Exhibit No. 8

Missouri-American Water Company – Exhibit 8
Direct Testimony of Nicholas F. Furia
Direct
File No. WR-2024-0320

Exhibit No.:	
Issues:	Capital Structure
Witness:	Nicholas Furia
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2024-0320
	SR-2024-0321
Date:	July 1, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320
CASE NO. SR-2024-0321

DIRECT TESTIMONY

OF

NICHOLAS F. FURIA

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Nicholas Furia, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Assistant Treasurer for American Water Works Service 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.

Nicholas Furia

July 1, 2024
Dated

DIRECT TESTIMONY
NICHOLAS F. FURIA
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2024-0320
CASE NO. SR-2024-0321

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DIRECT TESTIMONY

NICHOLAS FURIA

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Nicholas Furia and my business address is 1 Water Street, Camden, NJ 08102.

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

A. I am employed by American Water Works Service Company, Inc ("Service Company" or "AWWSC") as the Assistant Treasurer. The Service Company is a subsidiary of American Water Works Company, Inc. ("American Water") that provides support services to American Water's subsidiaries, including Missouri-American Water Company ("Missouri-American," "MAWC" or the "Company").

Q. Have you previously filed testimony before this or any other commission?

A. I have provided written testimony before the Indiana, Virginia, Tennessee, and Kentucky utility regulatory commissions in addition to oral testimony before the Kentucky Public Service Commission.

Q. Please summarize your educational and professional qualifications.

A. I hold a Master of Science in Finance from Penn State University and Bachelor of Science in Business Administration Accounting from Drexel University, with over 20 years of Accounting and Finance experience in multiple industries. Since 2014, I have been employed by Service Company in multiple finance roles and most recently as the Assistant Treasurer since July 2021. Prior to Service Company I held multiple accounting and finance roles in multiple industries including Commercial Real Estate and Equipment Leasing. I started my career in public accounting and I am a licensed Certified Public Accountant in the state of Pennsylvania.

Q. What are your current employment responsibilities?

A. I am responsible for oversight and support of the treasury function and the day-to-day activities of the treasury department, including the planning, analysis, and execution of all activity, including debt and equity financings for American Water and its subsidiaries. I also serve as the Assistant Treasurer for Missouri-American responsible for supporting MAWC's management and finance teams in the execution of MAWC's financing plans and overall capital structure management.

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

A. The purpose of my direct testimony is to present the recommended capital structure to be used for computing Missouri-American's weighted average cost of capital ("WACC"). The WACC is used as the authorized overall rate of return on rate base in this case. The Company's WACC reflects, among other things, the rate of return on common equity recommendation presented in the Direct Testimony of MAWC witness Ann E. Bulkley.

Q. Are you sponsoring any Schedules with your Direct Testimony?

A. Yes. I am sponsoring **Schedule NFF-1**.

Q. Please summarize your testimony.

A. Establishing the appropriate capital structure for ratemaking purposes has important policy implications for the Company. Missouri-American utilizes a stand-alone capital structure for several reasons. First, Missouri-American's proposal includes the actual capital structure that finances MAWC's rate base and operations in Missouri, adhering to the stand-alone principle of matching rate base with capital structure based on MAWC's capital investment and financing policies. MAWC's capital structure appropriately reflects its single-state operating risk profile for the State of Missouri, distinct from the Company's parent's capital structure, a holding company of a diverse group of utilities and non-regulated operations in 24 states. Second, Missouri-American's capital structure, supported by the financing arrangement with the financing subsidiary of American Water yields significant financial savings for the benefit of MAWC's customers. This cost benefit extends to MAWC's customers via lower rates as a result of the millions of dollars of interest cost savings. I will describe these policy issues in further detail below.

II. CAPITAL STRUCTURE

Q. What is a utility capital structure, as used for ratemaking purposes?

A. Capital structure refers to the mix of capital components a utility, such as MAWC, uses to finance its rate base. A utility's assets are generally long-lived; therefore, a utility's capital structure includes long-term securities, such as common equity ("Equity"), and long-term debt ("LTD").

