Exhibit No.:	
Issues:	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
Witness:	Brian W. LaGrand
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

BRIAN W. LAGRAND

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

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 RATES FOR WATER AND SEWER SERVICE	**)))))**	**CASE NO. WR-2017-0285 CASE NO. SR-2017-0286**

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 "Surrebuttal Testimony of Brian W. LaGrand"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries 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 7th **day of** February **2018.**

Mary Beth Hercules
Notary Public

My commission expires:

MARY BETH HERCULES
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires April 26, 2020
Commission # 96546828

SURREBUTTAL TESTIMONY
BRIAN W. LAGRAND
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

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SURREBUTTAL TESTIMONY

BRIAN W. LAGRAND

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Brian W. LaGrand, and my business address is 727 Craig Road, St. Louis, Missouri 63141.

Q. Are you the same Brian W. LaGrand who previously submitted direct testimony and rebuttal testimony in this proceeding on behalf of Missouri-American Water Company ("MAWC" or "Company")?

A. Yes.

II. OVERVIEW

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony is to address various rate design issues raised by Missouri Public Service Commission Staff ("Staff") witnesses James Busch and Curtis Gateley, Office of the Public Counsel ("OPC") witness Geoff Marke, Missouri Department of Economic Development Division of Energy ("DE") witness Martin Hyman, and Coalition Cities witness Michael McGarry. Additionally, I will address 1) changes to customer usage assumptions by Staff witnesses Jarrod Robertson and Ashley Sarver, 2) depreciation expense issues raised by Staff witness Keenan Patterson and OPC witness John Robinett, 3) regulatory deferral issues raised by Staff witness Amanda McMellen and OPC witness Keri Roth, 4) regulatory expense as addressed by

Staff witness Caroline Newkirk and OPC witness Amanda Conner, and 5) working capital issues raised by OPC witness Amanda Conner.

III. RATE DESIGN

Q. What rate design topics will you be discussing?

A. I will respond to Staff, OPC and DE witnesses regarding the Company's proposed minimum customer charge ("customer charge"), miscellaneous charges and overall sewer rate design. Company witness Connie Heppenstall will also be responding to certain aspects of rate design.

a. WATER RATE DESIGN - CUSTOMER CHARGE

Q. Does Staff agree with the Company proposal to reduce all customer charges for customers billed monthly, and to increase customer charges for customers billed quarterly, such that they are three times the monthly charge for the same sized meter?

A. No. Staff witness Busch recommends the customer charges remain unchanged from current levels[1]. However, Staff understands the Company's proposal will help facilitate moving quarterly customers to monthly billing in conjunction with the implementation of Advanced Metering Infrastructure ("AMI")[2]. Mr. Busch states that Staff is not ruling out the Company's proposal and will continue to work with the Company and other parties on the best approach. The Company welcomes the opportunity to work with Staff and others on this matter.

[1] Busch Reb., p. 16-17.
[2] Company witness Andrew Clarkson discusses AMI in his surrebuttal testimony.

Q. Does OPC agree with the Company's proposed customer charges?

A. No. OPC agrees with Staff that the customer charges should remain unchanged from current levels. OPC's opposition is driven in part by their opposition to AMI deployment. Although not directly related, their ongoing opposition to consolidated tariffs and their continued insistence that the Company's Lead Service Line Replacement ("LSLR") program is illegal, also appear to underlie their customer charge position.[3] Additionally, OPC witness Marke incorrectly asserts that the Company has provided no evidence or reasoning for the proposed customer charge, and then speculates a possible reason could be to enjoy " . . . recovery of a windfall revenue stream."[4]

Q. Is OPC witness Marke correct that the Company provided no evidence or reasoning for the proposed customer charge?

A. No, he is not. Company witness Heppenstall discusses the customer charge proposal in her direct testimony,[5] and the cost calculations supporting this proposal are included in the schedules to her direct testimony. Additionally, the change is discussed in the direct testimony of Company witness James Jenkins,[6] presented in Company Accounting Schedules ("CAS") 11 and 12, attached to my direct testimony, and included in Schedule BWL-3, which shows a rate comparison for customers at various

[3] Marke Reb., p. 6, lines 10-23, footnote 3
[4] Marke Reb., p. 7, lines 1-6
[5] Heppenstall Dir., p. 12
[6] Jenkins Dir., p. 35

usage levels. Any implication that the Company was attempting to hide this proposed change to the customer charge is demonstrably false.

