

Exhibit No.:
Issues: Lead Service Line Replacement,
Accounting Authority Order
Witness: Brian W. LaGrand
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WU-2017-0296
Date: August 1, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WU-2017-0296

DIRECT TESTIMONY

OF

BRIAN W. LaGRAND

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY


MAWC Exhibit No. 4
Date 9/22/17 Reporter WM
File No WU-2017-0296

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.)

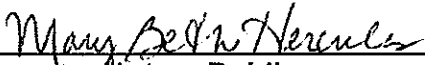
AFFIDAVIT OF BRIAN W. LAGRAN

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:



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

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DIRECT 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.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Missouri-American Water Company ("MAWC", "Missouri-
7 American" or the "Company") as the Director of Rates and Regulatory Support.

8 **Q. Please summarize your educational background and business experience.**

9 A. I received a Master of Business Administration degree from Washington University in
10 St. Louis in 1998, with a concentration in Finance, and a Bachelor of Science in
11 Business Administration degree from the University of Dayton in 1993, with a major
12 in Accounting. After graduation from the University of Dayton, I was licensed in Ohio
13 as a Certified Public Accountant, and was employed as an Auditor by J.D. Cloud and
14 Associates until 1996. After graduating from Washington University, I spent two years
15 at May Department Stores Company in the Capital Planning & Analysis department,
16 focusing on the evaluation of capital investments. In 2000 I began working for
17 Anheuser-Busch Companies as a Financial Analyst in the Treasury Group. My
18 responsibilities included managing the foreign currency derivative portfolio in Risk
19 Management and running the commercial paper and share repurchase programs in
20 Corporate Finance. In 2005 I moved into the Business & Wholesaler Development

1 Group as a Sr. Business Analyst, where I worked on acquisitions of craft breweries and
2 competitive analysis. In 2010 I joined American Water Works Service Company, Inc.
3 (“Service Company”) as a Manager in the Corporate Finance Group. My focus has
4 included evaluation of acquisition opportunities across the country and the execution
5 of many acquisitions, including several in Missouri. In November of 2016, I was
6 promoted to my current position as Director of Rates and Regulatory Support for
7 MAWC.

8 **Q. What are your current employment responsibilities?**

9 A. My responsibilities as Director of Rates and Regulatory Support include the following:
10 1) Preparing and presenting all rate change applications and supporting documents and
11 exhibits as prescribed by management policies, guidelines and regulatory commission
12 requirements; 2) Preparing rate analyses and studies to evaluate the effect of proposed
13 rates on the revenues, rate of return and tariff structures; 3) Executing the
14 implementation of rate orders, including development of the revised tariff pricing
15 necessary to produce the proposed revenue level; 4) Overseeing the preparation of
16 revenue and capital requirements analyses; and 5) Providing support for financial
17 analyses, including preparation of applicable regulatory commission filings.

18 **Q. Are you generally familiar with the operations, books and records of MAWC?**

19 A. Yes.

20 **Q. Have you previously testified before a regulatory body?**

21 A. Yes, I provided testimony before the Missouri Public Service Commission
22 (“Commission”) in MAWC’s pending general rate case (WR-2017-0285), in MAWC’s

1 2012 acquisition of Saddlebrooke Water and Sewer (WA-2012-0066), and I have
2 testified before the Illinois Commerce Commission.

3 **Q. What is the purpose of your direct testimony in this proceeding?**

4 A. The purpose of my testimony is to describe and support MAWC's request that the
5 Commission issue an Accounting Authority Order ("AAO") that will allow MAWC to
6 record and defer on its books a regulatory asset that represents the cost of all customer-
7 owned lead service line replacements made beginning in 2017 and to calculate a
8 monthly carrying charge on the balance.

9

10 **II. REPLACEMENT OF LEAD SERVICE LINES**

11 **Q. Please describe MAWC's Lead Service Line Replacement Program ("LSLR**
12 **Program").**

13 A. As a part of its ongoing main replacement program, MAWC discovers lead service
14 lines, both customer-owned and company-owned. Replacing such lead service lines in
15 conjunction with main replacements is a cost-effective, efficient, and responsible way
16 to address the health and safety concerns otherwise present with lead service lines.
17 Accordingly, MAWC proposes to replace the entire lead portion of the service line
18 from the newly installed water main to the customer's home when service lines
19 containing lead are discovered.

20

21 **Q. What is the estimated cost of these replacements?**

22 A. The estimated cost of replacement was initially estimated between \$3,000 and \$5,500
23 per lead service line, and preliminary experience suggests it is likely to be at the high

1 end of that range. MAWC estimates approximately 30,000 lead service lines will need
2 to be replaced in Missouri over the next 10 years. However, the AAO application
3 addresses the period from the start of 2017, through the effective date of rates resulting
4 from MAWC's current rate case (WR-2017-0285), which we estimate to be
5 approximately June 1, 2018. MAWC has spent approximately \$1.0 million in 2017
6 replacing customer owned lead lines and expects to spend approximately \$2.0 million
7 for calendar year 2017. Assuming 3,000 replacements annually, the costs for full year
8 2018 could be between \$9.0 million to \$16.5 million, and between \$3.8 million and
9 \$6.9 million through May 2018. The total estimated costs to defer under the proposed
10 AAO would be between \$5.8 million and \$8.9 million. Please see the testimony of
11 Bruce Aiton for more details on the costs of the replacement program.

