

Exhibit No.:	
Issues:	Lead Service Line Replacement, Accounting Authority Order
Witness:	Brian W. LaGrand
Exhibit Type:	Rebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WU-2017-0296
Date:	August 23, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WU-2017-0296

REBUTTAL 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)
AN ACCOUNTING ORDER CONCERNING MAWC's)
LEAD SERVICE LINE REPLACEMENT PROGRAM.)

CASE NO. WU-2017-0296

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 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 8th day of August 2017.



Notary Public

My commission expires:



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

TABLE OF CONTENTS

I.	Introduction.....	1
II.	Response	1

REBUTTAL TESTIMONY

BRIAN W. LaGRAND

I. INTRODUCTION

1

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

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

6

7 **Q. Have you previously submitted testimony in this proceeding?**

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

9

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. I will respond to certain aspects of the direct testimony submitted by Charles Hyneman
12 of the Office of the Public Counsel (“OPC”).

13

II. RESPONSE

14
15 **Q. OPC witness Hyneman states (Hyneman Dir., p. 4) that there is no provision for**
16 **water utilities to record a regulatory asset. Do you agree with that assessment?**

17 A. No. Under NARUC USOA 186 and Accounting Standards Codification 980, the
18 Company can defer expenses for future recovery.

19

20 **Q. In what account has the Company proposed to record the costs associated with**
21 **customer-owned lead service line replacements?**

1 A. As stated on page 6 of my direct testimony in this case, the Company proposes to record
2 the costs in NARUC USOA 186 – Miscellaneous Deferred Debits.

3

4 **Q. OPC witness Hyneman describes the characteristics of AAOs that have been**
5 **approved by the Commission as “extraordinary” and having “materiality”. Does**
6 **the Company’s request have those characteristics?**

7 A. Yes. I previously addressed both the “extraordinary” nature of the Lead Service Line
8 Replacement Program and the “materiality” to the Company in my direct testimony
9 starting on Page 7. I noted that the potential costs that the Company could incur through
10 the period covered by the AAO is estimated to be \$8.9 million. After adjusting for
11 income taxes, this represents approximately 11.5% of the Company’s 2016 net income.

12

13 **Q. Is 11.5% of the Company’s net income a material amount?**

14 A. Yes, that is material to the Company. In fact, it is more than double the 5% of net
15 income “rule of thumb” Mr. Hyneman proposes in his direct testimony (page 5).

16

17 **Q. On page 6 of OPC witness Hyneman’s direct testimony, he suggests that “ . . . it**
18 **just makes no sense to file for an AAO in the middle of a rate case.” Do you agree**
19 **with that assessment?**

20 A. No, I do not. The Company filed its application seeking an AAO in this case on May
21 12, 2017. On June 30, 2017, forty nine days after filing for the AAO, the Company
22 filed a rate case (WR-2017-0285). Therefore the Company did not file the AAO in the
23 “middle of the rate case.” Additionally, the operation of law date for the rate case is
24 May 28, 2018. Without filing for the AAO, the Company would have uncertainty over

1 the proper treatment of these costs for more than one year. Lastly, as the rate case will
2 set rates prospectively (in other words, to cover MAWC's costs on a going-forward
3 basis), some costs associated with the replacement of customer-owned lead service
4 lines performed prior to the effective date of new rates would be lost in the absence of
5 an AAO.

6

7 **Q. Does the Company accept the pilot program as laid out by OPC witness Geoff**
8 **Marke and described by OPC witness Hyneman on page 6 of his direct testimony?**

9 A. No. The rebuttal testimony of Company witness Naumick will discuss in detail the
10 Company's objections to the proposed pilot program.

11

12 **Q. If the Commission were to order MAWC to participate in the OPC pilot study, do**
13 **you agree with the cost treatment that has been proposed by OPC witness**
14 **Hyneman?**

15 A. No.

16

17 **Q. Why not?**

18 A. First, OPC's proposed treatment does not address costs incurred from the beginning of
19 2017 through the date of an order to participate in the proposed pilot study. If that
20 order is part of the report and order issued in the Company's rate case (WR-2017-0285),
21 the Company would have incurred significant costs that would be unrecoverable.
22 Second, amortization of the pilot program costs should begin only once new rates go
23 into effect. By tying the start of amortization to the order date, OPC is creating a
24 mismatch of when the amortization expense will occur and when the revenue will be

1 received. Third, the Company's revenue requirement in the rate case should include a
2 return on the investment made, not simply a repayment of the capital investment as
3 proposed. Lastly, as discussed in greater detail below, the Company's opportunity cost
4 of capital, and not the short term debt rate of American Water Works Company, is the
5 correct financing cost to use.

6

7 **Q. On page 8 of OPC witness Hyneman's direct testimony, he suggests that the**
8 **Company should include financing costs in the proposed pilot program at the**
9 **short term debt rate of the Company's parent. Is this a reasonable treatment of**
10 **those costs?**

11 A. No. The Company should include financing costs at its opportunity cost of capital. Mr.
12 Hyneman purports to base his suggestion on treatment from a Kansas City Power &
13 Light Company (KCP&L) rate case implementing the Experimental Rate Plan
14 associated with the construction of Iatan II. There is no similarity between these
15 service line replacements and the treatment of off-system sales revenues within the
16 context of the construction of a coal-fired electric generation facility.

17

18 **Q. Is there anything else you'd like to address in OPC witness Hyneman's direct**
19 **testimony?**

20 A. Yes. On page 9, Mr. Hyneman states that his proposal "does not allow MAWC's
21 shareholders to profit on a safety-only pilot project." While it is possible that Mr.
22 Hyneman was limiting those remarks to the proposed pilot project in OPC witness
23 Marke's direct testimony, this statement causes me concern. Almost all of the
24 Company's investments have a "safety" component. Both investments in water

1 treatment and treatment of waste water can be considered safety-related. Ensuring the
2 health and safety of our customers and employees by protecting our product is a high
3 priority. Our customers' and colleagues' safety is the most important thing we focus
4 on every day, A policy that discourages this focus goes against the public interest and
5 suggesting that the Company should never be afforded the opportunity to earn its
6 authorized return on investments that relate to safety, would have broad reaching
7 impacts on the Company.

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

9 A. Yes, it does.