Q. Is OPC witness Marke correct the Company proposal is a scheme to generate a windfall in revenues?

A. No, he is not. At the end of this rate case, a revenue requirement and authorized rate increase will be determined by the Commission, and rates will be designed to generate that authorized revenue. Under the Company's proposal, the customer charges of $10.00 for customers billed monthly and $30.00 for customer billed quarterly will generate the same amounts of fixed revenue, regardless of how many customers the Company transitions from quarterly to monthly billing after new rates. It is unclear how the Company's proposal would generate these so-called "windfall revenues" that OPC witness Marke alleges.

Q. Does DE agree with the Company's proposed customer charges?

A. No. DE witness Hyman "does not recommend any increase to residential water customer charges in this case."[7] Rather, he proposes a reduction in the residential water customer charge served by 5/8" meters to $7.45[8] The Company is already proposing a reduction in the monthly residential water customer charge from $15.33 to $10.00. Reducing it even further would be inappropriate, as explained by Company witness Heppenstall in her surrebuttal testimony.

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[7] Hyman Reb., p. 4, line 10
[8] Hyman Reb., p. 14, lines 19-20

Q. Both OPC and DE suggest that the Company's proposal would dramatically increase the amount of fixed revenue the Company collects. Is this accurate?

A. No, this is far from accurate. The data presented in CAS 11 and 12, provided with my direct testimony, clearly shows that the Company's proposal does not significantly increase the level of fixed revenues collected by the Company. While overall fixed revenues increase by $0.7 million, the percentage of revenues the Company proposes to collect through fixed customer charges actually decreases. In the calculation of the Company's present rate water revenue, $71.5 million is fixed revenue, or 26.5% of the $270.2 million in total revenue. In the calculation of the Company's proposed rate water revenue, $72.2 million is fixed revenue, or 20.1% of the $359.3 million in total proposed revenue. Additionally, the percentages of fixed revenue were significantly different between the three current service areas, ranging from 24.5% to 38.8%. Under the Company's proposal, that variance is almost eliminated, as the range is only from 19.9% to 22.1%. Please see Table BWL-1 and Table BWL-2 for the calculations.

Present Rate Revenues at 5/31/19 Table BWL-1

	Fixed	Volumetric	Total	Fixed %
District 1	52.4	161.6	214.0	24.5%
District 2	9.2	21.5	30.7	30.1%
District 3	9.9	15.6	25.4	38.8%
Total	**71.5**	**198.6**	**270.2**	**26.5%**

Proposed Rate Revenues at 5/31/19 Table BWL-2

	Fixed	Volumetric	Total	Fixed %
District 1	59.2	237.7	296.9	19.9%
District 2	6.3	25.8	32.1	19.6%
District 3	6.7	23.6	30.3	22.1%
Total	**72.2**	**287.1**	**359.3**	**20.1%**

Q. Is the Company's original proposal for customer charges still appropriate?

A. Yes. The Company's proposal will allow customers who are currently billed quarterly to transition to monthly billing as they get AMI technology installed on their existing meters without incurring an increase in their customer charges. Additionally, the Company is actually shifting more revenues to volumetric charges, which will send stronger price signals to customers.

Q. Did any other parties provide testimony on the Company's proposed customer charge?

A. No, they did not.

b. COALITION CITIES OFFSET MECHANISM

Q. Can you address Coalition Cities witness McGarry's proposed offset mechanism?

A. Company witness Heppenstall will address most of Mr. McGarry's proposal; however, I would like to address his assertion that customers in the Coalition Cities' service area are "having to pay for significant capital investments in other districts that they themselves have already paid."

Q. Is it true that these customers have already paid for their significant investments?

A. No, it is not true. The water treatment plant and well fields placed in service in St. Joseph in 1998, are a good example. The total utility plant in service of that investment is $52.9 million and the current net book value is $28.0 million. The majority of those assets have depreciable lives ranging from 43 years to 53 years. Since the plant was placed in service 20 years ago, the customers have paid for 47% of the plant but still have 53% remaining.

c. SEWER RATE DESIGN

Q. Did Staff agree with the Company's proposal to establish two tariff groups – one for Arnold sewer and the second for all other sewer customers?

A. Partially. Staff does agree there should be two tariff groups[9], Arnold and All Other Sewer ("Other Sewer") customers. However, it does not agree with the Company's rate design proposal for the Other Sewer customers.

