed, or customer, charge, Staff annualized the meter count as of June 30, 2017[6]. The Company disagrees with this approach because it will overstate the annual revenues. The Company will have more active meters in June than in December. This is due to people turning on service to vacation homes, utilizing irrigation meters, etc. An improvement to Staff's approach would be to use a 12 month average of the meter count to determine the fixed revenue. Annualizing the June 2017 meter count rather than using a 12 month average overstates the residential fixed charges by $137,568.

Q. Is that the only issue the Company has with fixed charge revenues?

[6] Staff Cost of Service Report, page 60

A. No. One additional issue Staff did not consider is that District 1 has pro-rated meter charges for customers that are only active for part of a quarter. Staff assumes all meters are fully active for an entire quarter, which is inaccurate, and will overstate present rate revenues. For 2017, there were 69,698 pro-rated residential bills sent out. Since the pro-rated meter charge is less than the regular charge, these bills resulted in $467,774 less revenue than if they had been regular bills, and will overstate present rate revenue by that same amount.

Q. Are there any other residential revenue issues to address?

A. Yes. The Company currently has a low-income pilot program for customers in St. Joseph, Parkville and Brunswick. This program provides an 80% discount on the fixed charge for qualifying customers. In this case, the Company has proposed making this program open to all customers. In calculating the present rate revenues, Staff included neither the pilot program nor the proposed expanded statewide program.

b. <u>NON-RESIDENTIAL REVENUES</u>

Q. What is the overall impact of the difference in non-residential customer usage assumptions?

A. The non-residential usage assumptions for Staff and the Company are much closer than for residential customers. However, Staff's assumptions result in present rate revenue that is $1,614,175 higher than the Company assumptions. See the Table BWL-4 below for the details of the differences.

Table BWL-4

	Annual Usage (000 gallons)						Annual
	Rate A	Rate B	Rate J	Rate F	Special	Total Usage	Revenue
MAWC Assumptions							
District 1	9,120,150	1,645,391	4,537,046	43,394	2,250,638	17,596,619	$51,012,084
District 2	1,225,757	843,338	1,382,047	220	759,260	4,210,623	13,164,114
District 3	1,375,720	355,196	951,839	46	505,795	3,188,596	9,402,199
Total	**11,721,627**	**2,843,924**	**6,870,933**	**43,660**	**3,515,693**	**24,995,838**	**$73,578,397**
Staff Assumptions							
District 1	9,699,206	1,705,689	3,860,805	46,750	2,361,404	17,673,855	$52,429,876
District 2	1,425,706	854,833	1,109,519	218	753,226	4,143,501	13,273,626
District 3	1,511,745	372,702	752,080	168	502,199	3,138,895	9,489,070
Total	**12,636,658**	**2,933,224**	**5,722,404**	**47,136**	**3,616,829**	**24,956,251**	**$75,192,572**
Differences							
District 1	579,056	60,298	(676,241)	3,356	110,766	77,236	$1,417,792
District 2	199,949	11,495	(272,529)	(2)	(6,035)	(67,121)	109,512
District 3	136,025	17,506	(199,759)	122	(3,596)	(49,701)	86,871
Total	**915,031**	**89,300**	**(1,148,528)**	**3,476**	**101,136**	**(39,587)**	**$1,614,175**

Q. Please describe Staff's approach to calculating non-residential present rate water revenues.

A. As with residential usage, Staff used a simple 60 month average of non-residential usage, and annualized the meter count as of June 30, 2017 to determine the customer charges for commercial, industrial, other public authority, and sale for resale customers. For two of the Company's special contracts[7], and for private fire service[8], on the other hand, Staff used 12 months of usage through June 30, 2017. Using a 12 month average, rather than 60 month average to calculate volume overstates present rate revenue by $88,592 for the special contracts, and by $17,855 for private fire service.

Q. How does this compare with the Company's methodology?

[7] Staff Cost of Service Report, page 61
[8] Staff Cost of Service Report, page 62

A. The Company used the 2016 actual usage for non-residential customers since usage levels for non-residential customers do not vary in the same way as residential usage. The Company used actual billing determinants to set the level of customer charges.

Q. Given the difference in total usage for non-residential customers is very similar, does the Company have any major concerns about Staff's methodology?

A. Yes. The most significant issue is with Rate J normalization. Large water users can qualify for the Rate J tariff, which is currently approved and in place. The tariffed volumetric rate is substantially lower than Rate A, so having too much or too little usage moving from Rate A to Rate J can have a material impact on the present rate revenues.

Q. Can you explain how Staff determined how much non-residential usage is Rate A and how much is Rate J?

A. Staff calculated the 12 months of usage ending June 30, 2017 for each non-residential class, and calculated the percentage of that usage that is on the Rate J tariff. Staff then applied that same percentage to the 5 year average usage to split the usage into Rate A and Rate J[9].

