Exhibit No.:	
Issues:	Labor and Labor Related Expenses, Performance Pay, Support Services, Insurance Other than Group, Taxes other than Income, and Other Operating Expenses; Miscellaneous Expense, Maintenance Supplies and Services, and Employee Expense
Witness:	Nikole L. Bowen
Exhibit Type:	Rebuttal-Revenue Requirement
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2020-0344
Date:	January 15, 2021

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

REBUTTAL TESTIMONY
REVENUE REQUIREMENT

OF

NIKOLE L. BOWEN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Nikole Bowen, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Director Regulatory Services for 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.

Nikole L. Bowen

Nikole L. Bowen

January 15, 2021

REBUTTAL TESTIMONY
REVENUE REQUIREMENT
NIKOLE L. BOWEN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344

TABLE OF CONTENTS

REBUTTAL TESTIMONY

NIKOLE L BOWEN

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Nikole L. Bowen, and my business address is 727 Craig Road, St. Louis, MO, 63141.

Q. Are you the same Nikole L Bowen who previously submitted direct testimony in this proceeding?

A. Yes.

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

A. The purpose of my rebuttal testimony is to address certain aspects of the Staff Report – Cost of Service ("COS Report") filed by the Staff of the Missouri Public Service Commission ("Staff") and to the direct testimony of the Office of the Public Counsel ("OPC") on the following topics: 1) labor and labor related expense; 2) support services; 3) taxes other than income; and, 4) other operating expenses.

Q. Please address the issues regarding future test year.

A. Unlike Missouri-American Water Company ("MAWC", "Missouri-American" or the "Company"), Staff did not use a future test year calculation in its direct case. Therefore, my rebuttal testimony will address the methodologies used by the Staff to calculate various operating expenses, rather than attempt to reconcile the differences between the Staff's and Company's direct cases. Missouri-American witness John Watkins further supports the use of a future test year and addresses concerns raised by Staff and interveners regarding the future test year in his revenue requirement rebuttal testimony.

II. LABOR AND LABOR RELATED EXPENSES

Q. Does Staff address the Company's labor and labor related expenses?

A. Yes. Staff witness Ali Arabian sponsors Staff's labor and labor related expense adjustment in the Staff COS Report. Staff's labor and labor related expense was based on the test year amounts ending December 31, 2019, adjusted for wage increases, and changes in employee levels through June 30, 2020. In addition, Staff applied an overtime adjustment, based on a three-year average calculation by District. The expense was applied against Staff's capitalization rate, calculated based on labor dollars for the period ended June 30, 2020 by district. Portions of specific employee salaries and related expenses associated with lobbying were also removed. Finally, Staff did not include 50% of the Company's Annual Performance Plan ("APP") costs or any of the Company's Long-Term Performance Plan ("LTPP") costs.

Q. Do you agree with Staff's recommended labor and labor related expense?

A. No. The Company does not agree with Staff's labor and labor related expense calculation for the following reasons:

1) it uses the Company's staffing level as of June 30, 2020;
2) it uses 2,080 hours to calculate base wage expense for hourly employees;
3) it disallows a portion of wages for specific positions related to lobbying;
4) it did not include amounts incurred by MAWC for its APP and LTPP;

5) it did not include the portion of the expense related to the Employee Stock Purchase Plan ("ESPP");

6) it did not include expense for licenses/certifications or meal allowances in its wage calculation; and,

7) it calculated the medical, dental, and vision expense portion of the Non-OPEB group insurance based on a partial year and not annualized expense amounts. In addition, Staff used an incorrect multiplier for union employees, which overstated basic life and accidental death and disability ("AD&D") and assigned 149 non-union employees' long term disability benefit with zero dollars.