Q. Please explain the differences related to the Other Sewer customer rate design.

A. In the Company's prior rate case, the Commission stated: "In the next rate case, the Commission intends to move the consolidated sewer systems toward a single, balanced rate."[10] In the Company's proposal, the Other Sewer residential customers would be moved to two different rates – either $38.50 per month, or $58.42 per month, depending on the customers' current rate. This movement to two rates, from eight, is a move toward a single balanced, rate. In Staff's proposal, the number of different fixed charges actually increases from eight to nine. Staff actually takes a step away from, rather than "toward, a single balanced rate" as requested by the Commission. Please see Table BWL-3.

[9] Busch Reb., p. 17
[10] Report and Order, p. 29, Case WR-2015-0301

Table BWL-3

Service Area	Current Fixed	Staff Proposed Fixed	% Change	Company Proposed Fixed **	% Change
Anna Meadows	35.92	43.57	21.3%	38.25	6.5%
Benton County	66.93	66.93	0.0%	58.42	(12.7%)
Cedar Hill	66.93	66.93	0.0%	58.42	(12.7%)
Emerald Pointe *	47.73	49.84	*	58.42	*
Hickory Hills	35.92	61.16	70.3%	38.25	6.5%
Jaxson Estates	30.00	46.25	54.2%	38.25	27.5%
Jefferson City	66.93	66.93	0.0%	58.42	(12.7%)
Maplewood *	6.42	6.85	*	38.25	*
Meramec	27.02	28.33	4.8%	38.25	41.6%
Ozark Meadows	66.93	66.93	0.0%	58.42	(12.7%)
Parkville	66.93	66.93	0.0%	58.42	(12.7%)
Saddlebrooke *	42.04	42.04	*	58.42	*
Stonebridge	66.93	66.93	0.0%	58.42	(12.7%)
Wardsville *	23.50	27.54	*	58.42	*
Warren County	66.93	66.93	0.0%	58.42	(12.7%)
Number of Different Rates	**8**	**9**		**2**	

* Customers also pay a volumetric rate
** Company proposal eliminates volumtric for residential customers

Q. Do you have any other concerns with Staff's proposed sewer rate design?

A. Yes. Under Staff's proposal, the cost of service for the Other Sewer service areas is pooled, and any shortfall vs. present rate revenues is divided by the customers in the service areas that are not yet at the highest rate of $66.93. This total shortfall is $99,638, and $14,234 of the shortfall is distributed to each of the seven service areas with rates less than $66.93. Due to the wide variety in the number of customers in the different service areas, the customer impacts are dramatic. The Meramec service area and its 609 customers will pay an additional $1.95 per month, while the 46 customers in Hickory Hills will each pay an additional $25.79 per month. Please see Table BWL-4.

Table BWL-4

Service Area	Staff Proposed Revenue Shift	Customers	Additional Monthly Cost per Customer
Anna Meadows	$14,234	156	$7.60
Emerald Pointe *	14,234	387	3.07
Hickory Hills	14,234	46	25.79
Jaxson Estates	14,234	73	16.25
Maplewood *	14,234	378	3.14
Meramec	14,234	609	1.95
Wardsville *	14,234	394	3.01
Warren County	14,234	464	2.56
Totals	**$113,872**	**2,507**	**$3.79**

Q. Why is the Company's proposal more appropriate than Staff's?

A. Staff and the Company are both attempting to move toward a similar goal. However, the Company's proposal gets much closer to the Commission's request to move toward a single uniform rate, without such a significant impact on certain customers. The Company's proposal avoids the situation created by Staff's revenue shift, which results in worse outcomes for customers in smaller service areas, something the move toward consolidated rates should be trying to avoid.

Q. Did any other party provide testimony about sewer rate design?

A. No, they did not.

d. MISCELLANEOUS CHARGES

Q. Did Staff agree with the Company's proposal related to establishing statewide miscellaneous charges?

A. Conceptually, yes. Staff does not oppose the use of one statewide miscellaneous charge schedule for water, and one for sewer.[11] Staff does object to the amounts of some of the water charges and one sewer charge, and provides an alternate proposal.