Q. Are there differences in the Rate J usage Staff and the Company are using?

A. Yes. As seen in table BWL-4 and shown below in table BWL-5, Staff has included 1,148,528 thousand gallons of usage at Rate A in their calculation of present rate revenues, while the Company included that usage as Rate J. In calculating the amount of Rate J usage in the 12 months ending June 30, 2017, Staff didn't fully

[9] Staff Cost of Service Report, page 60-61

normalize the Rate J customers who moved to that rate during the 12 month period. Only the usage occurring after the customers moved to Rate J was included. The balance of the usage for those customers during the year was included as Rate A. This understates the amount of Rate J usage, overstates the amount of Rate A usage, and thus, overstates present rate revenues in this case by $2,364,353.

Table BWL-5

	Rate J Volume (000 gallons)			
	District 1	District 2	District 3	Total
MAWC Normalized Rate J				
Commercial	578,834	74,955	113,216	767,005
Industrial	3,958,212	1,235,858	827,210	6,021,280
OPA	0	71,234	11,413	82,647
Total	**4,537,046**	**1,382,047**	**951,839**	**6,870,932**
Staff Rate J Allocation				
Commercial	57,376	46,432	66,700	170,509
Industrial	3,803,429	996,949	596,434	5,396,813
OPA	0	66,137	88,946	155,083
Total	**3,860,805**	**1,109,519**	**752,080**	**5,722,404**
Difference				
Commercial	(521,458)	(28,523)	(46,516)	(596,496)
Industrial	(154,782)	(238,909)	(230,776)	(624,467)
OPA	0	(5,097)	77,533	72,436
Total	**(676,241)**	**(272,529)**	**(199,759)**	**(1,148,528)**

The Company has discussed this matter with Staff and Staff has agreed to look into the matter. The Company's calculation of fully normalized level of Rate J volumes as of June 30, 2017, are presented in Table BWL-6.

Table BWL-6

	Rate J Volume (000 gallons)			
	District 1	District 2	District 3	Total
MAWC Normalized Rate J				
Commercial	704,350	127,349	179,494	1,011,194
Industrial	4,125,809	1,272,376	909,563	6,307,749
OPA	0	79,577	76,029	155,607
Total	**4,830,159**	**1,479,303**	**1,165,087**	**7,474,549**
Staff Rate J Allocation				
Commercial	709,509	125,714	178,557	1,013,780
Industrial	3,833,378	1,222,873	803,410	5,859,661
OPA	0	81,435	77,923	159,359
Total	**4,542,886**	**1,430,023**	**1,059,890**	**7,032,799**
Difference				
Commercial	5,159	(1,635)	(938)	2,586
Industrial	(292,432)	(49,503)	(106,153)	(448,088)
OPA	0	1,858	1,894	3,752
Total	**(287,273)**	**(49,280)**	**(105,197)**	**(441,750)**

Q. Is Staff's partial normalization the only issue with Staff's calculation of Rate J revenues?

A. No. While the Company appreciates Staff's willingness to reevaluate its initial calculation, the Company is still left with a substantial shortfall. As is shown in Table BWL-6, even at the updated volumes, the Company still has nearly half a billion gallons of Rate J volume that is considered Rate A when calculating present rate revenues. Staff's allocation of Rate J to the five-year average non-residential volume creates this shortfall. When comparing the non-residential usage during the 12 months ended June 30, 2017 to the five-year average ending June 30, 2017, the five-year average is lower by 416,228 thousand gallons. However, the Rate J usage is reduced by 441,750 thousand gallons. So even though Rate J is approximately 40% of the total volume, over 106% of the gap that occurs when using a five-year average falls fully on Rate J. Staff's methodology of allocating rate J volumes based on historical averages is flawed as the changes in the relative shares of volumes between customer classes over time can result in an outcome as we see above.

Q. What is the impact to this shortfall on present rate revenues?

A. Essentially the 441,750 thousand gallon shortfall is considered Rate A usage in the present rate revenue calculations, despite the fact the Company will actually receive Rate J revenues on that volume. The total impact of this shortfall is to overstate present rate revenues by $927,506.

Q. Are there alternatives that the Company would suggest the Commission should consider?

A. Yes, there are two alternatives that would alleviate the shortfall. First, using the last 12 months of non-residential revenues would solve the Rate J allocation problem. Alternatively, if a 5 year average is to be used, the Commission should subtract the normalized level of current Rate J usage from the 5 year average total to determine the Rate A usage.

Q. What issues does the Company have with Staff's calculation of present rate fixed revenues for non-residential customers?

A. To determine the fixed, or customer, charge Staff annualized the total meter count for each customer class as of June 30, 2017. The Company disagrees with this approach because using the total meter count will overstate the annual revenues. There are a number of non-residential meters for which the Company does not collect a customer charge. For example, the sale for resale special contract customers will have several large meters. However, the contracts do not include a charge on those meters. Other examples include backflow meters, battery meters and check meters. By including the meters that do not generate a customer charge, present rate revenues are overstated by $171,024, as shown in Table BWL-7. The Company has discussed this issue with Staff and will be providing clarifying information as part of the true-up information that will be provided by January 31, 2018.

