

Exhibit No.:
Issues: Test Year, Discrete Adjustments,
Revenue Requirement, Corrections
Witness: Brian W. LaGrand
Exhibit Type: Supplemental Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2024-0320
Date: September 6, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320

SUPPLEMENTAL DIRECT TESTIMONY

OF

BRIAN W. LaGRAND

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 for Missouri-American Water, 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

September 6, 2024

Dated

**SUPPLEMENTAL DIRECT TESTIMONY
BRIAN W. LaGRAND
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2024-0320**

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SUPPLEMENTAL DIRECT TESTIMONY

BRIAN W. LaGRAND

I. INTRODUCTION

1

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

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

5 **Q. Are you the same Brian W. LaGrand who previously submitted Direct Testimony in
6 this proceeding?**

7 A. Yes.

8 **Q. What is the purpose of your Supplemental Direct Testimony?**

9 A. This testimony is to address the Commission's recently issued Order Regarding Test Year,
10 and to correct a small number of errors in Missouri-American Water Company's
11 ("MAWC", "Missouri-American" or the "Company") original filing.

II. COMMISSION ORDER REGARDING TEST YEAR

13 **Q. When the Company filed its general rate case, what test year did the Company
14 propose?**

15 A. On July 1, 2024, the Company filed a Motion to Establish Future Test Year, in which the
16 Company proposed using a future test year through May 31, 2026.

17 **Q. Has the Commission issued an order regarding the Company's Motion?**

18 A. Yes. On July 31, 2024, the Commission issued an Order Regarding Test Year. In this
19 Order the Commission concluded that the historic test year with adjustments should be
20 adopted and ordered a test year of the 12 months ended December 31, 2023, with a true-up

1 period of the 12 months ending December 31, 2024.¹

2 **Q. Did the Company propose an alternative in the event the Commission did not grant**
3 **the requested future test year?**

4 A. Yes. The Company proposed that the Commission allow discrete adjustments to be
5 included in this case. Discrete adjustments are adjustments that occur beyond the true-up
6 period, but before new base rates take effect.²

7 **Q. Did the Commission allow discrete adjustments in their Order Regarding Test Year?**

8 A. Yes. The Commission is allowing parties to propose specific (discrete) adjustments
9 beyond the December 31, 2024 revenue requirement calculation to be proposed in this
10 case³.

11 **Q. Is the Company the only party that can propose discrete adjustments?**

12 A. No. Any party to the case may propose such adjustments.

13 **III. MAWC'S PROPOSED DISCRETE ADJUSTMENTS**

14 **Q. Is MAWC proposing discrete adjustments?**

15 A. Yes.

16 **Q. What is the total value of the discrete adjustments beyond the December 31, 2024**
17 **true-up date proposed by the Company?**

18 A. The total value of the discrete adjustments is \$19.9 million. These adjustments are detailed
19 in **Schedule BWL-1**.

20 **Q. What rate base adjustments is the Company proposing?**

¹ WR-2024-0320, Order Regarding Test Year, p 3.

² LaGrand DT, pp. 16-18.

³ WR-2024-0320, Order Regarding Test Year, p 3.

1 A. The Company is proposing an additional \$115.8 million of rate base through May 2025.

2 Major components of that change include:

3 • \$150.9 million of utility plant in service (\$163.3 million of additions, net of \$12.4
4 million in retirements) that will be placed in service and be used and useful;

5 • \$19.6 million of accumulated reserve (\$38.6 million of depreciation, net of \$12.4
6 million in retirements and \$6.6 million of net of salvage);

7 • \$17.5 million of deferred income taxes;

8 • \$4.8 million of Contributions in Aid of Construction;

9 • \$3.7 million of regulatory deferrals, almost entirely related to the deferral of
10 property taxes to the property tax tracker; and,

11 • \$0.8 million of total adjustments related to the Pension/OPEB tracker, the Pension
12 Asset and Working Capital.

