

Exhibit No.:	
Issues:	Accounting Authority Order
Witness:	Brian W. LaGrand
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WU-2020-0417
Date:	August 17, 2020

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WU-2020-0417

DIRECT TESTIMONY

OF

BRIAN W. LAGRAN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Brian W. LaGrand, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Director of Rates and Regulatory Support for Missouri-American Water Company, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.



Brian W. LaGrand
August 17, 2020

**DIRECT TESTIMONY
BRIAN W. LAGRAN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WU-2020-0417**

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DIRECT TESTIMONY

BRIAN W. LAGRAND

I. INTRODUCTION

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

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

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

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

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

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

1 Commerce Commission. A list of the cases is attached as Schedule BWL-1.

2 **Q. What is the purpose of your Direct Testimony in this proceeding?**

3 A. The purpose of my Direct Testimony is to describe and support MAWC’s request that
4 the Commission issue an Accounting Authority Order (“AAO”) that will allow MAWC
5 to record and defer on its books a regulatory asset that accounts for the financial impacts
6 incurred by MAWC due to the COVID-19 emergency.

7 **II. COVID-19 EMERGENCY**

8 **Q. What is the COVID-19 Emergency?**

9 A. In December 2019, a novel coronavirus known as COVID-19 has caused outbreaks of
10 the coronavirus disease COVID-19 that has now spread globally. On March 11, 2020,
11 the World Health Organization classified the COVID-19 outbreak as a pandemic.¹ The
12 ongoing public health emergency related to the spread of COVID-19 has resulted in
13 declarations of emergency being issued at both the state and federal levels. Governor
14 Parson has declared a state of emergency and, acting through the Department of Health
15 and Senior Services (“DHSS”), has issued a series of orders closing schools,
16 government offices and businesses to prevent the further spread of COVID-19 and has
17 extended the state of emergency through December 30, 2020.² The COVID-19
18 Emergency has led to unprecedented changes in the daily lives of Missourians,
19 including the full or partial closing of businesses and schools.

¹ **1 World Health Organization, *WHO Director-General's opening remarks at the media briefing on COVID-19*, Mar. 11, 2020**, available at <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020>.

² <https://www.sos.mo.gov/library/reference/orders/2020/eo12>

1 **Q. What types of actions has MAWC taken in response to the COVID-19**
2 **Emergency?**

3 A. American Water Works, Inc. and MAWC have established clear priorities across the
4 organization focusing on three areas: the care and safety of our employees and their
5 families; the safety of our customers and the communities we serve; and the execution
6 of our preparedness plans so we can continue to provide essential services and help our
7 communities during this public health emergency. Beginning on March 12, 2020, the
8 Company proactively began implementing temporary measures to provide additional
9 protections to customers and employees during the COVID-19 Emergency, including
10 the following:

- 11 • Suspended disconnections;
- 12 • Suspended notices of disconnections;
- 13 • Reconnected all customers previously disconnected for non-payment;
- 14 • Waived reconnection fees; and
- 15 • Suspended late fees and interest penalties to past-due accounts.

16 **Q. Has MAWC undertaken any other operational changes to ensure the safety of our**
17 **customers and employees as well as the continuity of operations?**

18 A. Yes. The Company has made several changes to the day-to-day activities in its
19 operating units, including, but not limited to, the following:

- 20 • Suspended non-essential in-home field appointments;
- 21 • Moved Field Operations employees to remote-based reporting where
22 appropriate;

- Provided employees with individual vehicles to allow for social distancing;
- Staggered shift start times to provide better social distancing;
- Increased the frequency of facility cleanings;
- Retained a third-party contractor to provide sterilization and COVID-19 specific cleaning,
- Developed vehicle cleaning best practices and provided employees with the appropriate tools to clean vehicles;
- Arranged for redundant operator booths or separate operator rooms for use in the event an employee tests positive for COVID-19;
- Denied access to non-plant employees from the Company's operating plants;
- Delivered construction materials to the sites rather than require employees to travel to the service center for pick up;
- Trained employees extensively on social distancing and close contact as defined by CDC (within 6 feet for 10 minutes);
- Required mandatory face coverings in the field and at the Company's operating plants; and
- Purchased additional hand tools to avoid multiple employees using the same frequently used tools.

