Exhibit No.:	
Issues:	Rate Design, Revenues, AFUDC, Amortization of Regulatory Assets, Affiliate Transactions, COVD-19 AAO Deferral, Working Capital, Capital Spending Projections, Engineered Coatings, Lead Service Lines, Property Tax Tracker, Credit Card Fees, Rate Case Expense.
Witness:	Brian W. LaGrand
Exhibit Type:	Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2020-0344
Date:	February 9, 2021

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

SURREBUTTAL TESTIMONY
RATE DESIGN

OF

BRIAN W. LAGRAND

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

February 9, 2021

SURREBUTTAL TESTIMONY
BRIAN W. LAGRAND
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344

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SURREBUTTAL TESTIMONY

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 and rebuttal testimony in this proceeding on behalf of Missouri-American Water Company ("Missouri American," "MAWC" or "Company)?

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 provide the Company's December 31, 2020 revenue requirement and discuss proposed discrete adjustments, respond to various Rate Design issues raised by Missouri Public Service Commission Staff ("Staff") witness Barnes, revenue issues raised by Staff witnesses Sarver and Robertson, Allowance for Funds Used During Construction ("AFUDC") issues raised by Staff witness Bolin and Office of the Public Counsel ("OPC") witnesses Schallenberg and Murray, and COVID AAO issues raised by Staff witness Bolin, OPC witness Murray and Midwest Industrial Energy Consumers ("MIEC") witness Meyer. Additionally I will be responding to Staff witness Bolin on affiliate transactions, accelerated amortization of certain regulatory assets, and future test year capital spending; Staff witness McMellen on capitalization of tank painting, replacement of lead service lines, and the property tax tracker; Staff witness Foster on Accumulated Deferred Income Taxes ("ADIT") in rate base, Pensions and Other Post-Employment Benefits ("OPEBs"); OPC witnesses Schallenberg and Riley on working capital; OPC witness Murray on the Company's State Revolving Fund ("SRF") application; and OPC witness Conner on rate case expense.

III. REVENUE REQUIREMENT

Q. Is the Company providing a December 31, 2020 revenue requirement as ordered[1] by the Commission?

A. Yes. The December 31, 2020 revenue requirement is $403,777,885. Please see Schedule BWL-1 for more details.

Q. The Commission, by its order, has also allowed parties to propose discrete adjustments. Is the Company proposing discrete adjustments in this case?

A. Yes. As described in my rebuttal testimony[2], the Company is proposing discrete adjustments to select rate base and expense items. The total value of these adjustments is $3,570,982 and would increase the Company's revenue requirement to $407,348,867. I will describe the discrete adjustments to rate base, pension expense and OPEB expense below, and the other expense adjustments will be described in greater detail by Company witnesses Bowen and Wright.

Q. Is the Company simply including items that will increase its revenue requirement in

[1] WR-2020-0344 Order Setting Test Year and Adopting Procedural Schedule, p. 4-5.
[2] WR-2020-0344 LaGrand RT, p. 4.

this case?

A. No, not at all. There are several proposed discrete adjustments that reduce the revenue requirement. In the rate base adjustments, we have included increases to accumulated depreciation reserve and accumulated deferred income taxes. Within expenses, the Company has included known and measurable reductions to pension and OPEB expenses.

Q. Why is the Company including these discrete adjustments?

A. These adjustments represent investment activity and expense changes that will occur before rates take effect in this proceeding. These items are known and measurable, and the plant will be in service and used and useful prior to the effective date of rates.

Q. Please describe the rate base adjustments the Company is making.

A. The Company is including $72,974,395 of investments, net of $6,574,032 of retirements, for a total increase to utility plant in service of $66,400,363, and net Contributions in Aid of Construction ("CIAC") and Customer Advances of $1,170,515. Additionally, the Company has increased accumulated reserve by $14,315,939, and accumulated deferred income taxes by $7,680,747, which serve to reduce rate base. As a result of the reduction to Pension and OPEB expense described below, the Pension/OPEB tracker increased $3,264,467 (decrease to rate base) and the Pension Asset increased $2,435,218 (increase to rate base). Lastly, there as a minor change to working capital due to the changes in the operating expenses. Thus, the total proposed adjustment to rate base is $42,097,713. Please see Schedule BWL-1 for more details.

Q. What time period do the rate base changes cover?

A. This reflects rate base changes through May 2021, prior to new rates taking effect in this case.

Q. What is the revenue requirement impact of this proposed adjustment?

A. At the Company's proposed pre-tax cost of capital, the revenue requirement impact is $4,404,156.

Q. Please describe the discrete adjustments to Pension Expense and OPEB Expense.

A. On February 5, 2021, the Company received an updated actuarial report from Towers Watson with new amounts for both Pension and OPEB expenses. At December 31, 2020, the annual pension expense was $374,528. Based on the new actuarial report, the annual pension expense will decrease to become an annual credit of $3,138,857. This is an overall reduction to pension expense of $3,513,385. At December 31, 2020, the annual OPEB expense was a credit of $2,780,218. Based on the new actuarial report, the annual OPEB expense will decrease further to an annual credit of $3,040,482. This is an overall reduction to OPEB expense of $260,265. These discrete adjustments to the pension and OPEB expenses result in a total decrease to the Company's revenue requirement of $3,773,650.

Q. Do the changes to pension or OPEB expense result in any changes to the pension or OPEB tracker balances or amortizations?

A. Yes. The reduced annual expenses above will be booked by MAWC beginning in January 2021. Five months of this expense will be part of the proposed tracker, which will change the May 2020 tracker balance to be amortized over 60 months.

IV. RATE DESIGN & REVENUES

Q. Staff witness Barnes recommends[3] that the Commission approve the continuation of the five existing special contracts the Company has with Triumph Foods, Empire Electric, the City of Kirkwood, PWSD of Jefferson County and Chariton County. Does the Company agree with this recommendation?