Table BWL-7

	Non Residential Meter Counts				
	Commercial	Industrial	OPA	SFR	Totals
Total Meters					
District 1	19,425	192	1,285	27	20,929
District 2	3,294	164	307	27	3,792
District 3	3,840	101	327	9	4,277
Total	**26,559**	**457**	**1,919**	**63**	**28,998**
Remove Non-Rent Meters					
District 1	19,359	190	1,262	6	20,817
District 2	3,191	129	270	27	3,617
District 3	3,741	101	311	9	4,162
Total	**26,291**	**420**	**1,843**	**42**	**28,596**
Differences					
District 1	(66)	(2)	(23)	(21)	(112)
District 2	(103)	(35)	(37)	0	(175)
District 3	(99)	0	(16)	0	(115)
Total	**(268)**	**(37)**	**(76)**	**(21)**	**(402)**
Revenue Impact	**$51,672**	**$7,366**	**$15,267**	**$96,720**	**$171,024**

Q. Is that the only issue the Company has with fixed charge revenues?

A. No. As with residential customer charges, Staff annualized the meters as of June 30, 2017. Using a 12 month average of meters during the year will provide a more accurate estimate of the meters. As shown in table BWL-8, annualizing the meters as of June 30, 2017, overstates present rate revenue by $83,133. As mentioned previously in my discussion of residential revenues, Staff did not consider that District 1 has pro-rated meter charges for customers that are only active for part of a quarter. Staff assumes all meters are fully active for an entire quarter, which is inaccurate, and will overstate present rate revenues. Failing to consider pro-rated meter charges when establishing present rate revenues overstates the non-residential fixed revenues by $58,774.

Table BWL-8

	Non Residential Meter Counts				
	Commercial	Industrial	OPA	SFR	Totals
Annualized Meters - June 2017					
District 1	19,359	190	1,262	6	20,817
District 2	3,191	129	270	27	3,617
District 3	3,741	101	311	9	4,162
Total	**26,291**	**420**	**1,843**	**42**	**28,596**
12M Average of Meters - June 2017					
District 1	19,331	194	1,251	7	20,782
District 2	3,193	131	258	27	3,608
District 3	3,721	108	312	9	4,151
Total	**26,245**	**432**	**1,821**	**43**	**28,541**
Differences					
District 1	(28)	4	(11)	1	(35)
District 2	2	2	(12)	0	(9)
District 3	(20)	7	1	0	(11)
Total	**(46)**	**12**	**(22)**	**1**	**(55)**
Revenue Impact	**$81,039**	**($7,809)**	**$11,017**	**($1,114)**	**$83,133**

Q. Does the Company have any other issues related to non-residential revenues?

A. Yes. In my direct testimony, I discussed an adjustment the Company made to reflect the impact of Water District #2 in Audrain County's plan to stop purchasing water from the Company[10]. Continuing to include this customer overstates present rate revenues by $115,633. Staff did not address this adjustment in its direct testimony.

c. SEWER REVENUES

Q. What are the overall differences between Staff and the Company calculations of sewer present rate revenues?

A. As shown in Table BWL-1, the Company calculated present rate sewer revenues of $9,523,397, which is $788,727 higher than Staff's calculation of $8,734,670[11].

Q. What are the main drivers of the differences?

[10] LaGrand Dir., page 15-16
[11] Staff Accounting Schedule 9, Total Sewer

A. The calculation of present rate revenues on the Arnold sewer system are responsible for $749,279 of the difference. Staff has calculated present rate sewer revenues much lower than the Company, and in fact lower than the revenues the Company is currently collecting from Arnold customers. Staff annualized the number of customers as of June 30, 2017. The sewer customer charges are applied based on the number of "units", rather than customers. For example, an apartment building with 20 apartments could be one customer, but would be billed for 20 units. Therefore using customers will understate the present rate revenues. The Company has discussed this with Staff and is providing clarifying information. Additionally, Staff's two year average assumption for commercial usage through June 30, 2017 creates an additional difference of $105,430. Since the Staff's two year average begins just as the Company took ownership of the Arnold system, Staff should consider a two year average updated through December 31, 2017 to reflect a normalized level of customer usage.

Q. What is the impact of Staff calculating present revenues so much lower for the Arnold system?

A. By calculating present rate revenues that are lower than actual revenues in Arnold, Staff will create a revenue deficiency that is artificially high and as a result, the Arnold customers will pay higher rates than are necessary.

d. OTHER REVENUES

Q. Are there differences between Staff's and the Company's calculation of Miscellaneous and Other Revenues?

A. Yes, but they are relatively minor. The differences are outlined in Table BWL-9.

Table BWL-9

	MAWC	Staff	Difference
Miscellaneous	$359,698	$0	($359,698)
Reconnect Charges	672,717	672,717	(0)
Returned Check Charge	88,272	86,656	(1,616)
Application Fee	1,487,498	1,487,499	1
Miscellaneous Other Revenue	667,020	666,327	(693)
Rents from Water Property	504,657	782,496	277,839
Total Water	**$3,779,862**	**$3,695,695**	**($84,167)**
Returned Check Charge	1,200	1,200	0
Miscellaneous Service	742	742	0
Total Sewer	**$1,941**	**$1,941**	**$0**
Total Misc & Other	**$3,781,803**	**$3,697,636**	**($84,167)**

Q. Can you explain how Staff calculated Miscellaneous and Other revenues?

A. Yes. For most categories, Staff calculated a three year average of the miscellaneous items[12], which is similar to the approach taken by the Company. For revenues related to the provision of customer usage data to other entities for billing purposes and for rents, Staff used the most recent 12 months. Lastly, Staff eliminated late fees.