Q. Does the Company agree with Staff's alternate proposal?

A. Yes, but with a couple exceptions. First, the after-hours turn-on and turn-off do not reflect the full costs to the Company. The Company provided an update to Staff data request 38.1, and included as Schedule BWL-1 CONFIDENTIAL, that shows the higher costs due to contractual minimums in the Company's labor agreements. Second, the Company proposes to strike the words "for reason of nonpayment" from the description of Service Restoration. There can be reasons a meter was removed other than for nonpayment. Lastly, the Company has a $12.00 returned check charge in place for all water service areas, and some sewer service areas. This fee has been in place for many years at the $12.00 level. Staff has proposed reducing the returned check charge to $4.00 for both water and sewer. Ideally, customers would not have checks returned for insufficient funds. However, at a fee of $4.00, customers may not be deterred from sending a check that they know may be returned. Paying for service with checks that get returned is not something we should encourage customers to do, and a fee of $12.00, while still small, will act as more of a deterrent than a $4.00 fee. The Company is agreeable to the remainder of Staff's alternative proposal, but recommends the three changes described above.

[11] Gateley Dir. p. 2

e. LOW INCOME TARIFF

Q. Did any party file testimony regarding the Company's proposed expansion of the Low Income Tariff to all customers?

A. Yes. Both Staff[12] and OPC[13] believe that that the current pilot program in St. Joseph, Parkville and Brunswick has not been in place long enough to understand the impact, and believe additional time is necessary to further evaluate the program. They both recommend to continue the pilot, but not to expand it statewide.

Q. How does the Company respond to Staff's and OPC's recommendations?

A. The Company believes its low income tariff can be a helpful tool in improving its most vulnerable customers' ability to continue to pay for water service throughout its entire service territory. However, MAWC acknowledges that the pilot program is just over a year old and, as a result, there is somewhat limited data available to fully evaluate the effectiveness of the program. Therefore, the Company can agree with Staff and OPC to maintain the existing pilot program as is.

f. COMPANY HISTORIC REVENUES

Q. Staff witness Busch states that Company "revenues have trended up over the past five years" and that is evidence that "there is no pressing need to justify a new regulatory mechanism [RSM] at this time."[14] Is that an accurate characterization?

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[12] Gateley Reb., p. 3
[13] Marke Reb., p. 6-7
[14] Busch Reb., p 7

A. No, it is not. Staff made that statement in the context of rebutting Company witness James Jenkins testimony that the Company has not recovered authorized revenues in eight of the last ten calendar years. Leaving aside for the moment that Mr. Roach and Mr. Jenkins explain conclusively that there is no such “trend” of increasing revenue, even considering Staff’s claim that revenues have increased in the six years in a vacuum shows an incomplete and misleading picture. The total revenues reported in the Company annual reports filed with the PSC include unbilled revenues, revenues from acquisitions and revenues from ISRS, none of which are accounted for in the Company’s authorized level of revenues in its most recent respective rate cases. For example, ISRS is only earned on investments made outside of a rate case, and only allows the Company to partially reduce regulatory lag on limited investments in a limited geography. When considering total revenues, as Staff does, it appears Company revenues have increased $44.5 million from 2011 to 2016, for a 3.4% compounded annual growth rate (“CAGR”). However, when making the appropriate adjustments, base business revenue would be seen as having actually only increased $19.7 million, with a 1.6% CAGR. Please see Table BWL-5 below. More important, however, the chart below shows no trend. For example, adjusted revenue in 2012 was $272.0 M, while revenue declined to only $258.1 M in 2016. Moreover, while adjusted revenue increased from 2015 to 2016, it fell from 2013to 2014 and from 2014 to 2015. Clearly, there is no such upward trend and, again, I would defer to Messrs. Jenkins and Roach for a fuller explanation.

Table BWL-5

Revenues ($M)	2011	2012	2013	2014	2015	2016	5Y CAGR
Total Revenue	$243.1	$279.5	$264.8	$270.2	$268.8	$287.6	3.4%
Unbilled Revenue	(1.3)	(3.6)	(2.3)	(0.8)	3.0	(4.6)	
ISRS Revenue	(2.7)	(2.1)	(6.1)	(14.3)	(23.2)	(16.0)	
Acquisitions	(0.8)	(1.7)	(2.6)	(3.7)	(6.1)	(8.9)	
Net Base Revenues	**$238.4**	**$272.0**	**$253.9**	**$251.4**	**$242.7**	**$258.1**	**1.6%**

IV. PROPERTY TAXES

Q. Did any party file testimony related to the Company's property taxes?

A. Yes. OPC witness John Riley provided rebuttal testimony on the Company's proposed property taxes.

Q. Does the Company agree with OPC's proposed treatment of property taxes?

A. No. OPC witness Riley dismisses the Company's proposed future test year as "unacceptable", states that OPC agrees with Staff's 2016 level of property taxes, and notes the tax-levels should be trued-up through year end. Company witness Jim Jenkins addresses the future test year in his surrebuttal testimony. I would like to address property taxes in the event the Commission does not grant a future test year.