Q. Why do you disagree with the staffing level used by Staff in its labor and labor related expense calculation?

A. Staff's labor and labor related expense was calculated based on filled positions and salaries in effect as of June 30, 2020, resulting in a calculation of labor and labor related expenses based on 672 positions. In addition, the number of positions used by Staff does not include any of the 13 temporary summer positions employed by the Company during 2020. The Company has employed these temporary/seasonal workers in the past and MAWC plans to continue to employ the same number during the summer going forward. Using more current information, however, as of December 31, 2020 (which the Commission has identified as a true-up date), Missouri-American had 715 full time equivalent ("FTE"), 1 part time, and 2 temporary full time employees. As such, it is reasonable to include MAWC's full complement of employee staffing levels of 718 employees, plus expenses for the 13 temporary summer workers, in the Company's labor and labor related expense.

Q. Please explain why Staff's use of 2,080 hours to calculate base wage expense for hourly employees is inappropriate.

A. The number of work hours in a twelve-month period can vary from 2,080 to 2,096 work hours. Any twelve-month period that begins on a Saturday or Sunday will have 2,080 work hours, with the exception of a leap year, which will have 2,088 hours. Any twelve-month period that begins on a Monday through Friday will have 2,088 work hours, except the leap year, which will have 2,096. The table below provides an analysis of the workdays and hours for 2020-2024.

2020 Work Days/Hours

Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	23	20	22	22	21	22	23	21	22	22	21	23	262
Hours	184	160	176	176	168	176	184	168	176	176	168	184	2096

2021 Work Days/Hours

Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	21	20	23	22	21	22	22	22	22	21	22	23	261
Hours	168	160	184	176	168	176	176	176	176	168	176	184	2088

2022 Work Days/Hours

Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	21	20	23	21	22	22	21	23	22	21	22	22	260
Hours	168	160	184	168	176	176	168	184	176	168	176	176	2080

2023 Work Days/Hours

Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	22	20	23	20	23	22	21	23	21	22	22	21	260
Hours	176	160	184	160	184	176	168	184	168	176	176	168	2080

2024 Work Days/Hours

Month	January	February	March	April	May	June	July	August	September	October	November	December	Total
Work Days	23	21	21	22	23	20	23	22	21	23	21	22	262
Hours	184	168	168	176	184	160	184	176	168	184	168	176	2096

The table shows the number of work hours in a calendar year, averaged over the five-year period shown is 2,088. This analysis demonstrates why the Company used 2,088 hours to calculate base wages for hourly employees and supports the calculation used by the Company in developing labor and labor related expenses. Using 2,088 hours results in an increase in expense of $71,841.

Q. Please address Staff's disallowance of a portion of labor and labor related expense associated with lobbying.

A. Staff eliminated 4.5% and 7.79% of the Manager of External affairs and Director of Government and External Affairs salaries related to lobbying expense, which equates to $21,448.

Q. Do you think it is appropriate to remove costs related to employee lobbying activities generally?

A. No, I do not. There is no reason to deny recovery for lobbying activities that are carried out by an employee of the Company. All companies, including utilities, must lobby the legislature to ensure that laws that are enacted are in the best interest of the Company and its customers. There is no reasonable basis for denying recovery for activities that support the interests of the Company and its customers.

Q. Please describe the adjustments proposed by Staff to the Company's performance-based compensation costs.

A. Staff recommends disallowing fifty percent (50%) of annual performance plan ("APP") compensation for both MAWC and Service Company employees. Staff also recommends disallowing 100% of long-term performance plan ("LTPP") compensation for MAWC and Service Company employees. The Company refutes the recommendations of Staff and OPC and supports the reasonableness of total compensation, including performance-based compensation, in the rebuttal testimony of Company Witnesses Kaiser and Dewey.

Q. Please address Staff's elimination of the Company's ESPP costs from its labor and labor related expense.

A. Staff eliminated the amount associated with the Company's ESPP for Missouri-American's labor expense. This resulted in a reduction of approximately $181,657 in Missouri-American's revenue requirement. Staff recommends not allowing recovery of the ESPP expense because there is no actual cash outlay for this item made by MAWC. As I discuss below, while there may be no cash outlay, it is compensation that should be addressed in the revenue requirement.

