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Issues: Future Test Year Additions, LSLR
Program, Coordination with
Municipalities
Witness: Bruce W. Aiton
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2017-0285
SR-2017-0286
Date: February 9, 2018

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2017-0285
CASE NO. SR-2017-0286**

SURREBUTTAL TESTIMONY

OF

BRUCE W. AITON

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

Exhibit No. 3
Date 3/8/18 Reporter MT
File No. WR-2017-0285

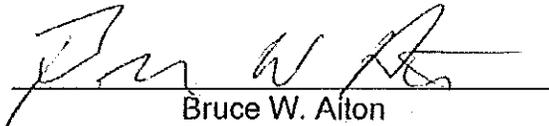
Exhibit 3
WR-2017-0285
Surrebuttal Testimony of
Bruce W. Aiton

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2017-0285
RATES FOR WATER AND SEWER)	CASE NO. SR-2017-0286
SERVICE)	

AFFIDAVIT OF BRUCE W. AITON

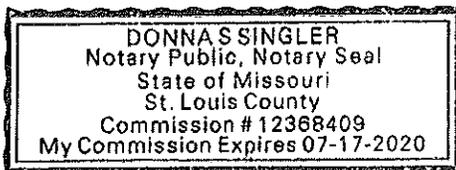
Bruce W. Aiton, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Bruce W. Aiton"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.


Bruce W. Aiton

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 7th day of February 2018.


Notary Public

My commission expires: July 17, 2020



**SURREBUTTAL TESTIMONY
BRUCE W. AITON
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286**

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SURREBUTTAL TESTIMONY

BRUCE W. AITON

I. INTRODUCTION

1

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

3 A. My name is Bruce W. Aiton, and my business address is 727 Craig Road, St. Louis,
4 MO, 63141.

5 **Q. Are you the same Bruce W. Aiton who previously submitted direct and revenue**
6 **requirement rebuttal testimony in this proceeding on behalf of Missouri-**
7 **American Water Company (“MAWC” or “Company”)?**

8 A. Yes.

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

10 A. The purpose of my surrebuttal testimony is three-fold: (1) to address certain statements
11 made by Missouri Public Service Commission Staff (“Staff”) witness Mark
12 Oligschleager regarding the Company’s future test year plant additions; (2) to provide
13 additional information regarding the cost of Company’s proposed lead service line
14 replacement (“LSLR”) program during 2017 through the end of the future test year in
15 response to Staff witness Amanda McMellen’s rebuttal testimony and to address Staff
16 witness James Merciel’s recommended LSLR reporting; and, (3) to address rebuttal
17 testimony submitted by Geoff Marke on behalf of the Office of the Public Counsel
18 (“OPC”) regarding the Company’s coordination with municipalities.

1 **II. FUTURE TEST YEAR ADDITIONS**

2 **Q. Staff witness Mark Oligschlaeger contends (Reb., p. 9) that “[t]he value of**
3 **assumed future plant in service additions were obtained from MAWC’s 2018 -**
4 **2022 “Strategic Capital Expenditure Plan.” Is this accurate?**

5 **A.** Not entirely. It is accurate to say that the future test year plant-in-service projections
6 are consistent with our “Strategic Capital Expenditure Plan.” The projects included in
7 the future test year, however, are based on our most recent view of the discrete
8 construction projects and activity levels that we project for the first year of the
9 effectiveness of the new rates. This required the Company to look across calendar
10 years and identify an appropriate level of spending for particular line items (e.g.,
11 recurring projects) and specific, larger projects (e.g, investment projects), all of which
12 are planned to be placed in service through the end of the rate year. Both recurring
13 projects and investment projects scheduled to be in service by the end of the rate year
14 have been identified in my direct testimony and attached schedules..

15 **Q. At page 10 of his rebuttal testimony, Staff witness Oligschlaeger appears to**
16 **criticize the rate of increase in plant by comparing the future test year growth in**
17 **plant to the year-to-year growth in plant for the period 2010 to 2016. Is this an**
18 **appropriate way to look at the projected growth in plant?**

19 **A.** No. The level of investment in any one given year is not a reliable gauge of what might
20 be needed in succeeding years. We carefully examine the level of investment that is
21 needed to maintain safe, reliable water and waste water services and our construction
22 budget reflects this. As mentioned in my rebuttal testimony, there is a changing need
23 for various projects, as well as a continuing need for continued main replacement to
24 affect the number of main breaks and resultant water loss. Additionally, changes in

1 Missouri Department of Natural Resources wastewater discharge levels are requiring
2 higher levels of investment in the many wastewater treatment facilities across the state.
3 The Company is proposing a more consistent level of investment because it is in the
4 long-term best interest of our customers to do so.¹

