

| | |
|-------------------|---|
| Exhibit No.: | |
| Issues: | Corporate Allocations, Special Contracts, Customer Classifications |
| Witness: | Brian W. LaGrand |
| Exhibit Type: | Rebuttal |
| Sponsoring Party: | Missouri-American Water Company |
| Case No.: | WR-2020-0344 |
| Date: | January 22, 2021 |

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

**REBUTTAL TESTIMONY
RATE DESIGN**

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 Director of Rates and Regulatory Support 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

January 22, 2021

**REBUTTAL TESTIMONY
RATE DESIGN
BRIAN W. LAGRAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344**

TABLE OF CONTENTS

| | |
|--------------------------------------|---|
| I. INTRODUCTION | 1 |
| II. OVERVIEW..... | 1 |
| III. CORPORATE COST ALLOCATIONS..... | 1 |
| IV. SPECIAL CONTRACTS | 5 |
| V. CUSTOMER CLASSIFICATIONS | 6 |

**REBUTTAL TESTIMONY
RATE DESIGN**

BRIAN W. LAGRAND

I. INTRODUCTION

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

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

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

6 A. Yes.

II. OVERVIEW

7
8 **Q. What is the purpose of your rate design rebuttal testimony in this proceeding?**

9 A. The purpose of my rate design rebuttal testimony is to respond to the Staff Report on Class
10 Cost of Service and Rate Design (“Staff CCOS Report”) filed by the Missouri Public
11 Service Commission (“Commission”) Staff (“Staff”), on the following issues: 1)
12 Allocation of Missouri-American Water Company (“MAWC” or the “Company”)
13 corporate costs between water and sewer, and 2) Special Contracts. Additionally, I will
14 respond to the direct testimony of the Sunnydale Properties, LLC (“Sunnydale”) witness
15 Brian Collins regarding customer classifications.

III. CORPORATE COST ALLOCATIONS

16
17 **Q. How did Staff allocate corporate costs?**

1 A. As incorporated in the Staff CCOS Report, Staff used several different factors to allocate
2 the corporate costs. The Allocation methods Staff used include number of customers,
3 number of bills, revenue, employees, net plant, water samples, and the hybrid
4 Massachusetts formula.

5 **Q. Do you agree with how Staff allocated corporate costs?**

6 A. No, I do not.

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

9 A. The corporate costs include items such as administrative costs, American Water Works
10 Service Company allocated costs, rents for corporate offices, liability insurance that benefit
11 the entire state, and cannot be directly charged to a water or sewer district.

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

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

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

17 A. Yes. The Company made this same proposal in its last rate case (Case No. WR-2017-
18 0285).

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

21 A. After reviewing corporate costs with state operations personnel, the consensus was that

1 water operations require far more time and resources, primarily due to the large number of
 2 service orders generated by water customers. Therefore, the Company felt using service
 3 orders as the primary allocation factor was reasonable.

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

5 A. As shown in Table BWL-1, service orders for the water operations are over 99% of the
 6 orders, and the sewer operations have very few service orders. The data presented is a three
 7 year average from 2017 through 2019.

Table BWL-1

| Order Description | 3 Year Average - 2017-19 | | | |
|-------------------------------------|--------------------------|--------------|--------------|----------------|
| | Water | Sewer A | Sewer B | Total |
| Operational Activity | 732 | 0 | 0 | 732 |
| Preventative Maintenance Work Order | 8,769 | 72 | 1,398 | 10,239 |
| Corrective Work Order | 853 | 0 | 0 | 853 |
| Turn-On/ Turn-Off Work Order | 106,530 | 2 | 10 | 106,542 |
| Collections Work Order | 89,800 | 10 | 15 | 89,825 |
| Customer Investigative Work Order | 78,232 | 19 | 24 | 78,275 |
| Customer Demolition Work Order | 506 | 0 | 0 | 506 |
| Meter Work Order | 178,961 | 0 | 0 | 178,961 |
| Capital RP Work Order | 14,103 | 73 | 127 | 14,302 |
| Capital IP Work Order | 1 | 0 | 0 | 1 |
| Engineering/Design Work Order | 0 | 0 | 0 | 0 |
| Total | 478,487 | 176 | 1,574 | 480,237 |
| Average | 99.64% | 0.04% | 0.33% | 100.00% |