A. Yes.

Q. Staff witness Barnes recommends that the Commission continue the Company's Low Income Pilot Program. Please describe that program.

A. The Low Income Pilot Program provides qualifying customers with a discount of 80% of the fixed 5/8" meter minimum customer charge, and allows MAWC to defer such discount amounts for future recovery.

Q. Does the Company agree with the Staff recommendation?

A. Yes, but with a few additions. In my Direct Testimony[4] in this case, I had recommended the Low Income Pilot program be expanded to include the Lawson service area, as some of those customers are served by the same Community Action Agency that serves our Parkville customers. Additionally, I would ask the Commission to consider including any small systems acquired by MAWC located in the Northwest portion of the state in this program as well. The Company would include this request as part of the acquisition case, subject to Commission approval.

Q. Staff witness Sarver describes changes Staff made to Miscellaneous Fees and Other

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[3] Barnes RT, page 14-15.
[4] LaGrand DT, page 21.

Operating Revenue[5]. Does the Company agree with these changes?

A. Yes, in part. Staff and the Company are using the same amounts for late fees and reconnection fees. Staff's calculation of Application fees had a minor calculation error. The Company believes Staff intends to include $1,595,690 in application fees. Staff has indicated they will make that correction. With that correction, Staff is including $5,872,844 of Other Operating Revenues. The Company agrees with Staff's corrected number.

Q. Staff witness Sarver describes changes Staff made to St. Louis County meter charges. Does the Company agree with these changes?

A. Yes.

Q. Staff witness Sarver describes changes Staff made to industrial customer usage in St. Louis County and St. Joseph[6]. Does the Company agree with these changes?

A. No. The 3 year average for all industrial customers is the most representative usage for that customer group. Staff's adjustments result in a total industrial usage of 6,625,954 1,000 gallon units. The Company's 3 year normalization results in 5,898,302 1,000 gallon units, or 727,652 fewer 1,000 gallon units. Staff industrial usage is over 12% higher than what is appropriate.

Q. Staff witness Robertson discusses changes made to the average daily use for the Other Water, or Tariff District 2 residential customers[7]. Does the Company agree with this change?

[5] Sarver RT, pages 1-3.
[6] Sarver RT, page 4.
[7] Robertson RT, page 4.

A. The Company agrees that Staff's calculation is now consistent with their methodology of using a 5 year average for residential usage. The Company does not agree with that methodology, and Company witness Roach addresses those concerns in his surrebuttal testimony.

V. CAPITAL STRUCTURE

Q. In his rebuttal testimony, Dr. Won concludes that the implication of MAWC not issuing its own debt is that "… MAWC does not need to manage its financial risk to appease potential debt investors. MAWC's book capital structure is irrelevant for the purpose of assessing its financial risk. Therefore, the notion of stand-alone financial risk is irrelevant in MAWC's case."[8] Do you agree with Dr. Won's conclusion?

A. No, I do not. First, Dr. Won's premise is incorrect as the company does have debt issuances outstanding. It seems that Dr. Won loses sight of the fact that Missouri-American's book capital structure is the actual capital structure used to finance the Company's rate base. Missouri-American will always need to appropriately manage and properly account for its financial risk. Missouri-American must maintain accurate financial records to obtain financing from American Water, and Missouri-American is required to produce audited financial statements in accordance with GAAP as a requirement under the Company's existing mortgage bonds. As such, Missouri-American's book capital structure is, and will always be relevant, whether or not Missouri-American obtains its financing through American Water Capital Corp. or independently.

[8] Won Rebuttal, page 19.

VI. AFUDC

Q. Did any parties challenge the Company's AFUDC methodology in this case?

A. Yes. Staff witness Bolin and OPC witnesses Murray and Schallenberg discuss the AFUDC methodology MAWC is currently using to calculate AFUDC.

Q. Staff witness Bolin and OPC witnesses Murray and Schallenberg take issue with the Company's methodology of calculating the AFUDC rate. Do you agree with their concerns?

A. No. Staff and OPC have different concerns, so I will address them separately.

Q. OPC witness Murray states that "OPC discovered MAWC is not following the Uniform System of Accounts' (USOA) prescribed formula used to determine the AFUDC rate."[9] Do you agree with this statement?

A. No, that is completely inaccurate. Water utilities use the 1973 Uniform System of Accounts as Revised in 1976. Nowhere in that document is a specific formula "prescribed" as Mr. Murray asserts. Perhaps Mr. Murray is recalling the formula prescribed for electric utilities, known as the so-called "FERC Formula". Neither the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, nor the FERC Formula are applicable to MAWC.

Q. As he already discussed at length in his direct testimony[10], OPC witness Schallenberg also takes issue with the Company's AFUDC rate methodology. Does he raise any concerns he has not already raised in direct testimony?

[9] Murray RT, page 11.
[10] Schallenberg, DT, pages 2-8.

A. No. I addressed Mr. Schallenberg's concerns in my rebuttal testimony[11], but I would like to respond to a false claim he makes in his illustrative example. In his rebuttal testimony, Mr. Schallenberg claims that "MAWC's methodology fails to implement the correct AFUDC methodology".[12] As I have explained above, it is inaccurate to describe the Company's AFUDC methodology as "incorrect". No specific methodology is prescribed in the USOA applicable to water companies. While Mr. Schallenberg's opinion may be that the Company should use a different methodology, that does not mean the Company's methodology is incorrect.

Q. Does Staff witness Bolin take the same position as OPC witness Murray?

A. No. Ms. Bolin does not claim the Company's methodology is inconsistent with the applicable USOA. She does, however, suggest that the FERC Formula applicable to electric corporations would be a more appropriate methodology for the Company to use on a going-forward basis.

Q. Does Staff witness Bolin address concerns about AFUDC that has been included in rate base in the past?

A. Yes, as to certain amounts. She disagrees with OPC witness Schallenberg that an adjustment should be made back to 2002. However, she recommends an adjustment be made for AFUDC capitalized to plant in the test year, update period and true up period, or since January 1, 2019.[13]

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

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[11] LaGrand RT, pages 29-33.
[12] Schallenberg, RT, page 5.
[13] Bolin RT, page 24.