Q. Does the Company agree with Staff's calculations of Miscellaneous and Other revenues?

A. Generally, the Company is in agreement. However, I would like to address late fees more broadly.

Q. What is the Company's position on late fees?

A. While some smaller, recently acquired systems have late fees in their tariffs, the vast majority of the Company's customers are not subject to a late fee on any delinquent payments. In my direct testimony[13] and in the tariff sheets filed to initiate this case, the Company proposed instituting a 1.5% late fee, which is in line with the fee currently in

[12] Staff Report – Cost of Service, pages 62-63
[13] LaGrand Dir., page 16

place for other large utilities regulated by the Commission. Staff did not address the proposed late fees in its direct testimony.

V. RATE BASE

Q. What is Staff's recommended rate base?

A. Staff recommends a rate base of $1,145,868,209.[14]

Q. Pease explain how Staff developed its recommended rate base.

A. Staff utilized the Company's updated rate base as of June 30, 2017, of $1,148,125,544, which was provided by the Company as part of the first update in this case. From that starting point, Staff made a variety of adjustments, which I will address in more detail below, resulting in a rate base reduction of $2,215,792.

Q. Did Staff, or any other intervenors, address the Company's 13-month average rate base included in the future test year?

A. No, they did not. While Staff witness Mark Oligschlaeger addressed the future test year concept as a theory[15], Staff only made adjustments to the Company's June 30, 2017 rate base amount and ignored the future test year rate base as filed in the Company's direct case.

a. NET UTILITY PLANT IN SERVICE

Q. Please explain what adjustments Staff made to Utility Plant in Service and to Accumulated Depreciation Reserve.

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[14] Staff Accounting Schedule 2, Total Company
[15] Staff Report – Cost of Service, pages 3-11

A. Staff made two adjustments that impacted Net Utility Plant in Service. First, an adjustment was made to reduce the net plant related to the recent acquisition of the Wardsville Water and Sewer System (WA-2017-0181 and WA-2017-0182). Staff removed $1,509,596 from Utility Plant and $547,399 from Accumulated Reserve related to additional utility assets the Company received in the purchase of the Wardsville system beyond what was known at the time of the acquisition case. The second adjustment was to remove $684 from Accumulated Reserve related to depreciation expense in a land account.

Q. Does the Company agree with Staff's adjustments related to the Wardsville acquisition?

A. No. After closing the transaction, the Company inventoried additional utility assets and properly reflected those assets as Utility Plant in Service. These assets were not known to the Company at the time of the acquisition case. The Company acknowledges Staff's prior request for information related to these assets and will provide the information to Staff as soon as possible.

Q. Does the Company agree with Staff's adjustment to Accumulated Reserve related to land accounts?

A. The Company agrees with Staff's $684 adjustment to Accumulated Reserve.

b. NET CONTRIBUTIONS IN AID OF CONSTRUCTION

Q. What aspects of Contributions in Aid of Construction ("CIAC") will you address?

A. I will address two issues, the CIAC balance Staff adjusted, and Staff's specific adjustments related to previously acquired systems.

Q. Please describe the issues with the Company CIAC balance that Staff adjusted.

A. Staff used the Company response to Staff DR 155, which showed a total CIAC balance of $336,273,702. The balances in DR 155 include CIAC related to construction work in progress. The Company rate base shown in Schedule CAS-3 provided in the June 2017 update properly excludes the CIAC related to construction work in progress, and includes CIAC of $334,766,855. Thus, Staff's gross CIAC balance is overstated by $1,506,848. The Company has discussed with Staff, and we both agree that CIAC related to construction work in progress should not be included in rate base.

Q. Please explain any adjustments Staff made to CIAC.

A. Staff made two adjustments to CIAC, both related to previously acquired systems[16]. First, Staff increased the CIAC balance by $976,114, and increased Accumulated CIAC Amortization by $582,845, related to the Jaxson Estates Wastewater acquisition (SM-2017-0069). Second, Staff increased the CIAC balance by $108,148, and increased Accumulated CIAC Amortization by $38,495, related to the acquisition of Woodland Manor (WM-2016-0169).