Q. How is a utility capital structure used in setting a utility's rates?

A. The capital structure is used to compute the overall cost of capital for the utility. The overall cost of capital for a public utility is equal to the sum of the costs of the components of the capital structure after weighting each component by its proportion to total capital. The overall cost of capital is also referred to as the weighted average cost of capital or WACC. The WACC is then applied to the utility's rate base to determine the net operating income, a component of determining the overall revenue requirement used to calculate the rates and charges proposed in a base rate proceeding.

Q. Please describe Missouri-American's current capital structure as of December 31, 2023.

A. As shown on **Schedule NFF-1**, Missouri-American Water's capital structure as of

December 31, 2023 is comprised 48.13% LTD and 51.87% Equity.

Q. What forecast period has the Company proposed in this case?

A. As described by MAWC witness Brian LaGrand, the Company is proposing a future test year - twelve months ending May 31, 2026 -in this case.

Q. What capital structure is Missouri-American proposing in this case?

A. For the determination of rates in this proceeding, Missouri-American is proposing to use its stand-alone capital structure forecasted for the thirteen months average ending May 31, 2026 and in place to finance MAWC's rate base and operations, which is also forecasted for the thirteen months ending May 31, 2026. As shown in **Schedule NFF-1**, MAWC's average capital structure forecasted for this period is 49.46% LTD and 50.54% Equity.

Q. What is the overall cost of capital the Company is seeking in this case?

A. As shown on Schedule NFF-1, the overall WACC and recommended rate of return that MAWC has included in this case is 7.74% based on the embedded cost of LTD of 4.68% and return on equity ("ROE") as recommended by MAWC witness Bulkley of 10.75%.

Q. How does Missouri-American obtain debt capital?

A. The Commission first approved the Financial Services Agreement ("FSA") between American Water Capital Corporation ("AWCC") in 2012, in part, recognizing it as an efficient and cost-effective means for Missouri-American to raise debt capital. Since that time, it has been the primary means through which MAWC has chosen to fund its debt needs as the borrowing arrangement has proven to be the most cost-efficient way for MAWC to raise debt capital and has resulted in significant savings to the Missouri-American customers through lower debt costs, which I will discuss in more detail later in my testimony.

Additionally, MAWC does pursue available special low-cost governmental programs as allowed under the non-exclusivity clause of the FSA. MAWC has a State Revolving Fund ("SRF") loan for $10.7 million with a coupon of 0.74%. Also, MAWC is currently in the application phase of an SRF funding for an approximately $200M project at its Central Water Treatment Plant. The award of MAWC's requested SRF financing is anticipated in 2024 with funding to occur over a 24-month period during 2025 and 2026.

Lastly, MAWC currently has $23.5 million of legacy first mortgage bonds issued before 2001with a weighted average coupon of 7.55%.

Q. Please explain the new long-term debt financing included in this filing.

A. The capital structure in this filing includes three new long-term debt issuances during the future test year. The first occurred May 2024 for a total of $230 million. This issuance was split evenly between 10- and 30- year taxable senior unsecured bonds. The coupons were 5.150% and 5.450% for the 10- and 30- year bonds, respectively. The issuance came from AWCC after it issued $1,400 million in bonds in February 2024. The AWCC issuance was also split evenly between 10- and 30-year bonds and is more fully described below. The bonds from AWCC to MAWC carry the same cost and terms of AWCC. The second issuance is expected to occur in the first half of 2025, and total $220 million and be split evenly between 10- and 30- year taxable senior unsecured bonds issued through AWCC. The forecasted coupons for this issuance are 5.502% and 5.650% for the 10- and 30-year bonds, respectively. The third issuance is expected to occur in the first half of 2026, and total $120 million and be split evenly between 10- and 30- year taxable senior unsecured bonds issued through AWCC. The forecasted coupons for this issuance are

5.501% and 5.603% for the 10- and 30-year bonds, respectively.[1]

Q. How was the embedded cost of LTD calculated?

A. For each LTD issuance, the total annual cost, which consists of annual interest and amortization of the issuance expense and discount, is divided by the total carrying value (less the applicable unamortized issuance cost/discount) to arrive at the overall embedded cost rate for LTD.

Q. What is the source of the equity component of MAWC's capital structure?

A. The equity in MAWC's capital structure is the total of: (1) retained earnings from Missouri-American utility operations, and (2) equity investments from American Water required to support the Missouri-American's investments in rate base.

