

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Lead Service Lines–
Accounting Treatment/
Main Break Expense
Roth/Surrebuttal
Public Counsel
WR-2017-0285

SURREBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

February 9, 2018

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

In the Matter of Missouri-American Water)
Company's Request for Authority to Implement)
General Rate Increase for Water and Sewer)
Service Provided in Missouri Service Areas.)

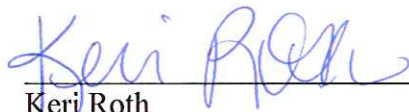
Case No. WR-2017-0285

AFFIDAVIT OF KERI ROTH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Keri Roth, of lawful age and being first duly sworn, deposes and states:

1. My name is Keri Roth. I am a Public Utility Accountant III for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




Keri Roth
Public Utility Accountant III

Subscribed and sworn to me this 9th day of February 2018.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

TABLE OF CONTENTS

Testimony	Page
Introduction	1
Lead Service Lines – Accounting Treatment	1
Main Break Expense	4

SURREBUTTAL TESTIMONY
OF
KERI ROTH
MISSOURI AMERICAN WATER COMPANY
CASE NO. WR-2017-0285

1 **I. INTRODUCTION**

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

3 A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

4 **Q. Are you the same Keri Roth who has filed direct and rebuttal testimony on behalf of the**
5 **Office of the Public Counsel (“OPC”) in this case?**

6 A. Yes.

7 **Q. What is the purpose of your surrebuttal testimony?**

8 A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony from the
9 Missouri Public Service Commission Staff (“Staff”) and Missouri American Water Company
10 (“MAWC” or “Company”) regarding the accounting treatment for the lead service line
11 replacement program accounting authority order (“AAO”) and main break expense.

12 **II. LEAD SERVICE LINES – ACCOUNTING TREATMENT**

13 **Q. What is MAWC’s proposed accounting treatment for the costs associated with the AAO**
14 **in this case?**

15 A. As previously stated in my rebuttal testimony, MAWC witness, Mr. Brian LaGrand, has
16 proposed cost recovery treatment in his direct testimony. Mr. LaGrand states on page 22,
17 lines 10 – 16:

18 The Company is requesting the regulated asset be included in rate base as plant
19 in service, earn the Company’s authorized rate of return and recover the

1 associated amortization expense. The Company proposes that the regulatory
2 asset amortizes using the same rate as the Company depreciates its Company
3 owned services, 2.92% (approved in WR-2015-0301). The Company further
4 requests that the Company's future costs of replacement for customer owned
5 lead services lines be included in rate base as plant in service (NARUC
6 account 345.0).

7 MAWC is requesting to move the costs associated with lead service line replacements
8 recorded in account 186 – Miscellaneous Deferred Debits, which has been approved in the
9 Commission's *Report and Order* in case numbered WU-2017-0296, to account 345 –
10 Customer Services, with a depreciation rate of 2.92%. This will give MAWC the opportunity
11 to earn a return of the costs through depreciation expense and a return on the costs when
12 applying the rate of return to total rate base. MAWC is further requesting to book future costs
13 related to lead service line replacements to account 345 – Customer Services and remove the
14 regulatory asset from its books.

15 **Q. What rate of return is MAWC requesting to apply to account 345 – Customer Services?**

16 A. In MAWC witness, Mr. Brian LaGrand's direct testimony on page 22, lines 10 – 12, he
17 explains the regulatory asset for lead service line replacements should be included in rate base
18 and earn the Company's authorized rate of return.

19 **Q. Does OPC believe MAWC's request is reasonable?**

20 A. No rate of return should be granted because none of the expenditures were prudent or lawful
21 as explained extensively in Dr. Geoff Marke's direct, rebuttal, surrebuttal testimonies. Going
22 forward, a short-term debt rate may be warranted as discussed extensively by Mr. Charles R.
23 Hyneman in his testimony in case numbered WU-2017-0296.