III. COST RECOVERY

Q. Please describe financial impacts of the COVID-19 emergency for which MAWC seeks deferred accounting authorization?

A. The financial impacts incurred, and to be incurred, as a result of the COVID-19

Emergency, include the following:

- Incremental costs, including, but not limited to, facility preparedness, employee personal protective equipment (“PPE”), sanitizers, signage, rental equipment, customer communications, etc.;
- Increased uncollectible expense;
- Foregone revenues (late fees and reconnect fees);
- Reduced demand revenues;
- Additional debt carrying costs;
- Cost savings as a result of restrictions on travel and conference; and
- Other yet to be determined or unanticipated financial impacts.

The Company proposes to defer for future recovery the financial impacts from COVID-19 as outlined above.

Q. Over what time period should MAWC be permitted to defer COVID-19 financial impacts?

A. The Company proposes to defer all financial impacts associated with MAWC’s response to, and the effects of, the COVID-19 Emergency, beginning March 1, 2020. As the COVID-19 Emergency continues to evolve, it is difficult to predict a date when such financial impacts will cease. Therefore, the Company proposes that the AAO authorized deferral continue for as long as the Company continues to realize financial impacts from the COVID-19 Emergency. MAWC will continue to track all financial impacts included in a regulatory asset, and retain all documents supporting such deferrals for the Commission’s future consideration.

1 **Q. Will the Commission and the parties be able to monitor any on-going deferrals?**

2 A. Yes. MAWC proposes to provide a quarterly report, beginning in the first quarter after
3 the AAO is issued, that provides the details behind the deferral amount, including all
4 financial impacts realized as a result of the COVID-19 Emergency. These quarterly
5 reports will be filed within 45 days of the end of each quarter.

6 **Q. What COVID-19 related financial impacts are you currently able to quantify?**

7 A. MAWC has incurred significant expenses due to COVID-19. These costs include
8 additional costs for facility preparedness, PPE, sanitizers, signage, rental equipment,
9 and customer communications to name a few, and relate to the disconnection
10 moratorium, suspension of fees, related customer communications, temporary
11 quarantine housing for water treatment plant operators, and additional borrowing costs.
12 Additionally, MAWC has incurred increased uncollectibles expense above amounts
13 currently authorized in rates, as well as additional debt carrying costs. MAWC also
14 expects uncollectible accounts expense to increase due to the economic impacts of the
15 COVID-19 emergency on customers.

16 **Q. What COVID-19 related financial impacts MAWC has quantified to date?**

17 A. Through June 2020, MAWC has incurred approximately \$255,000 for facility
18 preparedness, PPE, signage, etc. Uncollectibles expense beyond the amount currently
19 authorized in rates is approximately \$587,000, and additional borrowing costs are
20 approximately \$312,000.

21 **Q. What financial impacts has the COVID-19 Emergency had on the Company's**
22 **revenues?**

1 A. The Company has realized two types of revenue impacts. First, there are foregone
2 revenues, including reconnections fees and late payment fees on past due customer
3 bills. Second, there are reduced demand revenues resulting from lower volumetric
4 sales, primarily due to extended closures or reduced capacities of office buildings,
5 restaurants, schools, etc.

6 **Q. Has the Company assessed these financial impacts?**

7 A. Yes. As to foregone revenues, from March 2020 through June 2020, the Company has
8 waived late payment fees of approximately \$637,000, and waived reconnection fees of
9 approximately \$3,000. With respect to reduced demand revenues, the Company
10 continues to compile and analyze the trailing data necessary to determine the lost
11 revenues due to lower volumetric sales to customers in the various customer classes, as
12 well as lost revenues from customers that will close their doors or go out of business.

13 **Q. Are all financial impacts of the COVID-19 Emergency known at this time?**

14 A. No, they are not. As previously stated, the COVID-19 Emergency continues to evolve.
15 MAWC also continues to compile and analyze the trailing data necessary to determine
16 lost revenues due to lower volumetric sales to customers in the various customer classes
17 as well from customers that will close their doors or go out of business. For example,
18 demand revenues may be reduced for an extended period of time due to closures of
19 various businesses such as restaurants or bars, and the continuation of online remote
20 learning from schools throughout the state of Missouri, especially in St. Louis County.
21 Restaurants or schools may reopen for a time only to close again for extended periods.
22 MAWC American Water has not yet determined the extent of those losses, but requests

1 that it be permitted to defer those losses as part of the COVID-19 regulatory asset. The
2 Company is offering extended payment plans to eligible customers that could extend
3 the repayment of past due amounts. Furthermore, the potential for continued COVID-
4 19 outbreaks or flare-ups could result in further changes to MAWC's operations,
5 unforeseeable impacts on customers, and ultimately additional financial impacts to
6 MAWC.