Q. Please explain new equity infusions from American Water included in this filing.

A. The equity infusions from American Water into MAWC total $200 million for the future test year. $110 million occurred in March 2024, $40 million is expected in September 2025 and $50 million is expected in March 2026. The transactions are recorded as additional paid in capital in MAWC. This equity supports the capital investments MAWC is making in the Company's facilities as discussed by Company witnesses Derek Linam and Matt Lueders.

Q. How does MAWC's projected capital structure compare to its actual historical capital structure?

A. MAWC's filing includes a capital structure composed of 50.54% Equity and 49.46% LTD.

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[1] AWCC takes an active approach to monitoring the capital markets and therefore, the actual execution with regard to timing, tenor and rate may change depending on the circumstances.

This equity ratio is below the average capital structure maintained for more than a decade for Missouri-American as shown in Table NFF-1 below:

Table NFF-1

	Average 2012 - 2023	Proposed in This Case
LT Debt %	48.9%	49.46%
Equity %	51.1%	50.54%

Q. How do Missouri-American and its customers benefit from the FSA with AWCC?

A. There are three primary benefits conveyed to MAWC and its customers as a result of the FSA with AWCC. First, AWCC's access to public debt markets provides lower all-in interest rates via lower credit spreads than can typically be achieved in the private placement market by a significantly smaller entity such as MAWC. Second, AWCC achieves economies of scale by spreading debt issuance costs across all of its regulated subsidiaries rather than MAWC incurring issuance costs for stand-alone debt financing. Third, the non-exclusivity feature of the FSA allows MAWC to access a diversified option provided by AWCC while still allowing MAWC to obtain its own financing if lower costs options are available, such as special low-cost governmental programs.

Q. How can AWCC achieve a lower interest rate than MAWC?

A. AWCC can secure lower interest rates than MAWC due to its ability to access the public bond market versus MAWC accessing the private placement bond market. By aggregating the debt capital needs of all American Water regulated subsidiaries, AWCC can execute large bond issuances that are typically in the $1 billion or greater size annually. AWCC's issuance sizes are index eligible, i.e., greater than $300 million, which allows AWCC to access a broader investor base for its bonds. Additionally, AWCC's strong credit ratings, diversified business risk profile, strong brand, and its consistent frequency of issuances support broader access and demand for AWCC bonds in the public market than MAWC could achieve in the private placement market.[2] MAWC would pay a premium on its bond issuances in the private placement market due to its smaller issuance sizes (not index eligible) and investor requirements to compensate for the illiquidity of the private placement market which limits investor's ability to actively trade bonds. Therefore, AWCC can more cost effectively raise debt capital on an on-going basis in the public bond market compared to MAWC raising debt capital in the private placement bond market.

Q. Have you quantified the costs savings realized by Missouri-American's customers from issuing debt capital through AWCC?

A. While it is not directly possible to quantify the exact savings realized without having actively been in both the private placement market for MAWC and the public market for AWCC on the exact same day, an impractical and inefficient scenario, it is reasonable and appropriate to use a proxy to estimate the savings. Two such proxies are available to us. First, by comparing credit spreads for unsecured public bond issuances to credit spreads for unsecured private placement bond issuances using credit spread indexes, i.e., the Bloomberg Public Utility "A-rated" Index and the US Private Placement "NAIC-1" Rated Index, for the period 2007-2023 (represents the period since MAWC's first issuance through AWCC in 2007) (Proxy 1). The analysis shows that private placement bond issuance credit spreads have averaged 35 basis points (bps) higher than public bond issuances for the period 2007-2023. Extrapolating this to the debt issued by MAWC through AWCC for this same period of time shows an estimated savings of $29M through

[2] The issuance threshold for the public market identified above is greater than 10% of MAWC's rate base.