A. No. If the Commission decides the Company should change its historically utilized methodology for calculating the AFUDC rate, it should be made only on a prospective basis. As Ms. Bolin notes, "It appears MAWC has been using this same methodology to calculate AFUDC for some time." It would be inappropriate to require MAWC to suffer a significant write off for activity that occurred prior to any subsequent change to the rate methodology.

Q. Please explain.

A. Staff's proposed retroactive adjustment would result in a write-off of $1,065,264 of AFDUC recorded on MAWC's general ledger for calendar years 2019 and 2020[14]. As I discussed in detail in my Rebuttal Testimony, the AFUDC recorded for 2019 and 2020 used the same methodology for calculating AFUDC as has been used by the Company for almost two decades. This methodology has not been expressly denied by the Commission in any of MAWC's prior six rate cases, nor has the Commission required the Company to change its methodology prospectively in any of these six prior rate cases. It is inequitable to the Company to require an adjustment to its methodology that has not changed from prior Commission decisions; accounting adjustments such as these should be prospective.

VII. AMORTIZATION OF REGULATORY ASSETS

Q. Staff witness Bolin has included accelerated amortization for the Company's regulatory assets related to the National Call Center and Shared Services Center[15], as per the terms of the Stipulation and Agreement in Case No. WR-2017-0285 that was approved by the Commission. Does the Company agree with Staff's adjustment?

[14] Bolin RT, page 26.
[15] Bolin RT, page 21.

A. The Company agrees with the regulatory assets included for accelerated amortization. However, the Company does not agree with amortizing these regulatory assets over 5 years as this amortization period is tied to the amortization period of the unprotected excess ADIT. Company witness Wilde addresses the proper amortization period of the excess ADIT.

VIII. AFFILIATE TRANSACTIONS

Q. Does Staff witness Bolin address affiliate transactions?

A. Yes. Ms. Bolin responds to OPC witness Marke's testimony about requiring a Cost Allocation Manual ("CAM") for MAWC. In Ms. Bolin's view, the issue is more appropriately resolved in the existing Case No. AW-2018-0394.

Q. Does the Company agree with Staff?

A. Yes. The open case related to affiliate transaction rules is the more appropriate venue to resolve the issue of applicability to the Company.

IX. COVID-19 AAO DEFERRAL

Q. Is the Company proposing a discrete adjustment related to the COVID-19 deferral authorized in Accounting Authority Order Case No. WU-2020-0417?

A. Yes. The deferral is currently authorized to continue through March 31, 2021. While the deferral period can be extended by agreement of the parties to that case, or by Order of the Commission, the Company proposes to include the activity through March 31, 2021 in this case. While the additional amounts of the deferral are not currently known, they will be known and measurable well before the effective date of rates in this case.

Q. Did any parties address the Company's COVD-19 deferral?

A. Yes. Staff, OPC and MIEC addressed the COVID-19 AAO. I will address each party separately.

Q. Did any party argue that the COVID-19 pandemic is not an extraordinary event, and should not be recovered by the Company?

A. No.

Q. Does Staff discuss the materiality of the AAO deferral?

A. Yes. Staff witness Bolin notes that the costs incurred by MAWC exceed 5% of net income[16]. While this is accurate, the Company would note that there is no 5% materiality threshold found in the NARUC USOA.

Q. What does Staff propose regarding the Company's AAO deferral?

A. Staff agreed to include all items in the deferral, with the exception of excess bad debt expense. Staff argues that the Company has not incurred excess bad debt expense above the amount authorized in the Company's last rate case. Additionally, Staff is proposing a 5-year amortization of the COVID-19 regulatory asset.

Q. Does the Company agree with Staff's assessment of bad debt expense and the amortization period?

A. No. The amount the Company has deferred is the amount of uncollectible expense MAWC has recorded on its books that is in excess of the $2,600,000 agreed to in Case No. WU-2020-0417. [17] The Company is making this assessment monthly based on the actual expense compared to the monthly share of the annual $2,600,000. Staff argues that the

[16] Bolin RT, page 23.
[17] WU-2020-0417 Non-Unanimous Stipulation and Agreement,

measurement of uncollectible expense for purposes of the deferral should use net write-offs, which is inherently flawed in a period when write-offs were not occurring. The moratorium on disconnects for non-payment eliminates the write-off of accounts for non-payment; however, MAWC appropriately accounted for these anticipated write-offs under standard methodology to ensure that the expense is properly matched. As discussed in detail in the Rebuttal Testimony of Mr. Wright, MAWC's accounts receivable balance greater than 90 days has increased significantly as a result of the moratorium on disconnects. Using net write-offs as the basis for the deferral, during a period when write-offs are not occurring, does not properly recognize the level of expense recorded by the Company. The approach recommended by Staff to ignore the impact the moratorium has on write-off activity would only be relevant if MAWC had an uncollectible expense rider that would allow reconciliation of all net activity during a calendar year, to ensure that both customers and the Company are not harmed by deviations in write-off activity. If the Commission adopts Staff's approach, the Company will have to write off the $1,789,925 that has been deferred through December 31, 2020.

Q. Does the Company agree with Staff's proposal regarding the amortization period?

A. No. The Company has proposed to amortize the balance over 3 years, rather than the 5 years proposed by Staff. Three years is a more appropriate time period because it is consistent with both a normal period between rate cases, and with other proposed amortizations for the low income pilot program and Rogue Creek.

