

Exhibit No.:
Issues: Infrastructure System Replacement
Surcharge
Witness: Brian W. LaGrand
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WO-2019-0184
Date: May 7, 2019

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WO-2019-0184

DIRECT TESTIMONY

OF

BRIAN W. LAGRAND

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

**DIRECT TESTIMONY
BRIAN W. LAGRAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WO-2019-0184**

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

IN THE MATTER OF MISSOURI-AMERICAN) WATER COMPANY'S PETITION TO) ESTABLISH AN INFRASTRUCTURE) REPLACEMENT SURCHARGE))))))	CASE NO. WO-2019-0184
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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 and schedules were prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are 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 2nd day of May 2019.**



Notary Public

My commission expires:



DIRECT TESTIMONY

BRIAN W. LAGRAND

I. INTRODUCTION

1

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

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

5

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

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

9

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

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

1 Corporate Finance. In 2005 I moved into the Business & Wholesaler Development
2 Group as a Sr. Business Analyst, where I worked on acquisitions of craft breweries and
3 competitive analysis. In 2010 I joined American Water Works Service Company, Inc.
4 (“Service Company”) as a Manager in the Corporate Finance Group. My focus has
5 included evaluation of acquisition opportunities across the country and the execution
6 of many acquisitions, including several in Missouri. In November of 2016, I was
7 promoted to my current position as Director of Rates and Regulatory Support for
8 MAWC.

9

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

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

20

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

22 A. Yes.

23

24 **Q. Have you previously testified before the Missouri Public Service Commission?**

1 A. Yes. Please see **Schedule BWL-1** for a list of cases where I provided testimony before
2 the Missouri Public Service Commission (“Commission”).

3

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

5 A. The purpose of my direct testimony is to sponsor information in support of MAWC’s
6 request to change its Infrastructure System Replacement Surcharge (“ISRS”).

7

8

II. ISRS APPLICATION

9 **Q. Would you summarize MAWC’s ISRS Application?**

10 A. Yes. On February 20th, 2019, MAWC filed an Application to change its ISRS. The
11 Application includes ISRS-eligible investments, net of Contributions in Aid of
12 Construction, made between October 1, 2018 and March 31, 2019, annualized net
13 depreciation expense, and property taxes due within the next 12 months. In the initial
14 Application, the investment amounts for February and March were estimated.

15

16 **Q. Has the Company updated the investment amounts?**

17 A. Yes. During Staff’s audit, in which they reviewed invoices and other supporting
18 documentation concerning the investment costs, Staff identified a few invoices that are
19 properly excluded from the Application. Additionally, MAWC updated the February
20 and March investments to include actual numbers, rather than estimates. As a result of
21 this process, the Company and Staff are now in agreement as to the amount of
22 investment that should be included in the ISRS rate base. The Company’s revised
23 revenue requirement is \$9,706,228. Please see **Schedule BWL-2**.

24

1 **Q. Do the Company and Staff agree on the total revenue requirement?**

2 A. No. Staff's revenue requirement is \$8,878,845, which is \$827,383 lower than the
3 Company's calculation. Please see Schedule BWL-3 for a reconciliation of the
4 Company and Staff positions.

5

6 **Q. What is the difference between the Company and Staff's calculations?**

7 A. The Company and Staff both included in rate base the incremental Deferred Tax
8 Liability that arises due to temporary timing differences in the book and tax
9 depreciation expense. However, the Company also included in rate base the
10 incremental Deferred Tax Asset that arises from the Net Operating Loss created by the
11 tax deductions related to the repairs deduction and accelerated depreciation. The
12 Company's position on this issue explained in the direct testimony of Company witness
13 John Wilde.