Q. Why did Staff make these adjustments?

A. For Jaxson Estates, Staff claims all of the Jaxson Estates Sewer plant was contributed by a developer[17], and therefore there is no rate base. Staff made offsetting adjustments equal to the Company's Utility Plant in Service and Accumulated Reserve to

[16] Staff Report - Cost of Service, page 49.
[17] Staff Report - Cost of Service, page 49

effectively eliminate the Company's rate base. For Woodland Manor, Staff refers to Woodland Manor's PSC Annual Report and adjusts CIAC and Amortization Reserve to reflect the amounts shown by Woodland Manor.

Q. Does the Company agree with the adjustment to Jaxson Estates?

A. No, we do not. The Jaxson Estates sewer system was built in 2007 by Triad Development. The developer contributed the treatment plant to the sewer company at that time. Due to slower than expected development, the sewer plant did not have enough flow to work properly, so the waste was hauled to a third party for treatment. In 2007 the developer entered into a "Capital Recovery Fee Agreement" with the owners of the system at the time. The Capital Recovery Fee Agreement would entitle the developer to recover his costs of the treatment plant by collecting $10 per month, to be placed on the sewer bill, from every customer once 100 homes were developed. That level of development did not occur, and the Capital Recovery Fee was not activated. When the Company acquired Jaxson Estates sewer in 2016, a payment was made to the original developer, who terminated the Capital Recovery Fee Agreement. During the acquisition approval process, Company management had several discussions with Staff about this transaction, including discussions about what would demonstrate that the treatment plant was now used and useful. In the Staff Recommendation to approve the transfer of the assets[18], Staff notes there are rate base questions, but makes no indication that rate base is zero. The Company has solved the issues with the treatment plant, and it is operational today. The investment made by

[18] SM-2017-0069 Staff Recommendation to Approve Transfer of Assets, page 2, paragraph 6

the Company, which solved a longstanding problem, should be recognized as rate base, and not additional CIAC as recommended by Staff.

Q. Does the Company agree with the adjustment to Woodland Manor?

A. Yes. The Company included the CIAC in the pro-forma filed with the application in the acquisition case, and inadvertently left out the CIAC when booking the acquisition.

c. PREPAYMENTS

Q. Please explain the adjustments Staff made for prepayments.

A. Staff included a 13 month average of the prepayments balance through June 30, 2017. This results in a $2,338,274 increase in rate base.

Q. Does the Company agree with Staff's adjustment?

A. Yes, the Company agrees with the adjustment.

d. WORKING CAPITAL

Q. Please explain Staff's cash working capital recommendation.

A. Staff included $9,088,941 in cash working capital with rate base offsets for taxes of $489,746 and for interest expense of $1,886,448. This results in a total of $6,712,747 of cash working capital reflected in rate base.

Q. Did Staff conduct a lead / lag study to determine working capital requirement?

A. No. Staff utilized the analysis performed by the Company and included in the response to Staff DR 0156. However, Staff made several significant adjustments to the Company's analysis.

Q. Please explain Staff's adjustments to the Company's methodology.

A. Staff had adjusted the Company's methodology to use "miscellaneous cash vouchers" to determine the lag on Service Company costs, eliminated check clearing days, eliminated the preferred stock dividends, and calculated two different results, one for St. Louis and one for the rest of the state.

Q. Please explain the adjustment for Service Company expense lag.

A. Staff has rejected the Company's treatment of Service Company costs in the analysis and substituted its "miscellaneous cash vouchers" calculation to calculate the Service Company expense lag. Staff takes issue with the Company paying the Service Company bill in the first half of the month in which services are provided. The actual payment for these services results in an expense lead of 3.26 days. Staff utilizes a positive lag of 56.74 days.[19] Staff believes this practice is contrary to the treatment of payments to other vendors, and is simply done due to the affiliate relationship between MAWC and the Service Company.

Q. **Does the Company agree with Staff's approach in calculating the Service Company expense lag?**

A. No. The Service Company bills its affiliates in advance for its service. This is recognized in the 3.26 payment lead calculated by the Company. By utilizing a 56.74 expense lag, Staff has made the assumption that the Service Company bills in arrears for the service it provides. It does not. If the Service Company billed in arrears it would have an additional cash working capital requirement and would have to pass the cost of that cash working capital along to MAWC. Because Staff has made no corresponding adjustment to reflect these increased costs if the Service Company were

[19] Staff's Working Capital Workpaper - Newkirk

to bill in arrears, Staff has created a "gap" that unfairly and improperly deprives the Company of cash working capital. The Company's recommendation is that the 3.26 payment lead, as calculated by the Company is correct.

Q. Does the Company agree with Staff's approach in calculating two different expense lags – one for St. Louis and one for the rest of the state?

A. No. That approach is purely hypothetical, arbitrary and is not based on the actual payments reflected on the Company's books. For example, the Service Company does not issue two bills, one for St. Louis and one for everyone else .

Q. Does the Company accept Staff's adjustment to eliminate check clearing days and to eliminate the preferred stock dividends?