8
 9 **Q. How does Staff’s approach compare to the Company’s proposal?**

10 A. There are no Corporate costs that are allocated using the same methodologies in the two
 11 approaches.

12 **Q. What is the impact of using Staff’s methodology as opposed to the Company’s
 13 proposed methodology?**

14 A. Staff’s methodology allocates \$1,976,736 in additional costs to the sewer customers over

1 the Company's proposal.

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

3 A. Staff's revenue requirement proposed in direct testimony for all sewer customers was
4 \$17,592,741¹. So, all else being equal, an addition of \$1,976,736 in corporate costs
5 increases that cost borne by sewer customers by 11.2%. If those costs remained with the
6 water customers, as recommended by the Company, it would increase Staff's water
7 revenue requirement by 0.6%.

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

9 A. Staff indicated they were using the same methodology as used in Case No. WR-2015-0301,
10 as it "depended on the causes that required the cost of be incurred as the basis for the
11 allocations."²

12 **Q. Is Staff's methodology in this case the same as that used in Case No. WR-2015-0301?**

13 A. No. The Report and Order in Case. No. WR-2015-0301 states, in part, "The Commission
14 will adopt Missouri American's limitation on the allocation of corporate expense to small
15 water and sewer companies."³ In the final determination, Staff's original proposal was not
16 utilized, and the allocation burden on small water and sewer systems was reduced.

17 **Q. What are the advantages of the Company's proposal in this case?**

18 A. The biggest advantage of the Company's proposal is simplicity. Over the last three rate
19 cases, the number of water tariff groups has been reduced from eight, to three, to two. For

¹ Staff Accounting Schedules 1 and 9.

² Staff COS Report, p. 41.

³ WR-2015-0301, Report and Order, p. 29.

1 two customer classes, Sale for Resale and Private Fire, there is already a fully consolidated
2 tariff. In the last rate case, the small sewer tariff groups were reduced from fifteen to one.
3 While the Company is proposing consolidated tariffs for water customers, there has already
4 been significant consolidation in the water and sewer tariff groups. Therefore, it is not
5 necessary to utilize twelve different allocation factors to distribute costs with a high level
6 of specificity. The goal of the allocation methodology is essentially to determine how much
7 cost is allocated to water and how much is allocated to sewer. By identifying a true driver
8 of the differences between water and sewer customers, the service order methodology is a
9 reasonable, straightforward way to allocate corporate costs.

10 **IV. SPECIAL CONTRACTS**

11 **Q. Did Staff make a recommendation about the Company's Special Contracts?**

12 A. Yes. Staff recommended the Commission approve the continuation of the Special
13 Contracts and the proposed rates as calculated by the Company.⁴

14 **Q. Does the Company support this recommendation?**

15 A. Yes, with one clarifying caveat. Three of the special contracts are for sale for resale
16 customers, and those contracts feature a formulaic annual price change. It was unclear
17 from Staff's recommendation if they were proposing a change to the price change
18 mechanism. After discussions with Staff, it is the Company's understanding Staff's
19 intention is to recommend the contracts be continued in their entirety, including the annual
20 price change mechanism.

⁴ Staff CCOS Report, p. 11-12.

V. CUSTOMER CLASSIFICATIONS

1
2 **Q. Did any parties file testimony raising concerns about customer classifications?**

3 A. Yes. Sunnydale witness Brian Collins objects to the determination that Sunnydale does
4 not qualify for the Company’s current large user tariff, Rate J.