December 31, 2023. The second proxy we can observe and use to estimate the interest expense savings is by comparing actual recent private placement debt issuance vs a recent issuance by AWCC (proxy 2). To do this, we gathered all utility private placement issuances from November 2023 through February 2024 and averaged the credits spreads (Credit Spread refers to the cost investors charge above risk free rates, i.e. treasuries) the 10- and 30-year bonds separately. Schedule NFF 3 shows the average 10-year debt credit spread as 157 bps with a minimum of 125 and a maximum of 248 and the average 30-year debt credit spread as 162 bps with a minimum of 125 and a maximum of 225. On February 23, 2024, AWCC closed on its $1.4 billion senior unsecured notes, split evenly between 10-and 30-year tranches. The 10-year bonds priced at a credit spread of 92 bps to treasuries and the 30-year bonds priced at a credit spread of 107 bps. The weighted spread difference between the February 2024 AWCC Public issuance and the Private Placement market data is an average of 60 bps with a minimum of 26 bps and a maximum of 137 bps. If we extrapolate this to the MAWC issued debt through AWCC for the time period 2007-2023, we see an average estimated savings of $50 million through December 31, 2023 with a minimum of $22 million and a maximum of $113 million. This analysis not only highlights the savings Missouri-American customers receive as a result of the efficient borrowing structure with AWCC, it also highlights the misconception that secured debt is cheaper than unsecured debt as all of the private placement issuances data were secured debt transactions.

Both proxy estimates presented above clearly show the cost savings MAWC realizes for the benefit of Missouri-American's customers by utilizing financing sourced by AWCC under the FSA.

Q. Will MAWC customers see interest expense savings beyond December 31, 2023?

A. Yes. Again, while the exact savings to be realized is not possible to state, we can utilize the proxies from above and estimate the savings the MAWC customers will realize from January 1, 2024 through the maturity dates on the then outstanding AWCC debt. We estimate the range from $77M to $132M, if we look at the averages from proxy 1 and proxy 2.

Q. Are there any other noteworthy items to mention about the above analysis?

A. Yes, as it relates to the private placement transaction data, one of the transactions was a 30-year debt issuance by York Water Company ("YWC"). YWC is an A-rated water and wastewater company serving a population of 190,000 in 56 municipalities in Southeastern Pennsylvania. In February 2024, YWC issued $40 million of 30-year **senior secured notes** at a spread to treasuries of 160 bps. This is significant, when compared to the 107 bps credit spread AWCC achieved on its 30-year **senior unsecured bonds** in the same month, as it illustrates the impact to credit spreads that an entity with a diversified business risk profile, strong brand, and consistent frequency and size of issuances can benefit from, along with the premium required for not being able to access the public bond market.

Q. Are there any other examples where AWCC achieved lower credit spreads than utilities with higher credit ratings issuing secured debt?

A. Yes, on February 23, 2024, the same day AWCC issued it's $700 million 10-year senior unsecured bonds, DTE Electric Company, the electric operating company of DTE Energy, which services 2.3 million customers in southeastern Michigan, issued $500 million 10-year **Aa3/A/A+** rated general and refunding mortgage **(secured debt)** bonds at a credit spread of 93 bps. Comparing this to AWCC's Baa1/A rated credit spread of 92 bps highlights that security and a higher credit rating at an operating company does not equate to a lower interest rate and savings to customers. This example is a great representation of the benefit Missouri-American customers receive from the lending relationship with AWCC.

Q. Are there any other benefits to MAWC customers from the AWCC lending relationship?

A. AWCC achieves economies of scale by spreading debt issuance costs across all of its 13 regulated subsidiaries and AWCC rather than MAWC incurring issuance costs for stand-alone debt financing, which results in direct savings for the MAWC customers.

Q. Can you explain why the Missouri-American capital structure projected in this proceeding is the appropriate capital structure to use for setting rates in this case?

A. First, using the stand-alone capital structure of MAWC follows the stand-alone principle. Second, it is reasonable, as described by MAWC witness Bulkley, when comparing it to both the Proxy Group and other Missouri peer utilities. Third, the stand-alone capital structure most accurately considers the distinct operating and risk profile of MAWC. Finally, it is the capital structure that most appropriately balances the interest of all stakeholders in the ratemaking process and upholds sound regulatory policy.

Q. Can you explain what you mean by the stand-alone principle?

A. The stand-alone principle is a well-established regulatory principle providing that the rate of return (both return on equity and overall cost of capital) for a regulated utility should be set as if the utility were seeking to attract capital in financial markets based on its own individual merits and risk profile.