5 **Q. At page 12 of his rebuttal testimony, Staff witness Oligschlaeger suggests that**
6 **adoption of a future test year “may lead to a utility reluctance to change the**
7 **priority of its budgeted plant additions in light of unforeseen circumstances**
8 **because of the perceived inconsistency with its capital budget reflected in its rates,**
9 **even if a change in priority would be the most prudent course of action.” Do you**
10 **agree with Mr. Oligschlaeger’s assertion?**

11 **A. No. Mr. Oligschlaeger’s assertion is inconsistent with other fears expressed by the**
12 **Staff. My recollection is that Mr. Oligschlaeger was also concerned that the Company**
13 **would be afforded rates based on a level of investment that the Company would not**
14 **meet. MAWC witness Jenkins has addressed that possibility. Now, however, it seems**
15 **that Staff has changed direction and voices concern that we might forge ahead with a**
16 **project simply to be consistent with the capital projection in the rate order. This fear is**
17 **also overblown. The Company has identified many specific projects to be completed**
18 **during the future test year and has proposed that the Commission only include in the**
19 **Company’s revenue requirement a 13 month average of capital investment. Company**
20 **witness Jenkins discusses why using a 13 month average is appropriate for establishing**
21 **rate base for the future test year.**

¹ On page 10 of his rebuttal testimony, Mr. Oligschlaeger points out that the rate of increases in net plant projected by MAWC from 2016 through 2017, and into the future test year, are virtually the same, i.e., 8.17%, 8.09% and 7.85%.

1 **Q. How does the Company determine capital investment to be made on an annual**
2 **basis?**

3 A. Each year, the Company undertakes a comprehensive project prioritization analysis to
4 review the projects previously identified in its five-year capital plan and finalize the list
5 of projects to be completed during the next calendar year. As a part of that process,
6 projects identified for completion in a particular year in the five-year capital plan may
7 move up or down the priority list of projects depending on the circumstances.
8 MAWC's project prioritization process is flexible enough to deal with unforeseen
9 circumstances that may require a shift in priorities and we would do so without hesitation.
10 In addition, since there is a limit to the capital available to invest each year, there is
11 always a surplus of projects that could be completed should circumstances change. As
12 such, if the Commission were to adopt the Company's proposed future test year and
13 prudence would dictate that one project might be delayed or abandoned, there are
14 always alternative projects readily available to meet the level of investment authorized
15 by the Commission in this proceeding.

16 **III. LSLR PROGRAM**

17 **Q. Have you previously provided testimony regarding MAWC's LSLR program?**

18 A. Yes. I provided revenue requirement rebuttal testimony in this proceeding that
19 included my direct, rebuttal and surrebutal testimony filed in the Company's LSLR
20 Accounting Authority Order ("AAO") proceeding.

21 **Q. On page 3 of her rebuttal testimony, Staff witness McMellen states that "Staff**
22 **has included the June 30, 2017 balance of the AAO for LSLR costs of \$1,071,559**

1 **in rate base.” Is that reflective of all LSLR costs expected to be included in the**
2 **AAO?**

3 A. No. During calendar year 2017, MAWC replaced 250 customer-owned lead service
4 lines (“LSLs”), the overall cost of which was \$1,748,978. In addition, from January
5 2018 through May 2018, the Company plans to replce approximately 1,200 customer-
6 owned LSLs at a cost of approximately \$7.2 million.

7 **Q. Is that an amount MAWC intends to spend on an annual basis going forward?**

8 A. No. The number of LSLs replaced in 2017 is lower than that proposed going-forward
9 because: 1) 2017 was the first year of the proposed LSLR program and the Company
10 wanted to ensure those performing the work were appropriately trained; and, 2) the
11 Company needs more clarity around potential cost recovery for the replacement of
12 customer-owned lead service lines.

13 **Q. What does Staff witness McMellen suggest in regard to any amount of future**
14 **LSLR costs?**

15 A. She recommends that recovery of any future LSLR investment be considered in a
16 future rate case. (McMellen Reb., p. 3)

17 **Q. Is there any portion of future LSLR costs appropriate for recovery in this case?**

18 A. Yes. As I noted above, the \$7.2 million expected to be incurred between January 2018
19 and May 2018 were contemplated in the LSLR AAO proceeding. In addition, going
20 forward, the Company is targeting the replacement of approximately 3,000 customer-
21 owned lead service lines per year. This means during the rate year (June 2018 – May
22 2019), the Company expects to spend between \$15 and 18 million to replace
23 approximately 3,000 customer-owned LSLs. Company witness Jenkins further

1 addresses the appropriateness of adopting a future test year in this case, generally, and
2 recovery of LSLR costs, specifically, in his surrebuttal testimony.