A. Yes, the Company is willing to accept these adjustments.

e. TANK PAINTING TRACKER

Q. Please explain the adjustments Staff made to the Tank Painting Tracker.

A. Staff amortized the balance in the tracker that was established in the last rate case, which was $1,382,938, through June 30, 2017. Additionally, Staff has offset the balance in the regulatory asset with the regulatory liability for the "stub period", which was also established in the last rate case. As of June 30, 2017, the net amount Staff includes in rate base is $660,360.

Q. Does the Company agree with Staff's calculation?

A. Yes. This is the identical balance the Company included in the June 30, 2017 update to rate base. The Company agrees with Staff's proposal to begin amortizing the regulatory liability beginning in July 2017 through the original 60 month amortization period.

f. REGULATORY DEFERRALS

Q. Please explain any adjustments Staff made to regulatory deferrals.

A. Staff did not specifically address regulatory deferrals in direct testimony, but did not include any regulatory deferrals in their rate base calculation.

Q. What regulatory deferrals did the Company include in rate base in this case?

A. There were two items included in rate base in both the initial filing and the June 2017 update information. As described in my Direct Testimony, the Company included costs of the pipeline funded by Emerald Pointe, but owned by the city of Hollister, and receivership fees related to the acquisition of Hickory Hills water & sewer.

Q. Please explain the background of the Emerald Pointe pipeline.

A. In order to eliminate a failing sewer treatment plant, Emerald Pointe built a pipeline to a treatment plant owned by the City of Hollister. The pipeline started in Emerald Point's legacy certificated area, continued into certificated area granted for purposes of the pipeline (Case No. SA-2012-0362), and then crossed into the city limits of the City of Hollister. The project was placed into service in January of 2013.

Q. Did Emerald Pointe own the entire pipeline?

A. No. As part of their agreement with the City of Hollister, Emerald Point was required to contribute to the City the portion of the pipeline within the Hollister city limits. The construction costs associated with that portion of pipeline were $323,321.

Q. Did the Commission review Emerald Pointe's decision to construct the pipeline to Hollister's treatment plant prior to construction?

A. Yes. As part of the certificate case mentioned above (SA-2012-0362) the Commission reviewed the project. In fact, Staff's recommendation[20] in that case concluded the pipeline was reasonable and cost effective. Additional benefits included the elimination of the existing treatment facility, elimination of sewage discharge into Table Rock Lake and having additional capacity available for future customers.

Q. Did the Commission have any other opportunities to address the regulatory treatment of the portion of the pipeline in Hollister?

A. Yes. The Company acquired Emerald Pointe water and sewer in 2014 (WO-2014-0113 and SO-2014-0116). At the time of the acquisition, Emerald Pointe had just recently completed a rate case (SR-2013-0016 and WR-2013-0017), in which the unamortized cost of the pipeline was given rate base treatment. The Company relied on that rate case outcome when acquiring Emerald Pointe, and in the acquisition case, there was no discussion of anything other than full rate base treatment. In fact, Staff included the unamortized portion as rate base in their recommendation in that case.[21] Rate base treatment is both appropriate and consistent with how it has been treated by the Commission in multiple regulatory proceedings.

Q. Please explain the background of the Hickory Hills water and sewer acquisition.

A. The Hickory Hills Water and Sewer system had long been a troubled system, which had fallen into receivership in 2007 and was in noncompliance with DNR regulations

[20] Staff Recommendation, SA-2012-0362, page 4
[21] Staff Recommendation, WO-2014-0013 and SO-2014-0016, page 6

and permit effluent limitations. The Company's acquisition solved a long standing problem for the Hickory Hills customers. The Hickory Hills receiver had taken out personal loans to cover some of the ongoing costs, and to reimburse two customers for sewer backup damage. The net book value of the assets was less that the amount of the debt, so in order to complete the sale of the assets, the Company was required to pay more than net book value. The purchase price paid by the Company was also approved by the Circuit Court of Cole County, Missouri.

Q. What did the Commission order in the Hickory Hills acquisition case (WA-2016-0019)?

A. Among the standard items in an acquisition order, the Commission order included two items of significance[22]. First, the Company was to combine the Hickory Hills water and sewer customers with the St. Louis Metro service area for ratemaking purposes. Second, the Company was to establish a regulatory asset for the additional payment above the net book value, and amortize it over 60 months, beginning the first month after closing.

Q. Please explain why the Company included the Hickory Hills receiver fees in rate base.

A. As with any acquisition, the purchase price paid by the Company is an outlay of capital. Discretionary capital can be deployed in a variety of ways, including acquiring troubled systems. As Staff stated in its Memorandum[23], "In Staff's view, the proposed payment made by MAWC to Hickory Hills that allows Mr. Cover reimbursement of a portion

[22] WA-2016-0019, Order Denying Request for Public Hearings and Granting Application with Conditions, pages 11-15
[23] WA-2016-0019, Staff Memorandum, page 4, October 2, 2015

of his outstanding receivership fees and to pay off the personal loan was a reasonable and necessary investment by MAWC to enable transfer assets of a "troubled" utility under receivership to an experienced utility operator." The full purchase price of the Hickory Hills system is the Company's investment, and as such, the Company should be allowed its authorized return on this investment by including the full amount in rate base.

g. OTHER RATE BASE ISSUES

Q. Are there any other rate base issues raised by parties you would like to address?

A. OPC witness Geoff Marke discusses the Company's recently approved Accounting Authority Order related to the replacement of customer owned lead service lines. Company witnesses James Jenkins, Gary Naumick, and Bruce Aiton will be providing rebuttal testimony on this topic.

