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.	))))	**File No. WU-2017-0296**

STATEMENT OF POSITION

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Statement of Positions,* states as follows:

1. **Should the Commission grant MAWC the Accounting Authority Order it has requested in this case?**

Yes. National trends and best practices after the Flint, Michigan lead crisis have shifted towards total lead service line replacement instead of relying on chemical control methods. MAWC is taking a proactive approach to mitigate the health and financial costs of a lead crisis, as opposed to a reactive response in the event of a failure in the chemical treatment of water. MAWC is also acting on best practices and recent studies that show partial lead line replacement actually increase the likelihood of lead leaching into water, as discussed in the testimony of Staff witnesses Jonathan Dallas and James Merciel. In the expert opinion of Staff witnesses, replacing a lead service line during main replacement reduces costs, since work of digging up roads and property is only done once and at the same time as main replacement work at a customer's property, as opposed to an approach that suggests once MAWC discovers a lead line, they should excavate and replace it as an isolated project.

The total lead line service replacement program also meets the standard of "extraordinary and significant" used in evaluating AAO requests. **State ex rel. Office of**

Public Counsel v. PSC[1] provides guidance on the standards for granting an AAO. The Commission found the project behind the AAO request "*unusual and nonrecurring*" clarified later as "events and transactions of significant effect which would not be expected to recur frequently and which would not be consider as recurring factors in any evaluation of the ordinary operating processes of business". Replacing the customer owned portion of a line is an unusual occurrence that is not a matter of the ordinary operating process of MAWC. In fact, the need for taking such an unprecedented and unusual action is due to significant impact a lead exceedance could have on public health. By the nature of a lead pipe only needing to be replaced with a non-lead pipe once, this is a non-reoccurring event, as well, making it highly appropriate for an AAO.

As this program is in the interest of ratepayers and is a matter of sound public policy, and meets the standard for an AAO, Staff believes the Commission should approve MAWC's request for the AAO.

2. **If the Commission grants an AAO, what carrying costs should be utilized in regard to the balance of the costs deferred?**

In Staff's opinion, carrying costs should be calculated using American Water Works Company (MAWC's parent company) ongoing short-term debt rate.

Additional Issues Identified by OPC

3. **Does MAWC's tariff permit the company to replace customer-owned service lines?**

Staff has not formally prepared a position on this issue, as this issue has not been raised in any testimony presented. Nevertheless, the tariff provides that customers

[1] 858 S.W.2d 806 (W.D. Mo. App. 1992)

own and maintain service lines, but Staff does not read the tariff to prohibit MAWC's proposed program, especially since MAWC is simply offering to pay a plumbing contractor to work on the customer's service line in conjunction with a related project (a main replacement). An addition of one paragraph to the service line rule in the tariff could clarify the extraordinary lead service line program that the company is proposing and offering to customers, by briefly outlining details and limitations.

4. **Has MAWC demonstrated the necessity of replacing customer-owned lead service lines?**

   Yes. See response to Issue 1.

5. **What is the cost of MAWC's proposed program to replace customer-owned lead service lines?**

Staff does not take a position on this issue, as final costs to be amortized are best addressed in a general rate case proceeding.

6. **If the Commission grants an AAO, what it the starting date of the amortization of the deferred account**?

Staff does not take a position on this issue, as Staff considers the issue better suited for discussion and litigation as a part of MAWC's general rate case, Case No. WR-2017-0285.

7. **If the Commission grants an AAO, does the Commission classify any deferred cost related to this application as a "deferred debit" per NARUC USOA Account 186, or does the Commission make a determination that the deferred costs are a "regulatory asset", as defined by generally accepted accounting principles.**

In Staff's opinion, the Commission should order MAWC to record any deferred costs in NARUC USOA Account 186 Miscellaneous Deferred Debits per Commission rules. Any cost deferred to a utility's balance sheet upon order of the Commission should be considered a "regulatory asset" for regulatory accounting purposes, regardless of how such a term may be defined under generally accepted accounting principles.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 21st day of September 2017 to all counsel of record.

/s/ Nicole Mers