13 **Q. What adjustments is the Company proposing related to lead service lines?**

14 A. The Company is proposing an adjustment of \$6.3 million for the additional deferral of the
15 costs to replace customer owned lead service lines through May 2025.

16 **Q. What adjustments is the Company proposing related to operating expenses?**

17 A. The Company is proposing an adjustment of \$4.2 million in additional operating expenses
18 through May 2025, including:

19 • \$2.1 million in labor & related benefits for Missouri-American employees,
20 including 2025 merit increases, which will be effective on January 6, 2025, for all
21 non-union employees, and on January 27, 2025, for certain union employees;

- 1 • \$1.2 million for support services, primarily related to labor & benefits costs
- 2 allocated to Missouri-American, including 2025 merit increases, which will be
- 3 effective on January 6, 2025, for all non-union employees;
- 4 • \$0.5 million for increased chemicals costs; and,
- 5 • \$0.5 million for increased insurance other than group costs.

6 **Q. What adjustments is the Company proposing related to other expenses?**

7 A. The Company is proposing an adjustment of \$8.6 million for other expenses through May

8 2025, including:

- 9 • \$4.8 million for additional annualized depreciation on utility plant investments
- 10 placed in service;
- 11 • \$1.6 million for additional amortization expense, primarily related to deferred lead
- 12 service lines and deferred property taxes;
- 13 • \$2.1 million for additional property taxes; and,
- 14 • \$0.1 million for additional payroll taxes related to the Missouri-American labor
- 15 costs described above.

16 **Q. What adjustments is the Company proposing related to the cost of capital?**

17 A. The Company is proposing to include debt issuances planned through May 2025. The

18 impact of these debt issuances is to increase the percentage of long-term debt in the

19 Company’s capital structure by 155 basis points. As discussed further below, a portion of

20 these debt issuances are using State Revolving Fund debt, which will lower the overall cost

21 of debt from the Company’s original filing.

1 **IV. REVENUE REQUIREMENT**

2 **Q. Does the Commission’s rejection of the Company’s proposed future test year have an**
3 **impact on the revenue requirement the Company is seeking in this case?**

4 A. Yes.

5 **Q. How much impact does the test year decision have on the Company’s request in this**
6 **case?**

7 A. The Company’s originally requested \$651.6 million total revenue requirement would be
8 reduced by \$27.3 million⁴ to \$624.3 million. Please see **Schedule BWL-1** for a detailed
9 calculation of the revenue requirement impact, and the proposed increase.

10 **Q. Does the Company’s calculation utilize the same information as was originally filed**
11 **in this case, or were there changes to any assumptions?**

12 A. In almost all cases, the components of the revenue requirement calculation utilize
13 information contained in the workpapers the Company provided with its direct testimony.
14 However, there are three primary areas where new assumptions were made for this
15 calculation: Cost of Capital, Income Taxes, and Present Rate Revenues.

16 **Q. What changes has the Company made regarding Cost of Capital?**

17 A. Subsequent to the filing of this case on July 1, 2024, the Commission issued an order
18 authorizing the Company to undertake financing from the Department of Natural
19 Resources under their State Revolving Fund (“SRF”) program⁵. To better reflect the way
20 the Company will finance its business, we have added \$150 million of SRF debt in 2025⁶,

⁴ The \$25.9 million reduction includes a reduction of \$28.7 for the value of the future test year, net of a \$1.4 million increase from the corrections described in this testimony.

⁵ WF-2024-0353, Order Regarding Financing, pp 3-5.

⁶ The planned SRF borrowing will occur over the course of 2025, with \$58.2 million expected through May 2025.

1 and reduced the amount of borrowing from American Water Capital Corp. This change
2 results in a 12 basis point reduction in the overall cost of debt, and a 15 basis point increase
3 to the percentage of long-term debt in the Company's capital structure, compared to the
4 Company's original request.