VI. DEPRECIATION EXPENSE

Q. What aspects of depreciation expense will you address?

A. I will address the depreciation rate recommendations of Staff and OPC, as well as Staff's proposed capitalization of certain amounts of depreciation costs.

Q. What was Staff's overall recommendation regarding Depreciation rates?

A. Staff recommended the Company continue to use the Depreciation rates established in the Company's last rate case (WR-2015-0301).

Q. Did any other party address the Company's Depreciation rates?

A. Yes. OPC witness John Robinette, also recommended the Company continue using the rates established in the last rate case. In addition, Mr. Robinette recommended the Company use a 5.0% deprecation rate for sewer NARUC account 390.9 – Structures and Improvements – Leaseholds. At the time of the last rate case, the Company did not have any assets in that account, but since then, investments related to that account have been made.

Q. Does the Company agree with this recommendation?

A. The Company agrees with the recommendation to continue the depreciation rates set in case WR-2015-0301, with one exception. The Company proposed changing the depreciation rate on NARUC account 391.4 from 5.0% to 14.3%. Staff has not yet addressed this proposal in testimony. The Company also agrees with OPC's recommendation to use a 5% depreciation rate for NARUC account 390.9.

Q. Please explain Staff's recommendation for the Company to capitalize certain depreciation costs.

A. In the Staff Report - Cost of Service, Staff states (Staff Report, p. 63) that "capitalized expenses include depreciation expense associated with assets used in construction such as power operated equipment and transportation equipment." Staff then goes on to argue that "[c]apitalized depreciation expenses must be subtracted from the depreciation expense calculated using MAWC's total plant-in-service balances in order to prevent double recovery."

Q. Does the Company agree with Staff's recommendation regarding capitalized depreciation?

A. No, we do not. The assets have already been capitalized once and depreciation expense is being recovered currently in rates. There is no "double recovery" or "double capitalization" in this case. By capitalizing costs that have already been capitalized, the effect is to recover costs associated with shorter lived assets over a longer period. This will result in intergenerational equity issues, as ratepayers of tomorrow will pay more so today's ratepayers pay less.

Q. Please describe the adjustment Staff made to capitalize depreciation expense?

A. Staff totaled depreciation expense for NARUC accounts 392, 392.1, 392.2, 392.3, 392.4, 393, 394 and 396, which was $668,882 for the twelve months ended June 30, 2017. Staff applied a 42.14% capitalization rate, and excluded $281,867 from the Company's depreciation expense.

Q. Does the Company agree with Staff's adjustment to capitalize this portion of depreciation expense?

A. No, we do not. The Commission approved depreciation rates for these assets range from 3.45% to 19.06%, and have a weighted average depreciation rate of 5.26% or just over 19 years. By capitalizing these costs into other longer lived assets, Staff is creating the intergenerational equity issue discussed above.

VII. AMORTIZATION EXPENSE

Q. Please describe any adjustments Staff made to Amortization expense.

A. Staff did not address any Amortization expense in the Company's future test year, and made adjustments to the update information provided as of June 30, 2017. First, Staff included Amortization related to the Tank Painting Tracker using the 48 month amortization as proposed by Staff. Second, Staff annualized the amortization of the MSD plant capacity for the Arnold Sewer system. Third, Staff excluded the amortization of the Parkville sewer plant, which was fully amortized in September 2017. Lastly, Staff excluded amortization related to AFUDC regulatory assets.

Q. Did any other parties address Amortization expense in direct testimony?

A. Yes. OPC witness Keri Roth addressed the amortization of MSD plant capacity for Arnold Sewer, Hickory Hills receiver fees, and the amortization of the Woodland Manor transition services agreement.

Q. Did OPC propose any adjustments to Amortization expense?

A. It does not appear so.

Q. Does the Company agree with Staff's proposed adjustments?

A. Partially. The historic test year amortization related to the MSD plant capacity included additional expense due to the agreed treatment in the Company's last rate case. Staff has included the going forward annual expense, and the Company agrees. The Company also agrees with the elimination of the amortization on the Parkville sewer plant. The Company does not agree with the elimination of amortization related to the AFUDC regulatory assets.

Q. Did Staff explain why it excluded the amortization related to AFUDC regulatory assets?

A. No. Staff makes an adjustment in its Accounting Schedules,[24] but does not provide any explanation of the adjustment in its direct testimony.