Q. If the Commission does not grant the Company a future test year, is there additional information they should consider related to property taxes?

A. Yes. As fully described in the Company's Accounting Authority Order case related to property taxes (WU-2017-0351), St. Louis County and Platte County both implemented dramatic, sudden changes to their property tax assessment methodology in May 2017. Under the new methodology, the St. Louis County property tax bill for

2017, payable by the end of 2017 increased by $6.1 million[15]. The Company was able to negotiate a two year transition with St. Louis County, where the assets were assessed using a 15 year MACRS class life in 2017 and then a 20 year MACRS class life in 2018. The transition agreement resulted in a 2017 increase of $4.4 million paid in 2017[16]. As a result, we know the amount due in 2018 will reflect the full increase of $6.1 million Since the amount of the full transition to a 20 year MACRS class life was known and measurable in 2017, the Commission should include the full level of property taxes in the 2017 true-up, not only the amount paid in 2017.

<u>V. PRESENT RATE REVENUES</u>

Q. What issues related to present rate revenues will you discuss?

A. First, I will address changes made in the calculation of average residential usage per customer by Staff witness Jarrod Robertson, as well as Staff's overall usage assumptions. Second, I will discuss changes to private fire usage, and special contracts suggested by Staff witness Sarver.

Q. Will you be addressing Staff's continued use of a five year average for residential customer usage?

A. No. Company witness Greg Roach further explains why using a five year average for residential usage is inappropriate.

[15] WU-2017-0285 Wilde Dir., Schedule JRW-1
[16] WU-2017-0285 Wilde Dir., Schedule JRW-1

Q. Does the Company accept Staff's use of a five year average for non-residential customer classes?

A. Yes. In the Company's direct filing in this case, the most recent single year of usage was considered when calculating present rate revenues for non-residential customers. However, in this case, Staff's methodology, which uses a five year average, does not result in a significantly different level of usage. Therefore, the Company will accept Staff's non-residential usage methodology.

Q. What changes did Staff witness Robertson make to the calculations of residential usage per customer?

A. There were several. First, Staff incorporated some changes regarding usage in St. Joseph and consistency in the treatment of leap year in the usage per day calculation. Second, Staff moved to calculate an average daily usage per customer for each of the three water tariff groups, rather than an average per district. Lastly, Staff adjusted the usage in some recently acquired small systems where data was not complete.

Q. Does the Company agree with these changes?

A. Yes. The Company is in agreement with the changes.

Q. What change did Staff witness Sarver make to private fire usage?

A. Previously, Staff utilized the 12 months ended June 2017 to calculate fire usage, which resulted in Staff including usage of 47,136 thousand gallons. Staff's approach now utilizes a four year average for St. Louis and Warrensburg, and uses the 12 months ended June 2017 for the other service areas.

Q. Does the Company agree with Staff's conclusions?

A. Yes. Using the four years of fire usage data available to Staff for St. Louis and Warrensburg is consistent with Staff's approach on other non-residential customer usage.

Q. What changes did Staff make to the special contract usage assumptions?

A. Staff changed the usage assumption for Triumph Foods to use a five year average, but left The Empire District Electric Company's usage at the 12 months ended June 2017.

Q. Does the Company agree with this change?

A. In part. The Company agrees that applying the same methodology to Triumph as the rest of the non-residential customers is a consistent approach. However, keeping Empire usage at the most recent 12 months is not appropriate. Staff notes that Empire does not show usage in one of the last 60 months. That should not be an obstacle to calculating a five year average for Empire. The 12 month period ending June 2017 is the 3rd highest total of usage in any 12 month period in the last five years. Staff could utilize a 59 month average or they could replace the empty month with an average of the same month in the other four years. Either of these approaches would produce a result that Staff can use consistently with their treatment of other non-residential revenues.