5 **Q. What changes has the Company made regarding income taxes?**

6 A. The Company has calculated income taxes as of May 2025. This calculation uses the same
7 methodology used in the original filing, adjusted for any corrections described below.

8 **Q. What changes has the Company made regarding present rate revenue?**

9 A. The Company has calculated present rate revenue as of May 2025. This calculation uses
10 the same methodology used in the original filing, adjusted for any corrections below. In
11 this calculation the Company has included customer counts and usage through May 2025.

12 **V. CORRECTIONS**

13 **Q. Does the Company's new revenue requirement incorporate any corrections for errors
14 discovered by the Company?**

15 A. Yes. There were a few errors discovered by the Company after its direct testimony was
16 filed in this case. The total of these errors would have increased the Company's initial
17 revenue requirement request by \$1.4 million and are being included here to provide the
18 most accurate impact of the Commission's Order Regarding Test Year.

19 **Q. Can you describe the corrections the Company has made?**

20 A. Yes. There were errors in present rate revenue, income taxes, and the rate base calculation:
21

- Present Rate Revenue: The original present rate revenue of \$456.0 million was
22 overstated by \$4.5 million due to a formula error that resulted in higher usage for

1 industrial and sale for resale customers.

- 2 • Income Taxes: The original after-tax amortization of non-TCJA items was double
3 counting some components, and the reduction to revenue was overstated by \$2.4
4 million. Additionally, the original “permanent differences” was overstated by \$0.2
5 million because all meals were included rather than the 50% portion that is non-
6 deductible for tax purposes.
- 7 • Rate Base: The original rate base calculation had an incorrect sign for both
8 Customer Advances, and the Pension/OPEB tracker balance, which resulted in
9 those items increasing rate base, rather than reducing it as intended. This error
10 overstated rate base by \$18.8 million.

11 **Q. Does this conclude your Supplemental Direct Testimony?**

12 **A. Yes.**

Missouri American Water
Overall Revenue Requirement
WR-2024-0320

Rate Base	True Up 12/31/24	Discrete Adjustments	Pro-Forma 5/31/25	Remove Future Test Year	Corrections to Original Filing	Original Filing 5/31/26
Utility Plant in Service	4,651,698,459	150,868,365	4,802,566,824	182,376,938		4,984,943,762
Accumulated Provision for Depreciation	(652,566,977)	(19,608,639)	(672,175,616)	(25,544,915)		(697,720,531)
Accumulated Amortization	0	0	0	0		0
Utility Plant Acquisition Adjustments	0	0	0	0		0
Net Utility Plant	3,999,131,482	131,259,725	4,130,391,207	156,832,024	0	4,287,223,231
Less:						
Customer Advances	1,927,092	2	1,927,094	(1)	(3,854,186)	(1,927,093)
Contributions in Aid of Construction	343,057,086	4,789,728	347,846,814	5,952,720		353,799,534
Accumulated Deferred ITC (3%)	0	0	0	0		0
Deferred Income Taxes	626,332,614	17,534,682	643,867,297	13,707,753		657,575,050
Pension/OPEB Tracker	9,633,087	(1,142,941)	8,490,146	(1,015,925)	(14,948,442)	(7,474,221)
Subtotal Reductions	980,949,879	21,181,471	1,002,131,351	18,644,547	(18,802,628)	1,001,973,270
Add:						
Cash Working Capital	(5,264,723)	393,106	(4,871,618)	(1,526,415)		(6,398,033)
Materials and Supplies	13,759,507	0	13,759,507	0		13,759,507
Prepayments	0	0	0	0		0
Pension Asset	27,870,556	1,584,602	29,455,158	2,486,566		31,941,724
Regulatory Deferrals	14,808,689	3,708,275	18,516,965	(3,661,254)		14,855,711
Tank Painting Tracker	0	0	0	0		0
Subtotal Additions	51,174,029	5,685,983	56,860,012	(2,701,103)	0	54,158,909
Total Original Cost Rate Base	3,069,355,631	115,764,237	3,185,119,869	135,486,374	18,802,628	3,339,408,870
Replacement of Customer Lead Service Lines	45,835,754	6,252,621	52,088,375	5,242,064	0	57,330,438