7 **Q. Has the Company experienced any cost savings as a result of the COVID-19**
8 **Emergency?**

9 A. Yes. Due to its ongoing efforts to keep employees and customers safe, the Company
10 has implemented work from home directives and suspended all non-essential travel
11 through the end of 2020. From March through June 2020, those costs were
12 approximately \$210,000 less than the same period in 2019.

13 **Q. Does the Company propose to include those cost savings in the deferral?**

14 A. Yes, those operating cost savings would be netted against all other financial impacts.

15 **Q. Are there any other financial impacts that the Company proposes to defer?**

16 A. As previously stated, the COVID-19 Emergency continues to evolve. Therefore, the
17 Company continues to assess all impacts related to the COVID-19 Emergency on our
18 customers and employees. While the financial impacts identified herein are currently
19 known, and in most cases quantifiable, there likely will be unanticipated financial
20 impacts that we cannot now predict or attempt to quantify. The Company is seeking
21 flexibility to defer all such financial impacts as they may arise.

1 **IV. ACCOUNTING AUTHORITY ORDER**

2 **Q. What is your understanding of the standard that the Commission applies when**
3 **considering a request for an AAO?**

4 A. It is my understanding that there is no express standard for the exercise of the
5 Commission's authority in this regard and, thus, it is a discretionary matter for the
6 Commission to decide. Having said this, the Commission has traditionally evaluated
7 AAO applications by determining whether the utility has incurred a cost that is
8 extraordinary, unusual or unique, with a view toward General Instruction No. 7, of the
9 water and sewer *Uniform System of Accounts (USoA)* issued by the National
10 Association of Regulatory Utility Commissioners. General Instruction No. 7 states, in
11 relevant part:

12 It is the intent that net income shall reflect all items of profit and loss
13 during the period with the exception of prior period
14 adjustments....Those items related to the effects of events and
15 transactions which have occurred during the current period and which
16 are not typical or customer business activities of the company shall be
17 considered extraordinary items. Commission approval must be
18 obtained to treat an item as extraordinary.

19 **Q. Why should the financial impacts incurred by MAWC due to the COVID-19**
20 **Emergency be deferred through an AAO?**

21 A. An application for an AAO contains a single factual issue -- whether the costs, which
22 are asked to be deferred, are extraordinary in nature.³ The Commission has in the past
23 issued AAO's for costs "caused by unpredictable events, acts of government and other
24 matters outside the control of the utility or the Commission."⁴ The COVID-19

³ *In the matter of the application of Missouri Public Service*, 1 Mo.P.S.C.3d 200, 203-204 (1991).

⁴ *In the matter of St. Louis County Water Company's Tariff Designed to Increase Rates*, MoPSC Case No. WR-96-263, p. 13 (December 31, 1996) (emphasis added).

1 emergency and its economic effects are undoubtedly extraordinary and could not have
2 been reasonably anticipated, and the financial impacts will only increase as the
3 emergency continues. In light of the fact that the Commission has issued orders taking
4 judicial notice of the ongoing public health emergency related to the spread of COVID-
5 19, and the declarations of emergency issued at both the state and federal levels, it is
6 appropriate for MAWC to track and request recovery the amounts deferred as a
7 COVID-19 regulatory asset.

8 **Q. If this AAO is granted, where would MAWC propose to record the financial**
9 **impacts resulting from the COVID-19 Emergency?**

10 A. The financial impacts would be recorded in NARUC account 186 – Miscellaneous
11 Deferred Debits and in NARUC account 253 – Other Deferred Credits.

12 **Q. Has the Commission previously granted an AAO to MAWC?**

13 A. Yes, most recently in Case No. WU-2017-0296, the Commission authorized MAWC
14 to defer costs associated with the replacement of customer-owned lead service lines.

15 **Q. Have Commissions in other American Water jurisdictions authorized deferred**
16 **accounting for the financial impacts of COVID-19 Emergency?**

17 A. Yes. Deferred accounting has been authorized in 10 of the 14 states with American
18 Water regulated utility operations. In those four jurisdictions where deferred
19 accounting has not yet been authorized, including Missouri, requests for deferred
20 accounting authority are pending.

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

1 A. If the AAO is denied, the Company will have little opportunity to seek cost recovery
2 for the impacts of this extraordinary event.