5 **Q. Sunnydale witness Collins references the definition of “Residential Service” in 2nd**
6 **Revised Sheet No. R 6, and asserts that Sunnydale does not meet the definition of a**
7 **residential customer.⁵ Is Sunnydale classified as a residential customer?**

8 A. No. Sunnydale is classified as a commercial customer, not a residential customer.

9 **Q. Sunnydale witness Collins states that it is atypical for a customer with a 6 inch meter**
10 **to be classified as a residential customer⁶. Do you agree?**

11 A. Yes, that would be unusual. Sunnydale is classified as a commercial customer, so there is
12 nothing improper about their classification.

13 **Q. Does the current Rate J tariff language describe the types of customer usage that is**
14 **ineligible for Rate J?**

15 A. Yes. The tariff states “This rate is not available to users of water in residences, apartment
16 dwellings or for irrigation or construction purposes.”⁷

17 **Q. Does Sunnydale not qualify for Rate J because they are a residential customer?**

18 A. No. As I stated earlier, Sunnydale is a commercial customer.

19 **Q. Are commercial customers eligible for Rate J?**

⁵ Collins DT, p. 3.

⁶ Collins DT, p. 4.

⁷ 2nd Revised Tariff Sheet No. RT 5.3.

1 A. Yes, as long as they meet the usage qualifications.

2 **Q. Why is Sunnydale not eligible for Rate J?**

3 A. Usage that is eligible for Rate J is reviewed for the nature of that usage. It is not simply
4 available to all large users. It is not allowed for water used for construction purposes. It
5 is not allowed for water used for irrigation. It is not allowed for residential usage, or
6 apartment dwellings. Sunnydale is a manufactured housing community. These are
7 people's homes, and their usage is of the nature of residential customers. The water is used
8 for cooking, bathing, laundry, and the community pool. The water is not being used for
9 manufacturing or other commercial purposes.

10 **Q. What is the reason for excluding such residential uses from Rate J?**

11 A. Rate J is intended for larger commercial users whose usage is consistent and is generally
12 off-peak. Residential type usage peaks primarily in the mornings and the evenings and
13 those peaks tend to drive system peaks during the day. Apartment dwellings have a similar
14 usage pattern, but without seasonal irrigation peaks. It is believed that a manufactured
15 housing community has usage patterns similar to that of apartment dwellings. Accordingly,
16 such usage is not appropriate for Rate J.

17 **Q. Mr. Collins alleges that several independent living facilities are treated as Rate J**
18 **customers.⁸ Is that accurate?**

19 A. That claim is correct based on the data as of December 31, 2019 reviewed by Mr. Collins.
20 However, that is not the situation today. Mr. Collins reviewed the listing of Rate J
21 customers as of December 31, 2019, which had been provided in response to Staff DR

⁸ Collins DT, p. 5.

1 0226. On that listing were several customers, including Sunnydale, that have now been
2 moved off of Rate J for similar reasons. In total, as a part of the Company's review of rate
3 classifications during 2020, 8 independent living facilities were moved to Rate A.

4 **Q. Has the Company proposed changes to Rate J in this case?**

5 A. Yes, the Company has proposed eliminating Rate J and replacing it with a different large
6 user tariff. Please see the direct testimony of Company witness Charles Rea for further
7 discussion of the Company's proposal.

8 **Q. If the Company's proposal is adopted, would Sunnydale qualify for the new large user
9 tariff?**

10 A. At their current usage levels, they would not.

11 **Q. The Company has proposed Rate J1 as a transition rate for customers who had been
12 eligible for Rate J, but are not eligible for the new large user tariff. Would Sunnydale
13 qualify for Rate J1?**

14 A. Since they are not currently on Rate J, they would not qualify for Rate J1.

15 **Q. If the Commission were to find that Sunnydale and similarly situated entities should
16 be classified as Rate J customers, are there any further steps that need to be taken as
17 a part of the rate design process?**

18 A. In that case, those customers usage should be included in the large user tariff group, Rate
19 J, Rate J1 or Rate L (and not Rate A), when determining the appropriate volumetric rates.

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

21 A. Yes, it does.