Q. Is the Missouri-American stand-alone capital structure projected in this case

reasonable when compared to the proxy group of operating companies and other Missouri Utilities?

A. MAWC witness Ms. Bulkley examined the capital structures of the operating companies of a proxy group (defined in Ms. Bulkley's testimony) used to determine MAWC's return on equity ("ROE"), as well as the capital structures that have recently been authorized for MAWC's peer utilities with similar risk profiles. Ms. Bulkley concluded that in each case, MAWC's proposal is within the established range of actual equity ratios of the utility operating companies held by the proxy group. Ms. Bulkley further demonstrated that the mean equity ratio that has recently been authorized for natural gas and water utilities is approximately 51.0%, which is generally consistent with the equity ratio projected by MAWC of 50.54%. Therefore, MAWC's projected equity ratio is well within the range of authorized equity ratios for companies of comparable risk and comparable ROEs.

Q. When an investor borrows funds to make an equity investment what legal rights and privileges do they assume?

A. When an investment is made into a company's common equity, regardless of the source of funds or the relationship between the parties, the investment assumes the legal rights and privileges of a common equity investor.

Q. Why are the legal rights of a common equity investor important for determining the return on common equity?

A. A common equity investor in a company is legally subordinate to all other claims to the company's cash flows and assets. In a worst-case scenario of bankruptcy, common equity investors are last in line for repayment of their investment and risk losing their entire investment. Contrasted to debt investors, who are much higher in the priority of claims to cash flows and assets, common equity investors bear greater risk and therefore, require greater returns, regardless of how they sourced their investments.

Q. Is Missouri-American's risk profile the same as its parent American Water?

A. No. Missouri-American's risk profile is distinct, unique to it and is unlike the business and financial risks of American Water. Where MAWC is impacted by the operational, environmental and jurisdictional risks of a single state and one adverse event can have a significant impact on the Company, which it cannot mitigate through diversification, American Water as a holding company of water and wastewater utilities and related services diversified across 24 states has a dramatically different risk profile. This diversified portfolio of investments and operations allows American Water to have a different level of capitalization as compared to one of its undiversified operating utilities and still maintain an acceptable level of risk.

Q. Do you support that MAWC's capital structure as projected in this proceeding is reasonable and appropriate for setting rates?

A. Yes. MAWC's stand-alone common equity ratio will allow it to maintain access to low-cost financing through all financing sources and in line with the capital structures and returns on equity ("ROEs") for utility companies with similar risk profiles. In addition, the capital structure including its equity ratio represents the actual equity and debt capital used to finance MAWC's rate base. Utilizing any other approach than how MAWC is financed would make MAWC an outlier in comparison to its proxy group and would inhibit the Company's ability to continue to attract capital at efficient costs.

Q. Does this conclude your Direct Testimony?

A. Yes.

Missouri-American Water Company
Weighted Average Cost of Capital
Pro Forma for the 13-Month Average May 31, 2026
Case No. WR-2024-3020
Case No. SR-2024-0321

Class of Capital	Amount	Percent of Total	Cost Rate	Weighted Cost of Capital
Short-Term Debt	$0	0.00%	4.68%	0.00%
Long-Term Debt	1,721,302,712	49.46%	4.68%	2.31%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity	1,758,599,616	50.54%	10.75%	5.43%
Total Capitalization	$3,479,902,328	100.00%		7.74%

Missouri-American Water Company
Weighted Average Cost of Capital

As of December 31, 2024
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Class of Capital	Amount	Percent of Total	Cost Rate	Weighted Cost of Capital
Short-Term Debt	$0	0.00%	5.25%	0.00%
Long-Term Debt	1,495,044,950	48.06%	4.57%	2.20%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity	1,615,928,428	51.94%	10.75%	5.58%
Total Capitalization	$3,110,973,379	100.00%		7.78%

Missouri-American Water Company
Weighted Average Cost of Capital

As of December 31, 2023
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Class of Capital	Amount	Percent of Total	Cost Rate	Weighted Cost of Capital
Short-Term Debt	$0	0.00%	5.51%	0.00%
Long-Term Debt	1,291,263,255	48.13%	4.41%	2.12%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity	1,391,640,778	51.87%	10.75%	5.58%
Total Capitalization	$2,682,904,033	100.00%		7.70%