

Exhibit No.:
Issues: Financial Analysis
Witness: Brian W. LaGrand
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WA-2012-0066

Date: March 27, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WA-2012-0066

DIRECT TESTIMONY

OF

BRIAN W. LAGRAN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

NP

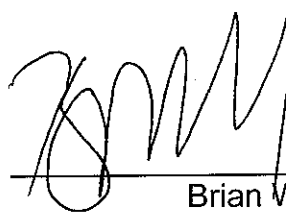
**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

IN THE MATTER OF MISSOURI-AMERICAN)
WATER COMPANY FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY)
AUTHORIZING IT TO INSTALL, OWN,)
ACQUIRE, CONSTRUCT, OPERATE,)
CONTROL, MANAGE AND MAINTAIN)
WATER AND SEWER SYSTEMS IN)
CHRISTIAN AND TANEY COUNTIES,)
MISSOURI)

CASE NO. WA-2012-0066

AFFIDAVIT OF BRIAN W. LAGRAND

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 inquires 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

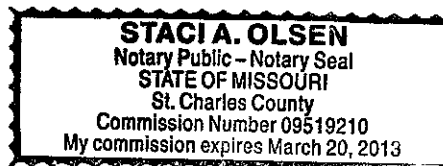
SUBSCRIBED and sworn to

Before me this 23rd day of March 2012.



Notary Public

My commission expires:



**DIRECT TESTIMONY
BRIAN W. LAGRAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WA-2012-0066**

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DIRECT TESTIMONY

BRIAN W. LAGRAND

1

I. WITNESS INTRODUCTION

2

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

A. My name is Brian W. LaGrand. I am employed by American Water Works Service Company, Inc. ("AWWS"), 727 Craig Road, St. Louis, Missouri 63141.

6

7

Q. WHAT IS YOUR RELATIONSHIP TO MISSOURI-AMERICAN WATER COMPANY ("MISSOURI-AMERICAN" OR "MAWC" OR THE "COMPANY")?

9

10

A. I am employed as Manager – Corporate Finance in the Treasury Department of AWWS, which supports Missouri-American.

11

12

13

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

14

15

A. I received a Masters of Business Administration from Washington University in St. Louis, with a concentration in Finance, and a Bachelor of Science in Business Administration, from the University of Dayton, with a major in accounting. After graduation from the University of Dayton, I was licensed in Ohio as a Certified Public Accountant and employed as an auditor by J.D. Cloud and Associates. After graduating from Washington University, I was employed for two years with May Department Stores in the Capital Planning &

21

1 Analysis department. Thereafter, I spent ten years with Anheuser-Busch
2 Companies in various roles in Corporate Treasury, Business Development
3 and Marketing. I joined AWWWS in my current capacity in June 2010.
4

5 **II. SUMMARY**

6 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. The purpose of my testimony is to provide the financial analysis performed in
9 association with the acquisition of Saddlebrooke Water and Sewer
10 Infrastructure LLC (“Saddlebrooke”). Specifically, the analysis will support
11 MAWC’s estimate of Saddlebrooke’s: 1) Rate Base; 2) Revenue
12 Requirement; and, 3) Operating Expenses.
13

14 **III. ANALYSIS**

15 **Q. WHAT WAS YOUR ROLE IN THE PROPOSED ACQUISITION OF THE**
16 **SADDLEBROOKE WATER AND SEWER SYSTEMS?**

17 A. I performed the financial analysis of the impact the purchase would have on
18 MAWC.
19

20 **Q. IN PERFORMING THIS ANALYSIS, WHAT DID YOU REVIEW?**

21 A. I reviewed Saddlebrooke’s existing rates, asset documentation and expense
22 estimates as provided by Saddlebrooke.
23

24 **Q. IS YOUR ANALYSIS REFLECTED IN A DOCUMENT?**

1 A. Yes. This analysis has been identified as Highly Confidential and is attached
2 hereto as Schedule BWL-1. This document compares projected financial
3 results utilizing the existing Saddlebrooke rates (page 1 of 4) and the
4 projected results if the recently approved Stonebridge rates are used (page 2
5 of 4).

6

7 **Q. HOW WAS EXISTING RATE BASE DETERMINED IN THE ANALYSIS?**

8 A. Rate base was determined utilizing the available records provided by
9 Saddlebrooke. A summary of this process is found on page 3 of 4 in
10 Schedule BWL-1. This process included reviewing invoices, bid
11 documentation and estimates for items where no documentation was
12 available. Only the well, water tank and sewer treatment plant are included in
13 rate base. The distribution and collection mains are considered contributed
14 property and are not included in rate base.

15

16 **Q. DID YOU MAKE ANY ADJUSTMENTS TO THIS RATE BASE?**

17 A. Yes. Staff for the Missouri Public Service Commission proposed a usage
18 adjustment be calculated for the water tank, the pump and the sewer system.
19 MAWC is in agreement with the calculation as presented in Staff's
20 recommendation. I have included that adjustment in my analysis. Please
21 see Schedule BWL-1 (page 4 of 4) for the detailed calculations.

22

23 **Q. PLEASE EXPLAIN GENERALLY HOW THE USAGE ADJUSTMENT WAS**
24 **CALCULATED.**

1 A. The water tank has a capacity of 250,000 gallons, of which 90,000 gallons are
2 required for fire protection. The remainder of 160,000 gallons is available for
3 daily use. At 250 gallons of usage per day, the tank has daily capacity to
4 serve 640 customers. Assuming an item is fully in service once it is at 85%
5 capacity, the water tank should be fully included in rates once 544 water
6 customers are connected ($640 \times 85\%$). With 81 current customers, the daily
7 usage capacity is 14.89% in service ($81 / 544$), and the fire protection
8 capacity is 100% in service. In total, 113,824 gallons of capacity are
9 considered in service, or 45.53% of the water tank is in service. The
10 remainder will be brought into service as future customers connect.

11

12 Saddlebrooke requires a daily volume capacity of 141,700 gallons. The well
13 pump has capacity of 600 gallons per minute, and therefore will need to pump
14 3.94 hours per day ($141,700 / 600 / 60$). Assuming a 16 hour pumping day,
15 the well pump is 24.60% in service. The remainder will be brought into
16 service as future customers connect.

17

18 The sewer system has a daily capacity of 50,230 gallons. At 250 gallons a
19 day, this system can serve 201 customers. Assuming an item is fully in
20 service once it is at 85% capacity, the sewer system should be fully included
21 in rates once 171 sewer customers are connected. With 81 current
22 customers, the sewer system is 47.43% in service. The remainder will be
23 brought into service as future customers connect.

24

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes it does.

NP