Q. Does OPC address issues related to the COVID-19 deferral?

A. Yes. OPC witnesses Roth and Murray address the COVID-19 AAO deferral.

Q. What is Ms. Roth's position regarding the COVID-19 AAO deferral?

A. Ms. Roth's position is that the Commission should not include any of the deferral in the revenue requirement since Staff was recommending a rate reduction in its direct testimony. I note that Staff has adjusted its position and is now recommending a rate increase, which negates Ms. Roth's objection. She summarizes the terms of the Non-Unanimous Stipulation and Agreement in Case No. WU-2020-0417, and notes that the Company filed a report on the deferred amounts through September 2020 on November 11, 2020. However, she claims that due to the timing of that filing, OPC has been unable to determine a position. I will note that this report was filed more than two months before rebuttal testimony was due in this proceeding. In fact, the report was filed two weeks prior to non-Company parties providing direct testimony. I will further note that the period of 65 days from when the Company's report was filed in Case No. WU-2020-0417 was enough time for Staff to evaluate the deferral, as seen in the testimony of Staff witness Bolin. Additionally, Ms. Roth does not address an amortization period for any deferral.

Q. What is Mr. Murray's position regarding the COVID-19 AAO deferral?

A. Mr. Murray asserts that the Company is using the one-year term loan (taken to ensure liquidity and authorized for deferral in Case No. WU-2020-0417) to fund capital expenditures and would actually be double recovering this interest expense since it is part of the Company's AFUDC rate calculation, which he continues to assert is incorrect. Mr. Murray is wrong on both points: the one-year term loan is not being used to fund capital expenditures, as the Company has explained in discovery and as acknowledged by MIEC witness Meyer, and the one-year term loan is not part of the Company's AFUDC rate calculation. The Commission should dismiss this concern from Mr. Murray as it is without merit.

Q. Do any other parties discuss the COVID-19 AAO deferral?

A. Yes. MIEC witness Meyer addresses the deferred interest expense associated with the term loan executed by American Water during the COVID-19 emergency. Mr. Meyer argues that only a portion of the interest expense should be included in the deferral. Mr. Meyer does not address the appropriate amortization period for the deferral.

Q. Do you agree with Mr. Meyer's statement that the concerns regarding liquidity that supported the execution of the term loan never materialized?

A. No, I do not. To use hindsight judgement to erroneously conclude that the term loan was not necessary ignores the facts that existed during the early stages of COVID-19 as well as the continued uncertainty that still exists surrounding this unprecedented pandemic. The term loan was necessary to ensure adequate liquidity for American Water's regulated operating utilities by retaining this amount in cash, in the event other sources of financing were not available at reasonable rates or in sufficient quantity to meet the operating needs of the business. The volatility and uncertainty that have existed during the pandemic, specifically during the early months, demonstrated significant risks to American Water's regulated utilities. The enhanced liquidity provided by the term loan has acted as an insurance policy to protect the Company and its customers in the event the pandemic created an inability to access needed funds to operate the business.

Q. Mr. Meyer cites American Water's issuance of an increased dividend in June 2020 as support for why liquidity was not a concern. Is it appropriate for the Company to continue to pay dividends during the pandemic?

A. Yes. Continuation of the dividend practice is important to continue to demonstrate the financial health of the Company. MAWC is committed to providing safe and reliable service, which requires substantial capital investment to maintain and upgrade its facilities. To fund these investments, the Company must be able to continue to attract capital at reasonable rates, and a key component of this capital attraction is the financial health of the Company as demonstrated by its dividend. Absent a consistent dividend, the Company's access to the capital markets and its cost of capital would likely be negatively impacted, thus continuation of the dividend is ultimately in the best interest of our customers.

Q. Are these costs associated with the term loan reasonable and appropriate for recovery within the approved COVID-19 regulatory asset?

A. Yes. The proceeds from the term loan have continued to be retained in cash for the benefit and protection of the Company's regulated utilities and their customers, including MAWC. These incremental costs, incurred starting in March through the period of the term loan, are reasonable and appropriate COVID-related costs, and should be recovered as proposed by the Company.

X. WORKING CAPITAL

Q. Did any parties provide rebuttal testimony on working capital?

A. Yes. OPC witnesses Riley and Schallenberg provided rebuttal testimony as to this issue. Mr. Riley's testimony focused on the treatment of income taxes in working capital, and Mr. Schallenberg's testimony addresses his concerns with the payment terms between MAWC and American Water Works Service Company ("AWWSC").

Q. Please summarize Mr. Riley's concerns regarding income taxes in working capital.

A. Mr. Riley believes that the appropriate expense lag for income taxes is 365 days, and that when applied to Staff's working capital calculation, rate base should be reduced by $16,325,176, rather than the $472,864 reduction Staff included in its direct testimony.

Q. Did the Company include any income taxes in its calculation of working capital?

A. No.

Q. Did Staff revise its working capital calculation as part of surrebuttal testimony?

A. Yes. Due to several other updates, Staff's working capital calculation now adds $142,602 to rate base to account for income taxes. [18]

Q. Would that change to Staff's working capital calculation impact Mr. Riley's calculation described above?

A. Yes. Using the same methodology that Mr. Riley argued should be used to reduce rate base, would now actually add $4,125,356 to rate base, as shown in the table below.

Staff Rebuttal Position

	Expense	Revenue Lag	Expense Lag	Net Lag	Daily Lag	CWC Requirement
Federal	(4,778,436)	43.63	(52.88)	(9.25)	(0.0253)	121,097
State	(848,551)	43.63	(52.88)	(9.25)	(0.0253)	21,504
Total	**(5,626,987)**					**142,602**

OPC Pro-Forma Methodology

	Expense	Revenue Lag	Expense Lag	Net Lag	Daily Lag	CWC Requirement
Federal	(4,778,436)	43.63	(365.00)	(321.37)	(0.8805)	4,207,249
State	120,915	43.63	(365.00)	(321.37)	(0.8805)	(106,462)
State	(969,466)	43.63	(52.88)	(9.25)	(0.0253)	24,569
Total	**(5,626,987)**					**4,125,356**

[18] Staff Rebuttal Accounting Schedule 8, lines 26 and 27.

