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| Exhibit No.: | |
| Issues: | Lead Service Line Replacement, Accounting Authority Order |
| Witness: | Brian W. LaGrand |
| Exhibit Type: | Surrebuttal |
| Sponsoring Party: | Missouri-American Water Company |
| Case No.: | WU-2017-0296 |
| Date: | September 14, 2017 |

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WU-2017-0296

SURREBUTTAL TESTIMONY

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 THE APPLICATION OF)
MISSOURI-AMERICAN WATER COMPANY FOR) CASE NO. WU-2017-0296
AN ACCOUNTING ORDER CONCERNING MAWC's)
LEAD SERVICE LINE REPLACEMENT PROGRAM.)

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 "Direct Testimony 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.



Brian W. LaGrand

State of Missouri

County of St. Louis

SUBSCRIBED and sworn to

Before me this 1st **day of** August **2017.**



Notary Public

My commission expires:



**SURREBUTTAL TESTIMONY
BRIAN W. LAGRAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WU-2017-0296**

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SURREBUTTAL TESTIMONY

BRIAN W. LaGRAND

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Brian LaGrand, and my business address is 727 Craig Road, St. Louis, MO, 63141. I am the Director of Rates and Regulatory Support for Missouri-American Water Company (“MAWC”, “Missouri-American” or the “Company”).

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I have submitted direct testimony and rebuttal testimony in this proceeding on behalf of the Company.

II. PURPOSE

Q. What is the purpose of your surrebuttal testimony?

A. I will address certain aspects of the rebuttal testimony submitted by Amanda McMellen of the Missouri Public Service Commission Staff (“Staff”).

III. ACCOUNTING TREATMENT

Q. What is Staff’s recommended accounting treatment for Lead Service Line Replacement (“LSLR”) costs?

A. Staff witness McMellen recommends in her rebuttal testimony (p. 3-4) that the costs be accumulated in NARUC account 186.

1 **Q. Is this treatment consistent with what the Company proposed in its direct**
2 **testimony?**

3 A. Yes.

4

5 **Q. What does Staff recommend for the ratemaking treatment of these deferred costs?**

6 A. Staff witness McMellen further recommends in her rebuttal testimony (p. 4) that the
7 ratemaking treatment be determined in the Company's pending rate case (WR-2017-
8 0285).

9

10 **Q. Does the Company agree with this recommendation?**

11 A. Yes.

12

13 **Q. Does Staff witness McMellen make a recommendation for including carrying costs**
14 **on the balance of the regulatory asset?**

15 A. Yes. Ms. McMellen recommends monthly carrying costs based on American Water
16 Works Company's, MAWC's parent, short term debt rate (p. 4).

17

18 **Q. Does the Company agree with this recommendation?**

19 A. No. The Company believes the carrying costs should be at the Company's pre-tax cost
20 of capital.

21

22 **Q. Why?**

23 A. The LSLR program is not a single project with a definitive end date, such as the new
24 Parkville treatment plant. Instead the LSLR program is a long-term program composed

1 of thousands of ongoing short-term projects (service line replacements), and each
2 individual project will be completed and placed in-service in a very short time-period.
3 This makes it very difficult to address these projects in a rate case. Accordingly, it
4 makes sense to include carrying costs at the pre-tax cost of capital, rather than a short
5 term debt rate. If the short-term debt rate is utilized, while regulatory lag will be
6 mitigated, these replacements will still act as a drag on the Company's return.

7

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

9 A. Yes, it does.