3 **Q. What is MAWC's recommendation to the Commission?**

4 A. MAWC respectfully requests that the Commission grant MAWC an AAO authorizing
5 MAWC to accumulate in a regulatory asset and defer for future recovery the actual
6 incremental amounts and accruals for estimated amounts until actual costs can be
7 determined, of COVID-19 related costs and declines in revenues as a result of
8 decreased usage and lost customers.

9 **Q. What language does MAWC seek in an AAO?**

10 A. MAWC asks that the Commission issue an order that includes the following language:
11 1) Missouri-American Water Company is granted an Accounting Authority Order,
12 whereby the Company is authorized to record and defer the actual incremental
13 amounts and accruals for estimated amounts until actual costs can be determined,
14 of COVID-19 related costs and declines in revenues as a result of decreased usage
15 and lost customers associated with the COVID-19 Emergency, with carrying costs
16 calculated using MAWC's last authorized pre-tax cost of capital; and,
17 2) MAWC may maintain this regulatory deferral on its books until it has been
18 addressed in subsequent general rate case(s), including MAWC's pending general
19 rate proceeding (WR-2020-0344).

20 **Q. If this AAO is approved, when will MAWC seek to recover the deferred financial**
21 **impacts?**

22 A. If a deferred accounting is authorized in this proceeding, the Company will seek

1 recovery of any actual incremental amounts in its pending general rate case proceeding
2 (WR-2020-0344). Therein, MAWC will propose that any deferred financial impacts
3 from March 2020 through the end of its general rate case test period be amortized and
4 included in then established base rates. MAWC will also seek authority in its pending
5 general rate case proceeding to defer any ongoing financial impacts of the COVID-19
6 Emergency beyond the Company's test period. MAWC will present and seek recovery
7 these ongoing financial impacts for the Commission's consideration and recovery in a
8 future rate proceeding.

9 **Q. Does this conclude your Direct Testimony?**

10 A. Yes, it does.

Brian W. LaGrand
Missouri American Water
Director of Rates & Regulatory Support

Case Participation

Case Number	Case Type	Testimony Issues
Cases Before Missouri Public Service Commission		
WO-2020-0190	ISRS	Direct: Infrastructure System Replacement Surcharge
WO-2018-0184	ISRS	Direct: Infrastructure System Replacement Surcharge
WO-2017-0393	ISRS	Direct: Infrastructure System Replacement Surcharge
WR-2017-0285	General Rate Case	Direct: Company Accounting Schedules, Acquisitions, Revenue Requirement, Revenues, Rate Design, Rate Base, Depreciation Expense, Amortization Expense, Rate Case Expense, Minimum Filing Requirements Revenue Requirement Rebuttal: Revenue Requirement, Present Rate Revenues, Rate Base, Depreciation Expense, Amortization Expense, Rate Case Expense Rate Design Rebuttal: Water & Sewer Cost Allocations, Arnold Rates, Miscellaneous Fees, Fire Tariffs Surrebuttal: Water Rate Design, Fixed Charge, Offset Mechanism, Sewer Rate Design, Miscellaneous Fees, Low Income Tariff, Property Taxes, Customer Usage, Depreciation Expense, Negative Depreciation Reserves, Regulatory Deferrals, Rate Case Expense, Working Capital
WR-2020-0344	General Rate Case	Direct: Company Accounting Schedules, Acquisitions, Revenue Requirement, Capital Structure, Revenues, Rate Base, Depreciation Expense, Rate Case Expense, Minimum Filing Requirements, Pension and OPEB Expense, Pension and OPEB Tracker, Property Taxes, Credit Card Fees
WU-2017-0351	Accounting Authority Order	Direct: Lead Service Line Replacement program, Cost Recovery, Accounting Authority Order Rebuttal: Accounting Authority Order, Cost Recovery Surrebuttal: Accounting Treatment
WU-2017-0296	Accounting Authority Order	Direct: Property Tax Expense, Accounting Authority Order Surrebuttal: Property Tax Expense, Accounting Authority Order
WA-2012-0066	Application for Certificate	Direct: Financial Analysis of Saddlebrooke Acquisition
Cases Before Illinois Commerce Commission		
15-0458	Acquisition of the City of Grafton Sewer	Direct: Rate, Financial and Accounting aspects of the acquisition
14-0105	Acquisition of Hardin County Water	Direct: Rate, Financial and Accounting aspects of the acquisition, Illinois Small Systems Viability Act
13-0073	Acquisition of the City of Grafton Water	Direct: Rate, Financial and Accounting aspects of the acquisition