Cost of Capital	True Up 12/31/24	Discrete Adjustments	Pro-Forma 5/31/25	Remove Future Test Year	Corrections to Original Filing	Original Filing 5/31/26
Class of Capital						
Short Term Debt	0.00%	0.00%	0.00%	0.00%		0.00%
Long Term Debt	48.06%	1.55%	49.61%	(0.15%)		49.46%
Preferred Stock	0.00%	0.00%	0.00%	0.00%		0.00%
Common Equity	51.94%	(1.55%)	50.39%	0.15%		50.54%
Total	100.00%	0.00%	100.00%	(0.00%)	0.00%	100.00%
Cost of Capital						
Short Term Debt	5.25%	(0.45%)	4.80%	(0.12%)		4.68%
Long Term Debt	4.57%	(0.01%)	4.56%	0.12%		4.68%
Preferred Stock	0.00%	0.00%	0.00%	0.00%		0.00%
Common Equity	10.75%	0.00%	10.75%	0.00%		10.75%
Weighted Cost of Capital						
Short Term Debt	0.00%	0.00%	0.00%	0.00%		0.00%
Long Term Debt	2.20%	0.06%	2.26%	0.05%		2.31%
Preferred Stock	0.00%	0.00%	0.00%	0.00%		0.00%
Common Equity	5.58%	(0.16%)	5.42%	0.01%		5.43%
Total After Tax Cost of Capital	7.78%	(0.10%)	7.68%	0.06%	0.00%	7.74%
Tax Gross up Factor	1.3233	1.3233	1.3233	1.3233	1.3233	1.3233
Tax Gross up Factor (no Uncoll)	1.3130	1.3130	1.3130	1.3130	1.3130	1.3130
Pre-Tax Cost of Capital	9.58%	(0.15%)	9.43%	0.06%	0.00%	9.50%

Operating Expenses	True Up 12/31/24	Discrete Adjustments	Pro-Forma 5/31/25	Remove Future Test Year	Corrections to Original Filing	Original Filing 5/31/26
Purchased Water	1,908,792	(145,635)	1,763,156	108,504		1,871,660
Fuel and Power	15,164,937	28,431	15,193,368	78,291		15,271,659
Chemicals	18,941,279	466,803	19,408,083	874,082		20,282,165
Waste Disposal	5,802,441	(185,742)	5,616,699	645,729		6,262,428
Labor	40,138,704	1,474,266	41,612,970	647,855		42,260,825
Pensions	1,027,621	191,322	1,218,943	1		1,218,944
OPEB	(4,489,723)	68,749	(4,420,974)	0		(4,420,974)
Group Insurance	8,721,757	264,431	8,986,188	113,520		9,099,708
401K	1,243,111	46,705	1,289,816	17,281		1,307,096
DCP	1,310,809	49,587	1,360,396	18,206		1,378,602
ESPP	118,538	2,769	121,307	3,801		125,108
VEBA	148,646	0	148,646	0		148,646
Other Benefits	714,177	13,302	727,479	5,646		733,124
Support Services	42,551,933	1,176,927	43,728,859	121,759		43,850,619
Contracted services	7,037,356	74,414	7,111,770	180,481		7,292,251
Building Maintenance and Services	2,125,108	11,684	2,136,791	110,205		2,246,996
Telecommunication expenses	1,678,711	40,369	1,719,080	99,215		1,818,295
Postage, printing and stationary	41,313	691	42,005	1,687		43,692
Office supplies and services	903,398	7,417	910,815	18,990		929,806
Employee related expense travel & entertainmen	628,394	15,111	643,505	37,139		680,644
Rents	373,395	6,351	379,745	2,866		382,612
Transportation	3,490,100	136,897	3,626,997	341,440		3,968,437
Miscellaneous	3,113,492	34,331	3,147,824	152,306		3,300,129
Uncollectible accounts expense	3,621,864	(87,766)	3,534,098	1,542,652		5,076,750
Customer Accounting	1,866,545	(1,112)	1,865,433	15,883		1,881,316
Regulatory Expense	678,519	(46,591)	631,928	0		631,928
Insurance Other than Group	8,246,944	504,383	8,751,326	296,418		9,047,745
Maintenance supplies and services	11,299,278	62,293	11,361,571	585,802		11,947,373
Total Operations and Maintenance	178,407,439	4,210,386	182,617,826	6,019,758	0	188,637,584
Depreciation	83,832,638	4,763,775	88,596,413	2,269,225		90,865,638
Amortization	9,572,759	1,580,054	11,152,813	10,675		11,163,488
Total Depreciation and Amortization	93,405,397	6,343,829	99,749,226	2,279,900	0	102,029,126
Property Taxes	42,752,897	2,133,975	44,886,871	4,600,822		49,487,693
Payroll Taxes	3,049,352	144,430	3,193,782	32,296		3,226,078
PSC Fees	2,567,448	0	2,567,448	0		2,567,448
Other General Taxes	(246,484)	0	(246,484)	0		(246,484)
Total Taxes Other Than Income Taxes	48,123,213	2,278,405	50,401,617	4,633,118	0	55,034,735
Total Expenses	319,936,049	12,832,620	332,768,669	12,932,776	0	345,701,445