Q. Should the $4,125,356 be added to rate base?

A. No. All impacts from the Company's tax situation are appropriately accounted for in accumulated deferred income taxes, which are a reduction to rate base since the Company is in a net deferred tax liability position. To the extent there is allegedly an interest free loan, customers are compensated in the reduction to rate base. It appears Mr. Riley may inadvertently be capturing the impacts of income taxes in two places simultaneously.

Q. What concerns does OPC witness Schallenberg have about working capital?

A. Mr. Schallenberg's concerns focuses on the Company's arrangement to pay for services provided by AWWSC. I addressed this same issue extensively in my Rebuttal Testimony is this case[19].

XI. CAPITAL SPENDING PROJECTIONS

Q. Staff witness Bolin discusses capital spending projections in the context of a future test year. Does the Company agree with Ms. Bolin's assessment?

A. No. Ms. Bolin suggests that the Company's capital spending and associated projected rate base is much higher that past trends would suggest. To examine this issue, I think is appropriate to focus on utility plant in service, as that is the biggest driver of changes in rate base. In this case, the Company has projected an increase of $508,637,815 in utility plant from December 31, 2019 through May 31, 2022, the future test year. Over this 29 month period, this is an annualized increase to utility plant of $210,470,820. As a point of comparison, the increase in utility plant in 2020 was $273,611,897. Additionally, when looking at the utility plant balances in MAWC's PSC annual reports over the last three

[19] LaGrand RT, page 19-21.

years, utility plant increases on average $193,729,491. When compared to MAWC's recent levels of capital investment, the amount included in the projection for the future test year is reasonable.

Company Original Filing	
12/31/19 Utility Plant	2,759,562,072
5/31/22 Utility Plant	3,268,199,887
Increase through Future Test Year	**508,637,815**
Annualized Utility Plant Increase	**210,470,820**

Company True Up Filing	
12/31/19 Utility Plant	2,759,562,072
12/31/20 Utility Plant	3,033,173,969
Increase through True Up Period	**273,611,897**

PSC Annual Reports	
2017 Annual Report Utility Plant Change	184,076,015
2018 Annual Report Utility Plant Change	181,194,301
2019 Annual Report Utility Plant Change	215,918,156
3 Year Average Increase to Utility Plant	**193,729,491**

XII. CAPITALIZED ENGINEERED COATINGS

Q. Do any parties address the Company's proposal to capitalize engineered coatings?

A. Yes. Staff witness McMellen recommends the Company continue to expense this investment[20].

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

A. No. Staff has indicated that the Company has expensed these costs previously, which is true. However, in prior years, the Company had a tank painting tracker, which allowed these costs, which are very inconsistent, to be applied against an amount included in rates. The tracker was discontinued in Case No. WR-2015-0301. Staff's reasoning is that Accounting Instruction 8 in the USOA says that the first coat of painting can be included

[20] McMellen RT, page 2.

in the investment costs. Since the application of engineered coatings is subsequent to the storage tank being placed in service, Staff argues that it should therefore be expensed. While Staff accurately cites the USOA, Staff fails to fully consider the nature of an engineered coating. Company witness Kaiser describes this in great detail in his direct and rebuttal testimony in this case. In particular, please refer to the analogy made by Mr. Kaiser in his testimony[21] wherein he states that an engineered coating is more akin to a roof, which is specifically identified for inclusion in investment costs in Accounting Instruction 8.

XIII. LEAD SERVICE LINES

Q. Did Staff address the Company's proposal for rate base treatment on the deferred costs for the replacement of customer owned lead service lines?

A. Yes. Staff witness McMellen argues that treatment would be inappropriate, as the Company would not own that asset, and recommends the treatment authorized in the Company's last rate case.[22]

Q. Please explain the treatment authorized in Case No. WR-2017-0285.

A. The Company was authorized to defer costs for replacing customer owned lead service lines. The unamortized balance of those costs is: 1) included in the revenue requirement at the Company's long term cost of debt; 2) amortized over 10 years; and, 3) earns carrying costs at the Company's long term cost of debt.

Q. Why should MAWC be allowed to earn an equity return on those investments?

A. Even though the Company doesn't own those pieces of the service line, it is still an

[21] Kaiser RT, pages 3-6.
[22] McMellen RT, p. 3.

investment. The Company's available funding for capital projects is not unlimited, and these investments should be treated similar to other investments the Company can make.

Q. Does Staff address the change to the tariff that occurred in 2020 impacting the ownership of service lines?

A. Yes. In August of 2021, the tariff was changed to provide consistent language across all service areas related to service lines. Previously, the situation in St. Louis County had been somewhat different because the customers in St. Louis County own the entire service line from the main to their house or business.

Q. Is there anything in Staff's discussion of the tariff change you'd like to clarify?

A. Yes. In her testimony, Staff witness McMellen says "MAWC will now own and maintain the portion of the lines explained above that were previously owned by the customer."[23] I'd like to clarify that the tariff does not purport to transfer ownership of the existing lines. However, after the tariff change, the Company is responsible to maintain and, when necessary, replace the service lines from the main to the property line or the meter, and the customer is responsible for the service lines from the meter or property line to the premises. There is no service line that the Company is fully responsible for.

XIV. PROPERTY TAX TRACKER

Q. Staff witness McMellen does not support the Company's proposed property tracker. What are Staff's reasons?

A. Staff's opposition is primarily due to its view that property taxes are normal recurring

[23] McMellen RT, page 5.

expenses, and are not the type of expenses trackers are intended to address.

Q. Do you agree with Staff's assessment?

A. No. While I agree that property taxes are recurring expenses, they also have very unique characteristics. Property taxes are directly tied to investments made by the Company. Continued investment in replacing infrastructure is an activity that should be encouraged. The regulatory lag created by property taxes is significant and is exacerbated by the way Staff has consider property taxes in this case.

Q. How has Staff historically considered property taxes?

A. Staff has historically included in its cost of service the last property taxes actually paid. For example, in Staff's Cost of Service Report, Staff included property taxes paid prior to the end of the June 30, 2020 update period. Staff considers property taxes only on a cash basis.