12
13 **Q. Have these replacements been recorded on MAWC's books and records in 2017?**

14 A. Yes. For replacements made in St. Louis County, where MAWC does not own any
15 part of the service line, the costs are included in NARUC account 343 – Transmission
16 & Distribution Mains as restoration costs. In the rest of the state, costs are being
17 included in NARUC account 345 – Services. The costs associated with the LSLR
18 Program are being separately tracked.

19
20 **Q. Do MAWC's current rates include any allowance for recovery of the costs to**
21 **replace customer-owned lead service lines?**

22 A. No, they do not.

23
24 **III. COST RECOVERY**

1 **Q. If this AAO is granted, where would MAWC propose to record the costs**
2 **associated with the LSLR Program?**

3 A. In NARUC account 186 – Miscellaneous Deferred Debits.
4

5 **Q. Has MAWC addressed the possible recovery of these costs in its pending general**
6 **rate case (WR-2017-0285)?**

7 A. Yes. In my Direct Testimony in Case No. WR-2017-0285, the Company requests
8 that the proposed regulated asset be included in rate base as plant in service, earn the
9 Company's authorized rate of return and recover the associated amortization
10 expense.
11

12 **Q. How should the costs accumulated in Account 186 be treated in Case No. WR-**
13 **2017-0285?**

14 A. The Company will propose any LSLR Program costs accumulated in account 186 as
15 part of this AAO be transferred from NARUC account 186 to NARUC account 345,
16 treated as utility plant in service, and included as rate base. Alternatively, at the
17 conclusion of the Case No. WR-2017-0285, the costs could remain in NARUC account
18 186, be included in rate base, earn the Company's authorized rate of return and be
19 amortized at the same rate as NARUC account 345 – Services.
20

21 **Q. What account will the Company request the costs are charged to?**

22 A. NARUC account 345 – Services. Per the 1976 Uniform System of Accounts, this
23 account shall include the cost installed of service pipes and accessories leading to the
24 customers' premises. Additionally, this account also includes restoration costs such

1 as disturbed pavement, cutting and replacing pavement, pavement base, sidewalks
2 and curbing, etc. The replacement of customer-owned lead service lines is similar to
3 the restoration of customer property. The customer owned line is restored (replaced
4 with new material) for safety reasons - to mitigate the potential increased risk of lead
5 contamination following physical disturbances related to infrastructure work in the
6 area. Mr. Naumick discusses the potential impact of disturbing lead service lines and
7 facilities and partial lead service line replacements in greater detail in his testimony.

8 9 **IV. ACCOUNTING AUTHORITY ORDER**

10 **Q. What is your understanding as to the circumstances under which the Commission**
11 **may grant an Accounting Authority Order?**

12 A. It is my understanding that there is no express standard for the exercise of the
13 Commission's authority in this regard and, thus, it is a discretionary matter for the
14 Commission. Having said this, the Commission has many times analyzed accounting
15 authority order applications by asking whether the utility has incurred a cost that is
16 extraordinary, unusual or unique.

17
18 **Q. Why should this expense be deferred through an AAO?**

19 A. The LSLR Program is not a typical or customary business activity of the Company.
20 The replacements concern service lines owned by customers, something that the
21 Company would not do absent extraordinary circumstances. In this case, that
22 extraordinary circumstance is the public health issue associated with lead in the water
23 distribution system. The Direct Testimony of Company witness Gary Naumick further
24 discusses the public health issues surrounding lead service lines.

1

2 **Q. Is the amount of these replacements significant to MAWC?**

3 A. Yes. The estimated lead service line replacements from January 2017 through May
4 2018 totaling up to \$8.9 million (\$5.5 million after tax) would amount to 11.5% of net
5 income as presented in MAWC's 2016 Annual Report filed with the Commission.

6

7 **Q. What happens if the AAO is denied?**

8 A. If the AAO is denied, MAWC will not be afforded a reasonable opportunity to earn its
9 rate of return on the investment it made during the current period. This is because
10 MAWC will be investing approximately \$2.0 million in 2017 to replace customer-
11 owned lead service lines, none of which has been included in MAWC's cost of service
12 and rates.

13

14 **Q. What is your recommendation to the Commission?**

15 A. I recommend the Commission grant MAWC an AAO allowing MAWC to record and
16 defer on its books a regulatory asset that represents the cost of all customer-owned lead
17 service line replacements made beginning in 2017.

18

19 **Q. What language does MAWC ask the commission to adopt in regard to an**
20 **Accounting Authority Order?**

21 A. MAWC asks that the Commission issue an order that includes the following language:
22 a) That Missouri-American Water Company is granted an Accounting Authority
23 Order whereby the Company is authorized to record and defer on its books a
24 regulatory asset that represents the cost of all customer-owned lead service line

1 replacements made beginning in 2017 and to calculate a monthly carrying
2 charge on the balance in that regulatory asset account equal to the weighted
3 average cost of capital from the Company's last general rate case for use with
4 the Infrastructure Replacement Surcharge, whether established by agreement or
5 in accordance with Section 393.1006.4, RSMo; and,
6 b) That MAWC may defer and maintain this regulatory asset on its books until the
7 effective date of the Report and Order in MAWC's next general rate
8 proceeding.
9 c) This regulatory asset will remain in place until all eligible costs are amortized
10 and recovered in rates.
11
12 **Q. Does that conclude your direct testimony?**
13 **A. Yes it does.**