VI. DEPRECIATON EXPENSE

Q. What issues related to depreciation expense would you like to address?

A. First, I will address the Company's proposal to change the depreciation rate on the Business Transformation program ("BT") initial investment. Second, I will address establishing a depreciation rate for sewer leasehold improvements.

Q. Do either Staff or OPC agree with the Company's proposed change to the BT depreciation rate from 5.0% to 14.3%?

A. No, they do not. Both Staff witness Patterson and OPC witness Robinett recommend that the Company retain the current approved depreciation rate of 5.0%. Their primary objections are: 1) the rate would result in depreciating more than the original investment; 2) the Company should have included this proposed change in the depreciation study in the last rate case; and, 3) the Company has not explained why the useful life of the BT systems will be exhausted in seven years, nor has the Company explained their plans for the end of mainstream maintenance.

Q. Is it the Company's intention to depreciate the BT assets beyond their original cost?

A. No, it is not. The Company agrees with Staff and OPC that the proposed 14.3% applied to the original cost would cause depreciation to exceed the original cost, but not until seven years from now. It is likely that the Company will file for rate relief in the next seven years so that the rate can be reevaluated well before the investment is fully depreciated. Even if the Company were not to file, the issue can be addressed before the plant is fully depreciated. The Company's intent was to depreciate the balance to zero at the end of seven years. One could achieve that by applying 14.3% to the net book value, or 10.6% to the original cost. At the end of this rate case, the net book value of the original BT investment in NARUC account 391.4 is expected to be approximately $34.4 million. If the remaining balance is depreciated over seven years, it would result in $4.9 million of depreciation expense annually. See Table BWL-6 for the depreciation schedule.

Table BWL-6

$ Millions	Jun-17	May-18	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
UPIS	$46.5	$46.5	$46.5	$46.5	$46.5	$46.5	$46.5	$46.5	$46.5
Accumulated Reserve									
Beginning Balance		(9.9)	(12.1)	(17.0)	(21.9)	(26.8)	(31.7)	(36.6)	(41.6)
Depreciation Expense		(2.1)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)	(4.9)
Ending Balance	($9.9)	($12.1)	($17.0)	($21.9)	($26.8)	($31.7)	($36.6)	($41.6)	($46.5)
Net Book Value	$36.5	$34.4	$29.5	$24.6	$19.7	$14.7	$9.8	$4.9	$0.0
Depreciation Rate		5.0%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%

Q. Did the Company include this proposed change to the BT life in the depreciation study in the last rate case?

A. Yes. The Company included the BT assets in the depreciation study in the last case. In Case No. WR-2015-0301, Company witness John Spanos provided a water and wastewater depreciation study as part of his direct testimony. On page VI-8 of Schedule JJS-1, attached to his direct testimony, Mr. Spanos calculated a rate of 10.0% for computer software, which included the BT initial investment. Additionally, he noted that the asset category had a composite remaining life of 7.9 years.

Q. Can you explain in greater detail the Company's plans for when mainstream maintenance ends in 2025?

A. As stated in the response to MoPSC DR 200, the Company has not yet determined a course of action at this point. That time is still seven years away and, while a project of this nature requires advance planning, there is no reason for the Company to have made a final decision at this point. The Company continues to invest in upgrades and enhancements to BT beyond the initial investment, and many parts of the initial BT investment will be rebuilt, replaced or re-configured by 2025. Given the speed at which technology and software are evolving, it is unreasonable to assume any software application will have a 20 year useful life. The Company is likely to be in for rate relief before 2025, and those would be better venues for providing information regarding a more definitive plan.

Q. Does the Company agree with OPC witness Robinett's recommendation to establish a 5.0% depreciation rate for NARUC account 390.9?

A. Yes. In my rebuttal testimony, I also stated that the Company was in agreement with OPC on this issue.

<u>VII. NEGATIVE DEPRECIATION RESERVES</u>

Q. OPC witness John Robinett provides testimony about so-called "negative depreciation reserves." Can you please summarize Mr. Robinett's concerns about this issue?

A. OPC witness Robinett's concerns cover a broad range of issues. First, Mr. Robinett revisits testimony he provided in the Company's last rate case as a Staff witness on this topic and what he feels are deficiencies in Staff's approach to the subject in this case. Second, he examines a number of NARUC accounts to attempt to demonstrate the pervasive nature of negative depreciation reserves. Third, he describes the situations that can result in a negative reserve balance. Lastly, he expresses concern about the impact of the Company's AMI installation program and Lead Service Line Replacement Program could theoretically have on the reserve balances.