Q. Does the Company keep its books and records on a cash basis?

A. No.

Q. When were those property taxes paid?

A. The taxes included in Staff's Cost of Service Report were paid by the Company in December 2019.

Q. Did the property taxes included cover the same period as utility plant in the Cost of Service Report?

A. No. The property taxes were for utility plant in service through December 31, 2018, whereas the utility plant in service included in rate base was through June 30, 2019.

Therefore, property taxes on 18 months of plant investment is not included in Staff's Cost of Service.

Q. Staff witness McMellen describes reasons why trackers should be used in limited circumstances. Do all those reasons apply in this case?

A. No. First, Ms. McMellen claims the use of trackers violates the matching principle. However, the matching principle is that the revenues established in a rate proceeding (even in a historical test year environment) should be based on the cost of service the Company will experience during that initial year rates are in effect. The use of a tracker will ensure the matching principle works in the initial rate year. Staff's current treatment of property taxes violates the matching principle. The Company is currently incurring expense based on our estimate of property taxes that will be due in December 2021, based on plant in service as of December 31, 2020, yet Staff only includes the property taxes based on plant in service as of December 31, 2018 in its Cost of Service Report. Second, Ms. McMellen claims the tracker will dull the Company's incentive to operate efficiently, which is not supportable. Property taxes are directly related to investments in infrastructure. The only way for the Company to minimize increases to property taxes is to reduce infrastructure investments.

Q. If the Commission does not authorize a property tax tracker in this case, are there alternatives the Commission should consider?

A. Yes. Property taxes are not difficult to estimate. MAWC is currently recording estimated property tax expense on investments made through December 31, 2020. These investments were in service and used and useful at the end of 2020. The annualized amount of that expense should be included in the revenue requirement and not simply the cash payment made in December 2020.

XV. CREDIT CARD FEES

Q. Does OPC witness Conner address credit card fees?

A. Yes. Ms. Conner indicates she has opposed the inclusion of credit card fees in other utility rate cases. However, she does not indicate if she opposes inclusion in this case, or if she agrees with Staff's recommendation to include the fees. She does note that if the Commission includes credit card fees in rates, it should include Staff's recommendations about reporting and customer communications.

Q. Does the Company agree with OPC?

A. As I stated in my Rebuttal Testimony, the Company agrees with Staff's calculation of credit card fees to include in rates, and the Company will work with Staff to determine the appropriate reporting metrics and communications plan. While OPC's position on the inclusion of fees in rates is unclear, there appears to be agreement between the Company, Staff and OPC on some required reporting and a customer communication plan.

XVI. RATE CASE EXPENSE

Q. Did any party address Rate Case Expense in rebuttal testimony?

A. Yes. OPC witness Conner addressed rate case expense. Ms. Conner states that rate case expense is appropriately shared between customers and shareholders, the Company has complete control over the costs it chooses to incur, and that sharing of costs in no way penalizes the Company.[24]

[24] Conner RT, pages 1-3.

Q. Do you agree with OPC witness Conner?

A. No. I addressed my reasons and discussed these issues at length in my rebuttal testimony in this case.[25]

Q. Ms. Conner asserts that the Company has control over the costs it incurs, and if the Company filed prudent and reasonable rate increase requests, the costs would be lower since fewer issues would be contested. Do you agree with that assertion?

A. No, I do not. First, Ms. Conner suggests that the Company's rate requests are imprudent. To my knowledge, no party has claimed any investment or costs in this case were imprudently incurred. Second, what is reasonable is very subjective. What is reasonable to OPC is very different than was is reasonable to the Company. That is the reason we have this process. .

Q. Ms. Conner discusses her preference for the averaging of rate case expense, rather than normalization or amortization.[26] Would you like to comment on her statements?

A. Yes. First, MAWC does not consistently file rate cases every three years. While it is true that this case was filed exactly three years after the last case, that has not been the pattern historically. The five cases filed between 2008 and 2017 had gaps of 15 months, 19 months, 20 months, 49 months, and 23 months. Four of those five cases were filed less than two years after the prior case. Second, it's unclear there is any economic difference between the amortization and normalization Ms. Conner discusses. For example, if there is $1 million of rate case expense in year one, and $0 in year two and three, then amortizing that amount over three years and taking a three year average would all result in the same

[25] LaGrand RT, pages 40 – 45.
[26] Conner RT, pages 2-3.

expense in rates annually. Given the uncertainty of rate case timing, the proper treatment for the authorized costs is to amortize them over a reasonable period and track those amortizations between rate cases to ensure the Company recovers the appropriate costs.

XVII. DEPRECIATION EXPENSE

Q. Did PSC Staff provide testimony about the Company's depreciation study?

A. Yes. Staff witness Cunigan discussed the amortization of general plant and the use of the proper version of the NARUC USOA. Company witness Kennedy will respond to the amortization of general plant, as well as other issues related to depreciation expense and the depreciation study. I'd like address the issues raised regarding NARUC USOA.