3 **Q. At page 7 of Staff witness Merciel’s rebuttal testimony, he recommends that the**
4 **Company “prepare annual plans regarding LSL replacement expectations” and**
5 **submit them to Staff and OPC by February 15th of each year. What does Mr.**
6 **Merciel propose be included in the plan?**

7 A. Mr. Merciel recommends that “[e]ach project should be described by specific location,
8 footage of main, number of customer connections, the number of LSL replacements
9 including footage of service lines replacement, and estimated cost of LSL replacement”
10 based on MAWC records. He goes on to recommend that MAWC should update that
11 plan regarding LSL activity and cost at least quarterly.

12 **Q. Do you agree with Mr. Merciel’s recommendation?**

13 A. In part. The Company does not oppose providing information regarding its LSLR
14 activity to the Staff. By February 15 of each year, the Company can provide details
15 regarding its planned main replacement projects expected to include lead service lines,
16 including the footage of the main, number of customer connections, and estimated
17 number and cost of customer-owned lead service lines for that year. It can also update
18 that data with actual information within forty-five (45) days of the end of each calendar
19 quarter. MAWC suggests we initially implement the reporting process only until the
20 next rate case where it can be revisited.

1 IV. COORDINATION WITH MUNICIPALITIES

2 Q. OPC witness Marke refers to Jefferson City witness Britt Smith’s testimony to
3 suggest that MAWC does not coordinate with local municipalities. Is OPC witness
4 Marke’s suggestion accurate?

5 A. No. MAWC has facilities throughout the state of Missouri in over 125 communities.
6 In an effort to coordinate with the communities it serves, MAWC meets annually with
7 approximately 100 municipal, county and state agencies to coordinate where road
8 projects are scheduled to take place within the 125 communities we serve. This effort
9 is designed to accomplish two primary objectives. First, MAWC seeks to optimize its
10 pipe replacement costs. Where a road project is going to take place, often MAWC can
11 replace the associated water or wastewater main with nominal restoration and paving
12 costs by completing the work in conjunction with the road project. Second, MAWC
13 seeks to avoid having to replace a main after a recent road project because doing so can
14 be more costly, as well as disruptive to customers and the community. There are,
15 however, times when, depending on the age and condition of a pipe (as well as the
16 Company’s ability to access additional capital), MAWC may choose not to replace a
17 pipe in conjunction with a road project, if we believe the pipe has multiple years of
18 reliable service left.

19 Q. What recommendations does OPC witness Marke make regarding coordination
20 with municipalities?

21 A. On page 32 of OPC witness Marke’s rebuttal testimony, OPC recommends that the
22 Commission order the Company to meet the requests made by Mr. Britt Smith on behalf
23 of Jefferson City, provide the same information to all municipalities within its service

1 territory, open a working docket to explore municipal coordination in greater detail
2 and, at a minimum, implement an online infrastructure upgrade project map like that
3 currently used by MAWC's West Virginia affiliate.

4 **Q. Has MAWC addressed the recommendations made by Jefferson City witness Britt
5 Smith that were referenced by OPC witness Marke at page 31 of his rebuttal
6 testimony?**

7 A. Yes. In my revenue requirement rebuttal testimony, I addressed each of the
8 recommendations made by Mr. Smith.

9 **Q. Is the Company willing to provide similar information to other municipalities?**

10 A. Yes. The Company is willing to provide similar information in a similar form as that
11 provided to Jefferson City to other municipalities upon request. It is important to keep
12 in mind that the information available may vary from municipality to municipality, but
13 the Company is willing to work the municipalities to get them relevant information of
14 import.

15 **Q. Do you think opening a working docket as suggested by OPC is necessary at this
16 time?**

17 A. No, I do not. MAWC believes that coordinating with the municipalities it serves is
18 important to continue to provide safe, reliable and quality service to its customers in
19 the most cost effective manner. The time and resources of the municipalities we serve,
20 the Commission Staff and the Company are often spread thin. Creating an additional
21 administrative process to review a collaborative process that already exists strains those
22 resources unnecessarily.

1 **Q. You mentioned above OPC's suggestion that MAWC implement an online**
2 **infrastructure upgrade project map similar to that utilized by its West Virginia**
3 **affiliate. What steps has MAWC taken in regard to this project?**

4 **A. Over the past several months the Company has been finalizing the necessary processes**
5 **to ensure the accuracy and consistent input of the data necessary to make the online**
6 **infrastructure upgrade project map a functional and helpful tool. MAWC is close to**
7 **finalizing our internal testing of this tool and plans to have it ready for public use this**
8 **calendar year.**

9 **Q Does this conclude your surrebuttal testimony?**

10 **A. Yes, it does.**