Q. Does the Company have negative reserve balances, and if so, how significant are they?

A. Yes, there are a few NARUC accounts that have negative reserve balances, but they are quite small. Please see Tables BWL-7 and BWL-8 below for the details of the total water and total sewer NARUC accounts identified by OPC witness Robinett.

Table BWL-7

NARUC	Description	Amount
324	Steam Pumping Equipment	(50,591)
393	Stores Equipment	(110,057)
399	Other Tangible Equipment	(298,949)
Total Water Negative Reserves		**(459,597)**
Total Water Reserve		**502,257,860**
As % of Total Water Reserve		**(0.09%)**

Table BWL-8

NARUC	Description	Amount
356	Other Collection Equipment	(152)
374	Outfall Sewer Lines	(5,709)
390.1	Office Structure	(8,387)
390.9	Structures and Impv Leasehold	(16)
Total Sewer Negative Reserves		**(14,264)**
Total Sewer Reserve		**26,821,220**
As % of Total Sewer Reserve		**(0.05%)**

Q. Does OPC witness Robinett use the negative depreciation issue to express continued opposition to further consolidation of tariff groups?

A. Yes. Mr. Robinett claims that "the decision to consolidate into three zones has masked the underlying reserve issues that were occurring at the district level."[17]

Q. Does the Company use different depreciation rates for each service area?

A. No. The Company currently uses statewide water depreciation rates and statewide sewer depreciation rates as ordered in the Company's last rate case.

Q. Can the fact there isn't a specific depreciation rate for every service area lead to negative reserves in some cases?

A. Yes, it can, particularly for accounts that hold small amounts of investment. The rates are a blend of the appropriate remaining lives in the various service areas. As the Company utilizes mass asset accounting, assets are depreciated until they are retired. This can lead to a situation where depreciation is recorded in a NARUC account for longer or shorter than the useful life. Any over or under depreciation will be corrected when the Company completes another depreciation study.

Q. OPC has expressed concerns about the impact that the installation of AMI technology on customer meters and the Lead Service Line Replacement Program could have on the negative reserves. Can you address those concerns?

[17] Robinett Reb, p. 6

A. Yes. First, OPC appears to misunderstand the process when AMI is installed. The entire meter is not replaced when AMI is installed, unless the meter is scheduled for a length of service replacement. There will not be "478,005 meters . . . retired prematurely"[18] as OPC suggests. Company witness Andrew Clarkson addresses this further in his surrebuttal testimony. Second, OPC's concern as I understand it, is that the lead service line replacement program could result in negative reserves if the Company retires plant it does not own. The Company will not be recording retirement entries for replacement of customer owned lead service lines, so it's unclear how this would result in additional negative reserves. Company witness James Jenkins is addressing lead service line cost recovery in his surrebuttal testimony.

Q. Does OPC have specific recommendations related to negative depreciation reserves?

A. Yes. OPC witness Robinett recommends the Company file a report with the Commission explaining the negative reserves, and potentially conduct an external independent audit.

Q. Do you believe either of these recommendations should be adopted by the Commission?

A. No. Developing a report and engaging in an external independent audit both require significant time and resources, as well additional unnecessary cost. We are exploring the negative reserves issue in this case, and given the de minimis nature of this issue,

[18] Robinett Reb., p 9

neither an ongoing report to the Commission nor an external audit seem warranted at this time.

VIII. REGULATORY DEFERRALS

Q. What do Staff and OPC recommend related to the Emerald Pointe sewer pipeline costs?

A. Both Staff and OPC recommend the pipeline costs be excluded from rate base, but include an amortization in the cost of service.

Q. Does the Company agree with this recommendation?

A. Only in part. There is no disagreement that an amortization expense should be included in the cost of service. There is disagreement about whether the unamortized balance should receive rate base treatment.

Q. Has the Company provided testimony on the rate base treatment of the Emerald Pointe pipeline in this case?

A. Yes. I provided rebuttal testimony on the issue. It is important to emphasize two points. First, in Emerald Pointe's last rate case prior to the acquisition by MAWC (SR-2013-0016), the pipeline was included in rate base. Second, in Emerald Pointe's certificate case to get authorization to construct the pipeline, Staff's recommendation states, "So, Staff concludes that the Pipeline Project is reasonable, and in fact cost effective from a capital cost standpoint." Emerald Pointe could have constructed its own treatment plant, but it would have cost more than the solution that was implemented.