Q. Please explain the issues related to the NARUC USOA.

A. When MAWC's depreciation study was completed, it followed the same version of the USOA as the last depreciation study completed by MAWC. The Company agrees with Staff that the 1973 version, as amended in 1976, is the version that should be used in future depreciation studies. However, the NARUC accounts in the study prepared by Mr. Kennedy for this case can be easily mapped to the 1973 NARUC accounts.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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Rate Base	Base Year Ended 12/31/19	Adjustments	Update Period 6/30/20	Pro Forma Adjustments	True Up Period 12/31/20	Discrete Adjustments	Pro Forma Balance
Utility Plant in Service	2,759,562,072	99,695,337	2,859,257,409	173,916,560	3,033,173,969	66,400,363	3,099,574,332
Accumulated Provision for Depreciation	(564,030,204)	1,476,929	(562,553,275)	182,393	(562,370,882)	(14,315,939)	(576,686,821)
Accumulated Amortization	0	0	0	0	0		0
Utility Plant Acquisition Adjustments	0	0	0	0	0		0
Net Utility Plant	**2,195,531,868**	**101,172,266**	**2,296,704,134**	**174,098,953**	**2,470,803,087**	**52,084,424**	**2,522,887,511**
Less:							
Customer Advances	6,660,582	(2,702,878)	3,957,704	(214,252)	3,743,452	(8,250)	3,735,202
Contributions in Aid of Construction	275,024,145	2,864,253	277,888,398	(139,986)	277,748,412	1,178,765	278,927,177
Accumulated Deferred ITC (3%)	0	0	0	0	0		0
Deferred Income Taxes	442,883,653	10,787,452	453,671,105	29,709,762	483,380,867	7,680,747	491,061,614
Pension/OPEB Tracker	8,443,552	1,653,667	10,097,219	1,858,026	11,955,245	3,264,467	15,219,712
Subtotal Reductions	**733,011,932**	**12,602,494**	**745,614,426**	**31,213,550**	**776,827,976**	**12,115,729**	**788,943,705**
Add:							
Cash Working Capital	(1,359,600)	(2,463,700)	(3,823,300)	(729,100)	(4,246,200)	(306,200)	(4,552,400)
Materials and Supplies	5,705,263	365,305	6,070,568	219,469	6,290,037		6,290,037
Prepayments	0	0	0	0	0		0
OPEB's Contributed to External Fund	0	0	0	0	0		0
Pension Asset	4,489,975	1,648,950	6,138,925	3,447,688	7,151,395	2,435,218	9,586,613
Regulatory Deferrals	11,559,863	1,348,512	12,908,375	703,235	13,611,610		13,611,610
Tank Painting Tracker	247,635	(82,545)	165,090	(82,546)	82,544		82,544
Subtotal Additions	**20,643,136**	**816,522**	**21,459,658**	**3,558,746**	**22,889,386**	**2,129,018**	**25,018,404**
Total Original Cost Rate Base	**1,483,163,072**	**89,386,294**	**1,572,549,366**	**146,444,149**	**1,716,864,497**	**42,097,713**	**1,758,962,210**

Cost of Capital	Base Year Ended 12/31/19	Adjustments	Update Period 6/30/20	Pro Forma Adjustments	True Up Period 12/31/20	Discrete Adjustments	Pro Forma Balance
Class of Capital							
Short Term Debt	30,067,983	(21,631,185)	8,436,798	(8,436,798)	0		0
Long Term Debt	697,951,910	109,014,925	806,966,835	420,693	807,387,528		807,387,528
Preferred Stock	233,417	711	234,128	(234,128)	0		0
Common Equity	778,764,694	45,344,159	824,108,853	111,466,890	935,575,743		935,575,743
Total	**1,507,018,005**	**132,728,609**	**1,639,746,614**	**103,216,658**	**1,742,963,271**	**0**	**1,742,963,271**
Cost of Capital							
Short Term Debt	1.85%		0.26%		0.24%		0.24%
Long Term Debt	5.07%		4.86%		4.86%		4.86%
Preferred Stock	10.44%		10.41%		0.00%		0.00%
Common Equity	10.50%		10.50%		10.50%		10.50%
Weighted Cost of Capital							
Short Term Debt	0.04%		0.00%		0.00%		0.00%
Long Term Debt	2.35%		2.39%		2.25%		2.25%
Preferred Stock	0.00%		0.00%		0.00%		0.00%
Common Equity	5.43%		5.28%		5.64%		5.64%
Total After Tax Cost of Capital	**7.82%**		**7.67%**		**7.89%**		**7.89%**
Tax Gross up Factor	1.32606		1.32606		1.32595		1.32595
Pre-Tax Cost of Capital	**9.59%**		**9.39%**		**9.73%**		**9.73%**