Q. Please describe the AFUDC regulatory assets being amortized.

A. There are two types of AFUDC regulatory assets. The first is related to the gross up for AFUDC equity. This regulatory asset reflects the tax gross up of the equity portion of AFUDC that is recorded in construction work in progress. The second is related to the tax gross up treatment required with the implementation of FAS 109, issued in February 1992 relative to AFUDC Debt. Prior to the implementation of FAS 109, AFUDC Debt amounts were recorded to plant net of tax. After 1993, AFUDC Debt amounts are recorded to plant pre-tax instead of net of tax. The regulatory asset account represents the amounts that tax gross up that would have been recorded to plant on investments made prior to 1993

Q. Why should the amortization of these regulatory assets by included in rates?

A. The balances in these regulatory assets represents AFUDC costs that would otherwise be capitalized into utility plant and recovered through depreciation expense. The amortization of the regulatory assets should be treated no differently than depreciation expense, and included in rates. Beginning in the years after the implementation of FAS 109, the Company chose to change the way the tax effects of AFUDC were handled. AFUDC Debt is now recorded on a pre-tax basis rather than after-tax. For transition purposes, the amounts recorded on a pre-tax basis before the change were restated in a regulatory asset. As a result, the cost of service impacts are no longer seen on a net basis in tax expense, but instead are seen on a gross basis in pre-tax income. For

[24] Staff Accounting Schedule 9, Total Company, page 3 of 4, line 100.

AFUDC Equity, a similar mechanical choice was made. Instead of having the effects of AFUDC Equity flow as cost of service embedded in the tax computation, The amounts are grossed up to pre-tax amounts and carried in pre-tax regulatory assets. As a result, denying the amortization amounts is not allowing the company full recovery of its AFUDC amounts.

Q. Are there any additional issues related to amortization expense?

A. Yes, there are two. First, pending the regulatory treatment granted the miscellaneous deferred debit related to the Company's lead service replacement line program, additional amortization expense may need to be included. Please see the testimony of James Jenkins for further discussion of the lead service line replacement program. Second, as part of the last rate case, the Company implemented a low-income pilot program in District 2. As ordered, the Company has accumulated the costs in a regulatory asset. In my direct testimony in this case I proposed amortizing the costs over three years[25].

Q. Did Staff include any adjustments for these items in amortization expense?

A. No.

VIII. RATE CASE EXPENSE

Q. Please describe the adjustments Staff made to Rate Case Expense.

A. Staff included costs incurred through September 30, 2017, excluding accrued legal costs and accrued taxes. Staff included $786,529 of eligible costs in its calculation, which it amortized over 30 months, resulting in $307,412 of annual amortization

[25] LaGrand Dir, page 30

expense. The annual expense is then “shared” between rate payers and shareholders by including expense in proportion to the percentage of the original revenue request allowed by the Commission. This results in approximately 92% of the expense being paid by the Company’s shareholders. In addition to the $24,736 of allowed expense from this case, Staff includes the unamortized balances of costs associated with the last Company rate case, for a total of $77,730, in annual Rate Case Expense.

Q. How does this compare to the Company’s requested treatment of rate case costs?

A. It is quite different. The Company proposed a total of $1,505,620 in costs associated with this rate case. Additionally, we included the unamortized amounts of the depreciation study completed in the last rate case in the amount of $39,229, and the other unamortized costs of $186,030, for a total of $1,730,876. The Company proposed to amortize this balance over 36 months, resulting in $576,959 of annual rate case expense.

Q. Does the Company agree with Staff’s calculation of rate case expense?

A. No, we do not. While it is understood that the final amount of rate case costs is not known at this time, and that rate case costs will continue to accumulate well past the true-up date, it is unclear how Staff developed the number used in the numerator of its sharing calculation. Additionally, while the Company agrees the unamortized costs from the prior case should be included in rate case expense, the Company does not agree with Staff’s calculations. In its workpapers, Staff calculates the total allowed costs, excluding the depreciation study, at $171,373, which is significantly below the costs allowed in the last rate case. As of 12/31/17 the Company has $331,632 of unamortized rate case expense from the prior case.

Q. Does the Company agree with Staff's proposed sharing of costs?

A. No, we do not. Company witness James Jenkins will be addressing the issue of sharing of rate case expense.

Q. Did any other party address rate case expense?

A. Yes. OPC witness Amanda Conner discussed rate case expense. OPC recommends that the average costs of the five most recent large utility cases be allowed as costs, which would then be subject to the same "sharing mechanism" proposed by Staff, and that the amortization occur over 36 months.

Q. Does the Company agree with OPC's proposal?

A. Only in part. The Company agrees with OPC that the costs should be amortized over 36 months. The Company does not agree with the other parts of OPC's recommendation. First, the idea of using other utilities' regulatory costs to set MAWC's costs is nonsensical. Every utility is different, and will have different costs based on the nature of their respective case. For example, a case that goes all the way to hearing and has major issues fully litigated will be much more expensive than a case that reaches settlement. As mentioned earlier, Company witness James Jenkins will be addressing the sharing concept proposed by both Staff and OPC.

Q. Does this conclude your revenue requirement rebuttal testimony?

A. Yes, it does.