Q. If Emerald Pointe had constructed its own treatment plant, what would have been the consequence?

A. Assuming reasonable construction costs, the cost of that plant would have appropriately been a part of its rate base and Emerald Pointe and, subsequently, MAWC would have earned a return on the investment.

Q. What conduct does Staff and OPC's proposed treatment incentivize?

A. Staff and OPC's proposed treatment of the Emerald Pointe investment in this case would incentivize companies to ignore cost efficient options where the Company must invest amounts in plant that it will not own. The cost of the pipeline that was contributed to Hollister, as part of the agreement to connect to the city, is investment made by Emerald Pointe, no different economically than if they owned the pipeline or a treatment plant. However, because Emerald Pointe chose an option that was better for its customers (and, in this case, the environment), Staff and OPC would have the Company forego a return.

Q. What should the Commission do to avoid this result?

A. The Commission should allow for rate base treatment of the unamortized balance. To deny rate base treatment would send the message to utilities to not seek more cost effective options, despite the utility's outlay of its own capital, if the utility ultimately does not own the assets. No party is well served by that approach, least of all the customers.

Q. Did Staff or OPC address the fact that the Commission included the pipeline in Emerald Pointe's rate base in their last rate case?

A. No, they did not.

Q. What do Staff and OPC recommend related to the Hickory Hills receivership costs?

A. Both Staff and OPC include an amortization, but do not provide rate base treatment to the unamortized balance.

Q. Does the Company agree with this recommendation?

A. Only in part. There is no disagreement that an amortization expense should be included in the cost of service. There is disagreement about the rate base treatment for the unamortized balance.

Q. Has the Company provided testimony on the rate base treatment of the Hickory Hills receivership costs in this case?

A. Yes. I provided rebuttal testimony. To recap, Hickory Hills was a very "troubled" system. So troubled that the court appointed receiver had to take out personal loans to cover some costs of the system. The purchase price the Company paid for Hickory Hills includes these fees, which are part of the Company's investment. By acquiring this system, the Company solved a longstanding problem for the Hickory Hills customers. If the Company hadn't paid the receiver fees, this transaction would not have happened, and the problems Hickory Hills had would still exist, potentially being even worse now.

Q. What impact might this type of approach have on the Company going forward?

A. The acquisition of troubled utility systems by larger, financially stable utilities such as MAWC serves the best interest of Missouri and its citizens. If a portion of the investment made to acquire a troubled system is excluded from rate base, the Company may have to carefully consider any acquisition of future troubled systems.

IX. RATE CASE EXPENSE

Q. Have both Staff and OPC acknowledged that the unamortized rate case expense from WR-2015-0301 should be included in the amortization of rate case expense from this case?

A. Yes, they have.

Q. What other adjustments did Staff make to the amount of rate case expense they are including in this case?

A. Staff adjusted the amount of the depreciation study from the last rate case to $63,614, which is the invoiced amount. The Company agrees with this amount. Staff also adjusted the amount of rate case expense allowed in this rate case to reflect changes to Staff's recommended revenue requirement as a percent of the Company's original rate request. As previously stated in my rebuttal testimony and that of Company witness James Jenkins, the Company does not agree with Staff's approach of rate case expense sharing.

X. WORKING CAPITAL

Q. OPC witness Amanda Conner addressed two issues with working capital. Does the Company agree with Ms. Conner's observations after her "limited review of MAWC's CWC analysis"?

A. No. OPC simply agreed with Staff's adjustments. As I explained in my rebuttal testimony, the Company disagrees with the Staff's proposed adjustments

Q. What is OPC's position on preferred stock dividends in working capital?

A. OPC states that preferred stock dividend payments should not be included because "stock payments only benefit the shareholders."

Q. Does the Company agree with this assessment?

A. No. Assuming OPC witness Conner is referring to dividends when she says "stock payments", she is missing the point that preferred stock is a type of financing. In many ways, preferred stock is really more like a debt instrument, and dividends are more analogous to interest payments to debtholders rather than dividends paid to common stockholders. Just like interest payments are included in the cash working capital calculation, so should the Company's preferred stock dividend payments.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

SCHEDULE BWL-1

SCHEDULE BWL-1 IS MARKED CONFIDENTIAL IN ITS ENTIRETY AND IS BEING FILED SEPARATELY.