Missouri American Water **Schedule BWL-1**

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Operating Expenses	Base Year Ended 12/31/19	Adjustments	Update Period 6/30/20	Pro Forma Adjustments	True Up Period 12/31/20	Discrete Adjustments	Pro Forma Balance
Purchased Water	1,000,137	164,116	1,164,253	166,782	1,331,035		1,331,035
Fuel and Power	11,062,562	485,450	11,548,012	(486,944)	11,061,068		11,061,068
Chemicals	9,397,747	(295,107)	9,102,640	862,960	9,965,600		9,965,600
Waste Disposal	2,482,895	192,284	2,675,179	84,304	2,759,483		2,759,483
Labor	31,001,296	3,737,339	34,738,635	329,477	34,659,850	408,262	35,068,112
Pensions	2,767,661	(2,286,059)	481,602	(3,620,459)	374,528	(3,513,385)	(3,138,857)
OPEB	(2,359,906)	(1,196,886)	(3,556,792)	516,310	(2,780,217)	(260,265)	(3,040,482)
Group Insurance	6,147,663	586,398	6,734,061	(108,420)	6,495,726	129,915	6,625,641
401K	784,204	148,443	932,647	(3,953)	917,456	11,238	928,694
DCP	813,565	165,075	978,640	25,431	991,848	12,223	1,004,071
ESPP	170,435	11,222	181,657	13,024	192,664	2,017	194,681
VEBA	144,300	(631)	143,669	673	144,342		144,342
Other Benefits	761,178	(214,708)	546,470	(22,847)	523,623		523,623
Support Services	32,578,064	3,799,731	36,377,795	1,591,036	37,085,354	883,477	37,968,831
Contracted services	3,966,723	223,395	4,190,118	171,729	4,361,847		4,361,847
Building Maintenance and Services	1,066,078	1,950	1,068,028	211,928	1,279,956		1,279,956
Telecommunication expenses	1,197,099	(7,111)	1,189,988	186,102	1,376,090		1,376,090
Postage, printing and stationary	29,459	2,384	31,843	2,446	34,289		34,289
Office supplies and services	1,279,611	45	1,279,656	187,452	1,467,108		1,467,108
Employee related expense travel & entertainment	419,932	360,932	780,864	(48,397)	732,467		732,467
Rents	335,990	157,281	493,271	(1,392)	491,879		491,879
Transportation	1,410,299	776,590	2,186,889	(245,313)	1,941,576		1,941,576
Miscellaneous	3,199,602	(42,058)	3,157,544	(1,524,719)	1,632,825		1,632,825
Uncollectible accounts expense	1,844,114	1,237,469	3,081,583	(48,977)	3,032,606		3,032,606
Customer Accounting	3,795,546	(2,408,270)	1,387,276	95,344	1,482,620		1,482,620
Regulatory Expense	416,440	166,552	582,992	(141,519)	441,473		441,473
Insurance Other than Group	4,974,749	974,415	5,949,164	855,418	6,641,594	162,988	6,804,582
Maintenance supplies and services	7,957,017	179,068	8,136,085	158,945	8,295,030		8,295,030
Total Operations and Maintenance	**128,644,460**	**6,919,309**	**135,563,769**	**(793,579)**	**136,933,720**	**(2,163,530)**	**134,770,190**
Depreciation	47,455,673	16,310,489	63,766,162	5,774,239	67,932,909	1,607,492	69,540,401
Amortization	1,403,365	1,240,917	2,644,282	1,614,833	4,259,115		4,259,115
Total Depreciation and Amortization	**48,859,038**	**17,551,406**	**66,410,444**	**7,389,072**	**72,192,024**	**1,607,492**	**73,799,516**
Property Taxes	25,619,522	2,962,634	28,582,156	1,724,156	30,306,312		30,306,312
Payroll Taxes	2,420,153	218,717	2,638,870	25,970	2,637,356	27,484	2,664,840
PSC Fees	2,486,069	(118,889)	2,367,180	0	2,367,180		2,367,180
Other General Taxes	(125,430)	0	(125,430)	0	(125,430)		(125,430)
Total Taxes Other Than Income Taxes	**30,400,314**	**3,062,462**	**33,462,776**	**1,750,126**	**35,185,418**	**27,484**	**35,212,902**
Total Expenses	**207,903,812**	**27,533,177**	**235,436,989**	**8,345,619**	**244,311,162**	**(528,554)**	**243,782,608**

Note: Uncollectible expense also includes amounts captured in the tax gross up below for increased revenues: $902,748 through 12/31/20 & $937,552 through 5/31/21.

Missouri American Water **Schedule BWL-1**
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Utility Operating Income	Base Year Ended 12/31/19	Adjustments	Update Period 6/30/20	Pro Forma Adjustments	True Up Period 12/31/20	Discrete Adjustments	Pro Forma Balance
Operating Revenues	**324,614,681**	**(11,073,834)**	**313,540,847**	**(2,387,340)**	**311,153,507**		**311,153,507**
Operating Expenses							
Operating and Maintenance	128,644,460	6,919,308	135,563,768	1,369,952	136,933,720	(2,163,530)	134,770,190
Depreciation Expense	47,455,673	16,310,489	63,766,162	4,166,747	67,932,909	1,607,492	69,540,401
Amortization Expense	1,403,365	1,240,917	2,644,282	1,614,833	4,259,115		4,259,115
Taxes other Than Income Taxes							
Property Taxes	25,619,522	2,962,634	28,582,156	1,724,156	30,306,312		30,306,312
Payroll Taxes	2,420,153	218,717	2,638,870	(1,514)	2,637,356	27,484	2,664,840
PSC Fees	2,486,069	(118,889)	2,367,180	0	2,367,180		2,367,180
Other General Taxes	(125,430)	0	(125,430)	0	(125,430)		(125,430)
Utility Operating Income Before Income Taxes	**116,710,869**	**(38,607,010)**	**78,103,859**	**(11,261,514)**	**66,842,345**	**528,554**	**67,370,899**
Income Taxes							
Current Federal Income Tax	(10,474,506)	10,521,792	47,286	(47,286)	0	0	0
Current State Income Tax	67,259	(58,866)	8,393	(8,393)	0	0	0
Deferred Income Taxes	31,764,307	(27,486,494)	4,277,813	(2,937,351)	1,340,462	(99,806)	1,240,656
Amortization of Investment Tax Credit	(103,620)	0	(103,620)	0	(103,620)		(103,620)
Utility Operating Income	**95,457,429**	**(21,583,442)**	**73,873,987**	**(8,268,484)**	**65,605,503**	**628,360**	**66,233,863**

	Base Year Ended 12/31/19	Adjustments	Update Period 6/30/20	Pro Forma Adjustments	True Up Period 12/31/20	Discrete Adjustments	Pro Forma Balance
Original Cost Rate Base	1,483,163,072	89,386,294	1,572,549,366	144,315,131	1,716,864,497	42,097,713	1,758,962,210
Rate of Return	7.82%		7.67%		7.89%		7.89%
Required Operating Income	115,983,352	4,631,184	120,614,536	14,846,072	135,460,609	3,321,510	138,782,118
Operating Income at Present Rates	95,457,429	(21,583,442)	73,873,987	(8,268,484)	65,605,503	628,360	66,233,863
Operating Income Deficiency	20,525,923	26,214,626	46,740,549	23,114,556	69,855,106	2,693,150	72,548,256
Gross Revenue Tax Conversion Factor	1.3261		1.3261		1.3260		1.3260
Revenue Deficiency	27,218,606	34,762,167	61,980,773	30,643,605	92,624,378	3,570,982	96,195,360
Pro-Forma Revenue at Present Rates	324,614,681	(11,073,834)	313,540,847	(2,387,340)	311,153,507	0	311,153,507
Total Revenue Requirement	**351,833,287**	**23,688,333**	**375,521,620**	**28,256,265**	**403,777,885**	**3,570,982**	**407,348,867**