24 **Q. Has MAWC proposed an annual dollar amount, going forward, of customer-owned lead**
25 **service line replacements to include in the Company's future test year cost of service?**

1 A. No. However, MAWC witness Mr. Bruce W. Aiton has attached schedules to his rebuttal
2 testimony of his testimony filed in case numbered WU-2017-0296. On page 9, lines 20 – 21
3 of his direct testimony in case numbered WU-2017-0296, Mr. Aiton explains that the
4 Company’s preliminary surveys indicate approximately 30,000 lead service lines remaining
5 on MAWC’s systems. Mr. Aiton goes on to explain page 10, lines 1 – 2, of his direct
6 testimony in case numbered WU-2017-0296, that MAWC does not have an exact count of
7 lead service lines that would be replaced under the Company’s 10-year proposal. This is a
8 huge concern for OPC and aligns directly with OPC’s concerns of using a future test year.
9 The Company is not confident in their own numbers, so it would be inappropriate to build a
10 cost of service on a guess.

11 Mr. Aiton further explains on page 10, lines 6 – 11, in his direct testimony in case WU-2017-
12 0296, that MAWC initially estimated the average cost to replace a lead service line to be
13 approximately \$3,000 - \$5,500, with some as high as \$11,000. Additionally, on page 4, lines
14 6 – 7, of Mr. Aiton’s surrebuttal testimony in case numbered WU-2017-0296, Mr. Aiton
15 updates his costs estimate to be approximately \$6,000 across all replacements.

16 MAWC’s estimates are all over the board. This is just one more example of why a future test
17 year is inappropriate, in addition to the numerous other reasons discussed by OPC witness Dr.
18 Marke.

19 **Q. What is Staff’s proposed accounting treatment for the costs associated with the AAO in**
20 **this case?**

21 A. Staff witness Ms. Amanda C. McMellen explains in her rebuttal testimony that Staff has
22 included the balance of the AAO at June 30, 2017 in rate base and proposes to amortize the
23 costs over 10 years beginning with the effective date of the Report and Order in the current
24 case.¹

¹ Amanda C. McMellen rebuttal testimony, page 3, lines 10 - 12

1 **Q. What is wrong with Staff's proposal?**

2 A. The average service life of customer service lines is 65 years. Staff's proposal for MAWC to
3 recover costs over a 10 year period when the life of the service line is 65 years is unreasonable.
4 The average service life of the customer service lines is further discussed in OPC witness, Mr.
5 John A. Robinett's surrebuttal testimony.

6 **Q. What is OPC's proposal regarding cost recovery of dollars booked by MAWC to**
7 **Account 186 – Miscellaneous Deferred Debits for customer-owned lead service line**
8 **replacements?**

9 A. As previously stated in my rebuttal testimony, OPC proposes zero recovery of the dollars
10 booked to account 186 – Miscellaneous Deferred Debits, due to OPC's opposition to the lead
11 service line replacement program which has been discussed extensively throughout OPC
12 witness Dr. Marke's direct, rebuttal, and surrebuttal testimonies.

13 **III. MAIN BREAK EXPENSE**

14 **Q. In your rebuttal testimony, did OPC accept Staff's calculation of main break expense?**

15 A. Yes. OPC believed Staff's calculation of 598 main break incidents per year is reasonable, as
16 it takes into consideration the high number of main break incidents caused by the 2014 polar
17 vortex by normalizing these months and does not calculate a future test year amount.

18 **Q. Has MAWC proposed an alternate solution to resolve the issue regarding the**
19 **normalization of the polar vortex main breaks?**

20 A. Yes. MAWC witness Ms. Nikole L. Bowen has proposed updating the main break data and
21 using a three year average for mains breaks and costs during 2015, 2016, and 2017.²

² Nikole L. Bowen rebuttal testimony, page 39, lines 13 - 16

1 **Q. Would OPC oppose this alternate solution?**

2 A. No. OPC believes using the most recent 2017 data in the averaging calculation more
3 accurately captures actual costs and this would eliminate the issue regarding the 2014 polar
4 vortex main break incidents.

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

6 A. Yes.