14

15 **Q. Does this conclude your direct testimony?**

16 A. Yes.

Brian W. LaGrand
Missouri American Water
MoPSC Case History

Schedule BWL-1

Docket Number	Case Type	Date Filed
WA-2012-0066	Acquistion - Saddlebrooke	8/26/2011
WU-2017-0296	Accounting Authority Order - Lead Lines	5/12/2017
WU-2017-0351	Accounting Authority Order - Property Taxes	6/29/2017
WR-2017-0285	General Rate Case	6/30/2017
WO-2018-0373	ISRS	8/20/2018

Missouri-American Water Company
 ISRS Revenue Requirements Calculation
 St. Louis County Operations

1	Infrastructure System Replacement Surcharge Revenue Requirement	
2		
3	Water Utility Plant Projects--Replacement Mains, and Associated Valves and Hydrants (RM) RSMo 393.1000 (8a):	
4	<u>Task Orders Placed in Service (TOPS):</u>	
5	STLC-Replacement Mains and Associated Valves and Hydrants	\$65,156,806
6	Net Contributions in Aid of Construction	(10,928)
7	Deferred Taxes	(522,256)
8	Accumulated Depreciation	(309,021)
9		
10	Total Net 393.1000 (8a)	\$64,314,602
11		
12	Water Utility Plant Projects--Main Cleanings and Relinings (RM) RSMo 393.1000 (8b):	
13	<u>Task Orders Placed in Service (TOPS):</u>	
14	STLC-Main Cleanings and Relinings	\$0
15	Net Contributions in Aid of Construction	0
16	Deferred Taxes	0
17	Accumulated Depreciation	0
18		
19	Total Net 393.1000 (8b)	\$0
20		
21	Water Utility Plant Projects--Facilities Relocations (FR) RSMo 393.1000 (8c):	
22	<u>Task Orders Placed in Service (TOPS):</u>	
23	STLC-Relocated Facilities	\$1,010,834
24	Net Contributions in Aid of Construction	(298,250)
25	Deferred Taxes	(3,856)
26	Accumulated Depreciation	(7,484)
27		
28	Total Net 393.1000 (8c)	\$701,244
29		
30	Accumulated Depreciation and Deferred Taxes on Investment in Current ISRS	
31	Accumulated Depreciation - Prior ISRS	(\$441,997)
32	Deferred Taxes - Prior ISRS	(18,781)
33		
34	Total	(\$460,778)
35		
36	Total ISRS Rate Base	\$64,555,068
37		
38	Overall Pre-Tax Rate Of Return per Last Order	9.44%
39		
40	Revenue Requirement on Capital	\$6,093,998
41	Depreciation Expense	873,085
42	Property Taxes	2,739,145
43	Revenue Cap Adjustment	0
44		
45	Total Revenue Requirement	\$9,706,228
46		
47	Adjustments:	
48	Undercollection from ISRS reconciliation	-
49		
50	Adjusted Total Revenue Requirement	\$9,706,228
51		
52	Allocation of Revenue by Class	
53	Rate A	\$9,664,696
54	Rate B	11,809
55	Rate J	29,723
56		
57	Grand Total Revenues Collected in Proposed ISRS	\$9,706,228