Q. What is the ESPP?

A. The ESPP is open to all active, full- or part-time employees of American Water Works Company, Inc. ("American Water") and its subsidiaries, including MAWC, through payroll deductions. Employees who choose to participate in a purchase period elect a contribution of 1% to 10% of after-tax compensation, for the purchase of American Water stock, subject to a maximum of $25,000 per year. Under the ESPP, participants acquire shares of American Water common stock at a 15% discount.

Q. How are these transactions accounted for?

A. The discount portion of the transactions are accounted for as share-based payment arrangements with employees under Accounting Standards Codification ("ASC")

Topic 718, *Compensation – Stock Compensation*. The objective of accounting for transactions under ASC 718 is to recognize in the financial statements the employee services received in exchange for equity instruments issued and the related cost to the entity as those services are consumed. ASC Topic 718 requires the Company to record expense over the three-month purchase period for employees' participation in the ESPP.

The expense is recorded based on individual employee participation in each subsidiary or state. Compensation expense is measured at grant date based on the number of shares that can be purchased using the estimated total payroll deductions and the grant date fair value of the stock at grant date (the beginning of the purchase period). The purchase-period withholdings for each participant are estimated at the beginning of each purchase period based on participant contribution elections. The estimated payroll deductions for each individual participant in each subsidiary or state are aggregated and used to calculate an estimated number of shares that can be purchased for participants in each state or subsidiary. Expense for the purchase period is calculated by multiplying the estimated number of shares to be purchased in the subsidiary or state by the grant date fair value. The expense (which represents the 15% discount to employees but contributed by the Company) is recorded evenly over the three-month purchase period to one cost center or cost center and WBS element combination for each subsidiary or state.

Q. How do you respond to the argument that there is no specific cash outlay?

A. While there is no specific cash outlay by Missouri-American for the ESPP expense, the 15% discount received by employees purchasing shares is compensation. The fact it is not cash does not change the fact that it is an expense recorded on the Company's books. Just like the other benefits the Company provides to its employees, ESPP is a part of an employee's overall compensation, and the expense should be included in the Company's labor and labor related expense in this case.

Q. Despite the differences in staffing levels, and adjustments and/or methodologies used, what corrections should be made to Staff's labor and labor related expenses?

A. There should be corrections for licenses and certifications, the medical insurance component of group insurance, and basic life and long-term disability insurance.

Q. Please describe the issue related to licenses and certifications.

A. Wage rate premiums are a component of labor expense required by collective bargaining agreements ("CBAs") for employees who obtain special licenses and certifications. For example, production employees who receive certain certifications for drinking water treatment issued by the Missouri Department of Natural Resources would qualify for a wage rate premium. These are in addition to the shift premiums required by certain CBA's for particular shifts, or work scheduled for holidays such as Thanksgiving, Christmas, and the Fourth of July. Staff's adjustment does not include the CBA required rates for those employees who have obtained those specific licenses or certifications.

Q. What is the medical, dental and vision insurance component of non-OPEB group insurance?

A. Medical, dental, and vision insurance is a benefit offered to American Water employees. This category of insurance involves a Company cost net of employee contributions for medical, dental and vision and Company contributions for HSAs. The costs and contributions vary by plan type (e.g. family, employee, or employee plus spouse).

Q. Please describe the issue related to the medical, dental and vision insurance component of group insurance.

A. The medical, dental, and vision insurance component was calculated by the Company and Staff on an employee-by-employee basis. Staff utilized a data request (Staff DR 0158) to determine the expense level by employee. The data in this response included expense through June 30, 2020, and therefore represented 6 months of expense rather than an annualized amount. Thus, Staff only computed 6 months of expense. If the amount is annualized, an additional $3,155,478 should be added to the Company's revenue requirement for this issue. The Company has previously discussed these matters with Staff, and it is my understanding that these corrections will be made.