	True Up 12/31/24	Discrete Adjustments	Pro-Forma 5/31/25	Remove Future Test Year	Corrections to Original Filing	Original Filing 5/31/26
Present Rate Revenue	460,643,091	(7,030,143)	453,612,948	(2,069,163)	4,499,817	456,043,603
Expenses	319,936,049	12,832,620	332,768,669	12,932,776	0	345,701,445
EBIT	140,707,042	(19,862,763)	120,844,280	(15,001,939)	4,499,817	110,342,158
Synchronized Interest	(69,620,518)	(4,738,421)	(74,358,939)	(5,030,130)	(434,341)	(79,823,409)
Permanent Differences	600,960	14,452	615,412	27,893	3,313	646,618
Taxable Income	71,687,485	(24,586,732)	47,100,753	(20,004,176)	4,068,789	31,165,366
Tax Rate	23.84%	23.84%	23.84%	23.84%	23.84%	23.84%
Income Taxes	17,090,368	(5,861,502)	11,228,867	(4,769,015)	970,003	7,429,855
Non-TCJA Amortizations	495,587	0	495,587	0	(2,384,608)	(1,889,021)
TCJA Amortizations	(9,121,638)	255,797	(8,865,841)	289,104	0	(8,576,738)
Net Tax Expense	8,464,317	(5,605,705)	2,858,612	(4,479,912)	(1,414,605)	(3,035,904)
Current Utility Operating Income	132,242,725	(14,257,058)	117,985,667	(10,522,027)	5,914,422	113,378,062
Allowed Utility Operating Income	240,890,562	6,101,874	246,992,436	12,705,552	1,455,323	261,153,311
Shortfall	108,647,837	20,358,932	129,006,769	23,227,579	(4,459,098)	147,775,249
Tax Gross Up	1.3233	1.3233	1.3233	1.3233	1.3233	1.3233
Required Increase	143,777,705	26,941,728	170,719,433	30,737,915	(5,900,890)	195,556,458
Present Rate Revenue	460,643,091	(7,030,143)	453,612,948	(2,069,163)	4,499,817	456,043,603
Revenue Requirement	604,420,796	19,911,585	624,332,381	28,668,752	(1,401,073)	651,600,061