Book/Tax Depreciation Temporary Difference						
	Replacements		Relocations		Total All Property	
	2018	2019	2018	2019	2018	2019
Plant Additions						
Plant Additions	17,018,563	48,138,244	749,363	261,471	17,767,926	48,399,714
Net Plant Additions	17,018,563	48,138,244	749,363	261,471	17,767,926	48,399,714
Total Tax Items						
Repairs Deduction						
Net Plant Additions	17,018,563	48,138,244	749,363	261,471	17,767,926	48,399,714
Repairs %	55.4%	55.4%	55.4%	55.4%		
Total Repairs Deduction	9,430,065	26,673,625	415,226	144,882	9,845,291	26,818,507
Bonus Depreciation						
Net Plant Additions After Repairs	7,588,498	21,464,619	334,138	116,588	7,922,636	21,581,207
Bonus Depreciation %	0.0%	0.0%	0.0%	0.0%		
Total Bonus Depreciation	-	-	-	-	-	-
Regular Depreciation						
Net Plant Additions After Repairs and Bonus	7,588,498	21,464,619	334,138	116,588	7,922,636	21,581,207
Year 1 Depreciation Rate	2.0%	2.0%	2.0%	2.0%		
Months Included	12.0	5.0	12.0	5.0		
Year 2 Depreciation Rate	4.0%	4.0%	4.0%	4.0%		
Months Included	5.0	5.0	5.0	5.0		
Total Regular Depreciation	278,245	178,872	12,252	972	290,497	179,843
Taxable Income - Contributions	(11,011)	-	(153,828)	(146,300)	(164,839)	(146,300)
Total Tax Deductions	9,697,299	26,852,497	273,650	(447)	9,970,949	26,852,050
Total Book Items						
Net Book Depreciation						
Book Depreciation	121,248	187,773	5,967	1,516	127,215	189,289
Book Amortization	(83)	-	(1,173)	(705)	(1,257)	(705)
Total Net Book Depreciation	121,165	187,773	4,794	812	125,958	188,585
Book/Tax Depreciation Temporary Difference	(9,576,134)	(26,664,724)	(268,856)	1,258	(9,844,990)	(26,663,465)
Net Operating Loss / Taxable Income						
Operating Results Through Effective Date of New ISRS					2018	2019
Current ISRS Application						
ISRS Revenues					\$0	\$0
Depreciation Expense					(125,958)	(188,585)
Interest Expense					(55,303)	(435,416)
Pre-Tax Income					(181,261)	(624,001)
Prior ISRS						
ISRS Revenues					1,594,490	2,657,483
Depreciation Expense					(68,875)	(344,377)
Book/Tax Temporary Difference					(12,300)	(61,502)
Interest Expense					(334,603)	(557,672)
Pre-Tax Income					1,178,711	1,693,932
Book/Tax Depreciation Temporary Difference					(9,844,990)	(26,663,465)
Pre-NOL Taxable Income / (Loss)					(8,847,541)	(25,593,534)
NOL					8,847,541	25,593,534
Taxable Income					\$0	\$0
Net Deferred Income Taxes						
	Replacements		Relocations		Total All Property	
	2018	2019	2018	2019	2018	2019
Book/Tax Depreciation Temporary Difference	(9,576,134)	(26,664,724)	(268,856)	1,258	(9,844,990)	(26,663,465)
Effective Tax Rate	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%
Deferred Tax Liability	(2,436,959)	(6,785,707)	(68,419)	320	(2,505,378)	(6,785,386)
NOL	8,782,690	25,405,940	64,850	187,594	8,847,541	25,593,534
Effective Tax Rate	25.4%	25.4%	25.4%	25.4%	25.4%	25.4%
Deferred Tax Asset	2,235,041	6,465,368	16,503	47,739	2,251,545	6,513,108
Net Deferred Income Taxes	(201,918)	(320,338)	(51,916)	48,060	(253,833)	(272,279)

	ISRS Revenue Requirement	Customer Usage (000g) ¹	Required Rate per 1,000 Gallons	
1				
2	Rate A	\$9,664,696	32,207,358	\$0.30008
3	Rate B	11,809	1,609,828	\$0.00734
4	Rate J	29,723	4,227,969	\$0.00703
5	Total	\$9,706,228	38,045,155	

¹ Per billing determinants in Case WR-2017-0285

	Current Rate	Proposed Rate	Adjustment to Current Rate	
9				
10	Rate Per 1,000 Gallons			
11	Rate A	\$0.19770	\$0.30008	\$0.49778
12	Rate B	\$0.00180	\$0.00734	\$0.00914
13	Rate J	\$0.00170	\$0.00703	\$0.00873

	Current Rate	Proposed Rate	Adjustment to Current Rate	
15				
16	Rate Per 100 Gallons			
17	Rate A	\$0.01977	\$0.03001	\$0.04978
18	Rate B	\$0.00018	\$0.00073	\$0.00091
19	Rate J	\$0.00017	\$0.00070	\$0.00087