Q. Please describe the issue related to basic life and long-term disability insurance.

A. American Water provides basic life and accidental death and dismemberment ("AD&D") to union employees, and basic life and accidental death and dismemberment, along with long-term disability insurance coverage to non-union employees. This rate should be 1.5 percentage times base salary for non-union employees and 1.25 percentage times base pay for union employees. The basic life and long-term disability insurance components are also calculated on an employee-by-employee basis. The basic life insurance is calculated by taking the coverage percentage times the employee's base salary. Staff's adjustment calculates the expense for both union and non-union employees using the 1.5% times base salary, which overstated the expense by $3,890. In addition, Staff's calculation imputed a zero rate, rather than 1.5% for a 149 non-union employee's long-term disability expense, which equates to $22,051 in expense.

III. SUPPORT SERVICES

Q. Please address the issues regarding support services.

A. There are two issues related to Support Services that need to be addressed. The first issue is related to the employee labor and benefits calculation and the second is performance pay. Staff's labor and benefits expense was calculated based on the response to Staff DR 0158. The Company's response inadvertently didn't include the full complement of Service Company employees. The original response included 858 employees, while the actual employee count should have been 1,175. An updated response has been provided to Staff. Using Staff's O&M percentage, and labor calculation this results in an increase to labor and benefits expense of $7,688,062, inclusive of incentive compensation. The Company has previously discussed these matters with Staff, and it is my understanding that these corrections will be made.

Q. Please describe the adjustments proposed by Staff to the Company's performance-based compensation costs.

A. As previously stated, Staff recommends disallowing fifty percent (50%) of annual performance plan ("APP") compensation for both MAWC and Service Company employees. Staff also recommends disallowing 100% of long-term performance plan ("LTPP") compensation for MAWC and Service Company employees. Additional information regarding the Company's performance compensation can be found in the testimony of Company Witnesses Kaiser and Dewey. The Company also provided Staff with an updated response to Staff DR 0153 as the original 2020 expense was understated and included only the accrual to date not actual pay out for Service Company incentive compensation. The correction, using Staff's disallowance methodology, though the Company does not agree with, is included in the $7,688,062 above.

IV. INSURANCE OTHER THAN GROUP

Q. Please address the issues regarding Other Operating Expense, Insurance Other Than Group ("IOTG").

A. The Company has three issues with Staff's calculation of the IOTG expense. First, Staff excluded all cost of the Directors and Officers ("D&O") insurance coverage. Second, Staff also removed expense associated with the Consult Fee (AL, GL, WC). Third, Staff applied a 10% capitalization rate to all policies, with the exception of workers compensation.

Q. Do you agree with Staff's elimination of D & O coverage expenses?

A. No. In review of Staff's work papers, it appears that Staff removed the expense associated with premiums for D&O coverage and D&O Brokerage Fees. Staff provides no explanation for the removal of this expense. The D&O Policy is important as it would be extremely difficult to recruit qualified persons to serve on a Board of Directors or in the capacity of executive management without a policy of insurance to indemnify and defend the Board of Directors and Corporate Officers. The Company recommends full recovery of the cost for this insurance coverage. This would result in an increase of expense of $48,785 dollars.

Q. Do you agree with Staff's elimination of the Consultation Fee expense?

A. No. Staff has removed expense associated with the Consultation Fee. The fee is for insurance brokerage services, for example placement of insurance programs, issuance of certificates of insurance, auto id cards, and claims advisory services for Auto Liability, General Liability, and Workmen's Compensation. This would result in an increase in expense of $36,770.

Q. Do you agree with Staff's 10% Capitalization rate applied to all other insurance policies with the exception of Workmen's Compensation?

A. No. While Staff's report provides no explanation for this adjustment, the workpapers contain a note that indicates 90% of the expense is allowable because 90% of the claims are related to either main breaks or trip and fall accidents. Aside from Workmen's Compensation, the bulk of the remaining IOTG expense is related to general liability coverage. The claims that fall under these policies are related to injuries and damages to third parties. These costs are not for putting plant in service and thus should not be subject to capitalization. This would result in an increase in expense of $531,324.

V. TAXES OTHER THAN INCOME

Q. Please address Staff's position regarding the PSC Assessment.

A. Staff calculated an annualized expense based on the assessment issued on July 1, 2020.

Q. How does MAWC proposed to address the PSC Assessment?

A. The Company calculated the annual PSC based on a three-year average expense derived from 2017, 2018, and 2019. Use of a three-year average is more representative of the fluctuations in the fee and expense for the period in which rates will be in effect.

Q. What has been the history of MAWC's PSC Assessment?

A. The PSC fee fluctuates from year to year. In 2016, 2017, and 2018 the fee was $2,132,594, $2,942,027, and $2,029,774 respectively.

VI. OTHER OPERATING EXPENSES

a. MISCELLANEOUS EXPENSE

Q. Please describe the issues related to Miscellaneous Expense.

A. The operating expense described as miscellaneous expense includes charitable contributions, lobbying expenses, and penalties and dues. Excluding those items the Company removed prior to its rate request, Staff removed an additional $307,543 from the Company's charitable contributions, and dues and donations expense from its revenue requirement recommendation.

Q. What additional items did the Staff disallow?

A. As Staff noted in its COS, Staff removed items such as MAWC's sponsorship of the "Wings Over Water" program, "Operation Clean Stream", and the "Missouri Prescription Pill and Drug Disposal" program ("Missouri P2D2"), as well as other expenses related to conservation and environmental education. These disallowances total $86,817. Staff also removed another $15,136 of expense with no explanation. In addition, Staff removed roughly $67,451 of expense associated with various Missouri Chamber of Commerce membership dues and events. Finally, Staff removed approximately $28,650 of expense associated with American Water Works Association ("AWWA") membership dues, indicating it needed additional information to make an assessment, which has since been provided. These items total $198,054 and should be included in the Company's revenue requirement.

Q. Can you explain why sponsorship of items associated with the Wings Over Water program, the Open Space Council, and the Missouri P2D2 should be included in Company's revenue requirement?

A. Missouri American, in partnership with the World Bird Sanctuary, sponsors the "Wings over Water" events. These events, which are held two or three times per year, at multiple locations in Missouri, help reinforce the importance of river preservation to quality drinking water and wildlife conservation. These events provide educational information to customers as to what they can do every day to preserve the quality of water in our rivers. This information increases understanding of water quality issues among customers and supports our provision of service. The "Operation Clean Stream", sponsored in part by Missouri American, is a project that works to restore Missouri Rivers and educates customers on the importance of keeping rivers clean. Operation Clean Stream restores roughly 500 miles of river each year. In 2020 the project removed trash, tires, and flood debris from the Meramec Watershed. The "Missouri P2D2", sponsored in part by Missouri American, educates customers on the proper way to dispose of unwanted prescription pills and drugs, and provides an alternative disposal method. The program provides over 25 collection boxes around Missouri, for unwanted pills, ensuring they are disposed of properly rather than in landfills, and wastewater systems that may negatively impact water sources and the environment. As such, sponsorship of these programs should be included in the Company's revenue requirement.

Q. Can you further discuss the Chamber of Commerce dues that have been disallowed by Staff?

A. Yes. First there are both local and state chambers of commerce. Local chambers are oriented to local communities. Local chambers better understand the needs and resource availability on a local level and work to improve local working and business conditions. MACW's participation in local chambers helps enable the Company to stay in touch with and be accessible to our customers. The state chamber of commerce deals with larger scope issues and industries and is dedicated to creating a stronger environment for business growth and economic development. The state chamber is focused on broader educational and economic development issues that impact the state or regional as whole. Members have access to cutting edge information, leadership and professional development programs, and business products, services, and networking opportunities.

Q. How does MAWC and its customers benefit from the Company's membership in AWWA?

A. AWWA affords Missouri American employees the ability to expand their knowledge of the water industry and interact with other water utilities across the Country, sharing knowledge and best practices. This association's members represent water treatment plant operators and managers, scientists, environmentalists, manufacturers, and others that discus water supply and public health issues. Members can get valuable information that could be applied to current water treatment practices, which could result in improvements to the service and quality of water MAWC provides, which directly benefits our customers.

b. MAINTENANCE SUPPLIES AND SERVICES

Q. What are maintenance supplies and services?

A. The operating expense "maintenance supplies and service," are those expenses associated with maintenance costs for the general operation of the business, as well as main break expense.