Property Tax Estimate - St. Louis County			
Year Placed in Service	2018	2019	Total
Vintage Year	1	N/A	
Plant Additions			
WO-2018-0373	64,158,929	0	
WO-2019-0184	17,767,926	48,399,714	
Total Investment	81,926,855	48,399,714	
% Good	96.250%	N/A	
Subtotal	78,854,598	N/A	
Retirements			
WO-2018-0373	(3,802,317)	0	
WO-2019-0184	(1,387,596)	(1,921,839)	
Total Retirements	(5,189,913)	(1,921,839)	
% Good	20.000%	N/A	
Subtotal	(1,037,983)	N/A	
Net Plant to be Assessed	77,816,616	N/A	
Assessment Rate	32.000%	32.000%	
Assessed Value	24,901,317	N/A	
Tax Rate	11.000%	11.000%	
Tax Due on ISRS Investment	2,739,145	N/A	
Due within 12 months from filing?	Yes	No	
Property Tax Expense to Include in ISRS (Due within 12 Months)			2,739,145
Property Tax Allowed in Prior ISRS			0
Net Incremental Property Tax Included in This ISRS			2,739,145

20 Year MACRS Table

Year	MACRS	% Good
1	3.750%	96.250%
2	7.219%	89.031%
3	6.677%	82.354%
4	6.177%	76.177%
5	5.713%	70.464%
6	5.285%	65.179%
7	4.888%	60.291%
8	4.522%	55.769%
9	4.462%	51.307%
10	4.461%	46.846%
11	4.462%	42.384%
12	4.462%	37.922%
13	4.461%	33.461%
14	4.462%	28.999%
15	4.461%	24.538%
16	4.461%	20.077%
17	4.462%	20.000%
18	4.461%	20.000%
19	4.462%	20.000%
20	4.461%	20.000%
21	2.231%	20.000%

Notes: 1) MACRS % from IRS Publication 946, Table A-1
 2) There is a 20% floor on the % Good

	Base Revenues WR-2017-0285	Share of Base Revenue
1		
2	\$194,983,761	94.64%
3	3,141,065	1.52%
4	7,906,028	3.84%
5		
6	Total	100.00%
7		

	Plant Additions	Share of Plant Additions
8		
9	\$58,969,276	89.121%
10	1,917,963	2.899%
11	Subtotal - Small Mains and Hydrants	92.020%
12		
13	5,280,401	7.980%
14		
15	Total	100.000%
16		

	Share of Small Mains & Hydrants	Share of Large Mains
17		
18	100.000%	94.638%
19	0.000%	1.525%
20	0.000%	3.837%
21		
22	Total	100.000%
23		

	Share of ISRS Revenues	Base Revenues WR-2017-0285	Percent Increase
24			
25	9,664,696	194,983,761	4.957%
26	11,809	3,141,065	0.376%
27	29,723	7,906,028	0.376%
28			
29	Total	206,030,853	4.711%

	Oct-18 - Mar-19	Apr-19 - May-19	Total
Mains, Valves and Hydrant Replacements			
Reimbursements	(\$11,011)	\$0	(\$11,011)
Amortization	\$83	\$0	\$83
Net CIAC	(\$10,928)	\$0	(\$10,928)

	Oct-18 - Mar-19	Apr-19 - May-19	Total
Relocations			
Reimbursements	(\$238,478)	(\$61,650)	(\$300,128)
Amortization	\$1,664	\$214	\$1,878
Net CIAC	(\$236,814)	(\$61,436)	(\$298,250)

Missouri-American Water Company
ISRS #18
Net Depreciation Expense

	Replacements	Relocations	Total
1			
2			
3			
4			
5			
6			
7			
8			
Base Depreciation Expense	\$913,778	\$14,772	\$928,549
Reimbursements' Amortization	(153)	(4,172)	(4,325)
Depreciation Expense Associated with Retirements			(51,139)
Net Depreciation Expense			\$873,085

Missouri American Water
WO-2019-0184
ISRS Reconciliation

Schedule BWL-3

1	Original Company ISRS Application	8,405,079
2		
3	Update for February & March 2019 Actuals	1,302,150
4		
5	Updated Company ISRS Request	9,707,229
6		
7	Staff Adjustments - Accepted by Company	(1,001)
8		
9	Adjusted Company ISRS Request	9,706,228
10		
11	Net Operating Loss Deferred Tax Asset Excluded by Staff	(827,383)
12		
13	Staff ISRS Recommendation	8,878,845