Q. What issues does MAWC have as to Staff's treatment of maintenance supplies and services?

A. There are two issues with maintenance supplies and services and they both are associated with main breaks. The first issue is related to the average number of breaks in Staff's calculation. The second issue is the 2019 base period for main breaks used to calculate Staff's adjustment.

Q. Please describe the issue as to the average number of breaks.

A. The Company and Staff both use a three-year average of costs, and a three-year average number of breaks to derive the going level of main break expense for St Louis County. However, while Staff made an adjustment for all other districts, the Company only calculated main break expense for St Louis County. In Staff's calculation for St Louis County, it reduced the average number of main breaks by replacing the actual number of main breaks for January 2018 with an <u>average number</u> of main breaks for January of 2018. Staff's workpapers note the reason as "abnormal number of main breaks" for the January 2018 period. The actual number of main breaks for January of 2018 was

422 main breaks, Staff calculated an average number of main breaks for January 2018 using actual main breaks from 2015, 2016, and 2014, after creating yet another average for January of 2014. This resulted in Staff using 129 main breaks for January 2018, instead of the 422 actually experienced.

Q. Does the Company agree with Staff's averaging for the January 2018 period?

A. No, the removal of these breaks from the average is inappropriate.

Q. Why is Staff's approach inappropriate?

A. The very purpose of using an average is to smooth out variations and fluctuations in the data set. Averaging the results and ignoring the January 2018 actual data, is essentially a double smoothing. If an average is used, you should not also ignore actual results from the period being averaged. Further, Staff's underlying assumption that the January 2018 related main breaks are a one-time occurrence that must be addressed separately is flawed.

Q. What resolution would the Company like to see for this issue?

A. Staff's adjustment should be recalculated to reflect the actual average for the period identified in the three-year historical average. It is entirely inappropriate to only utilize select periods when using the averaging method. Doing so thwarts the precise purpose of using the average. Using the actual number of main breaks incurred in January 2018 to calculate the three-year average, would increase main break expense by $460,753.

Q. What is the second issue you mentioned above?

A. The second issue is relative to the 2019 base period used for main breaks to calculate Staff's adjustment. The Company's main break expense is recorded into General Ledger ("GL") accounts 62002400, 62520700, 62520824, and 63150024. The GL for these accounts contains expenses associated not only with main break expense, but also tank painting, and other maintenance and supply expense. The total 2019 base year expense for those four accounts was $4,384,057. This amount included roughly $975,669 for tank painting that the Company removed from the Maintenance and Supplies and Services expense, $2,143,270 related to main breaks for all districts, and $1,265,118 for other maintenance supplies and services expense. Staff's normalized main break expense was calculated against the full GL account balance of $4.4 million dollars, which in essence removed all of the expense associated with other maintenance supplies and services contained in those accounts in the total of $1,265,118. This amount represents reasonable and continuing expenses for MAWC and should be included in the Company's revenue requirement.

c. EMPLOYEE EXPENSE

Q. Please discuss OPC's adjustment to employee expenses.

A. OPC recommends removal of $184,198 of costs from employee expenses. Ms. Connor alleges "the charges are excessive, unreasonable, and imprudent to rate base". (Connor, DT, page 6-8). Ms. Connor indicated that a comprehensive review is being completed for all MAWC officer expenses for the 2019 test period.

Q. Can you clarify if employee expenses are part of the rate base calculation?

A. Employee expenses are not included as part of the Company's rate base calculation.

Q. How did OPC derive the $184,198 dollar adjustment?

A. In my review of the workpapers, it appears that OPC relied on two MAWC data responses (OPC 1200 and 1201) to determine the expense level. The total level of expense allocated to MAWC for every Officer of Missouri American and American Water Company was $63,207 and $120,991, respectively, for the period of January 1, 2019 through June 30, 2020. While Ms. Connor states that she's recommending removal of $184,198, her workpaper would indicate that number should have been $54,919.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.