Exhibit No. 19

MAWC – Exhibit 19
Matthew S. Mason
Direct Testimony
File No. WR-2022-0303

Exhibit No.:	
Issues:	Labor and Labor Related Expenses, Uncollectible Expense, Customer Accounting, Transportation, and Other Operating Expenses
Witness:	Matthew S. Mason
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2022-0303 SR-2022-0304
Date:	July 1, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303
CASE NO. SR-2022-0304

DIRECT TESTIMONY

OF

MATTHEW S. MASON

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Matthew S. Mason, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am a Principal Regulatory Analyst for American Water Works Service Company, Inc., 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.

Matthew S. Mason

July 1, 2022
Dated

DIRECT TESTIMONY
MATTHEW S. MASON
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303
CASE NO.: SR-2022-0304

TABLE OF CONTENTS

DIRECT TESTIMONY

MATTHEW S. MASON

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Matthew S. Mason, and my business address is 727 Craig Road, St. Louis, MO, 63141.

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

A. I was hired in March 2021 as a Principal Regulatory Analyst for American Water Service Company, Inc. ("Service Company"). Service Company is a wholly owned subsidiary of American Water Works Company, Inc. ("American Water") that provides services to Missouri-American Water Company ("MAWC", "Missouri-American", or "Company") and its affiliates.

Q. Please summarize your educational background and business experience.

A. I hold a bachelor's degree in Business Administration from Indiana State University, a Post Baccalaureate Certificate in Accountancy from the University of Southern Indiana, and a master's degree in Business Administration from the University of Southern Indiana. Additionally, I am licensed as a Certified Public Accountant (CPA) by the state of Indiana. After a combined five years working in the public accounting and manufacturing sectors, (working in general accounting, tax, and inventory control) I joined the utility industry in January of 2016 as a regulatory analyst at Vectren Corporation (Vectren or CenterPoint Energy). Throughout 5 years with Vectren, I was responsible for, but not limited to, infrastructure mechanism filing, rate case filing, internal audit, SOX control implementation, budgeting, and financial forecasting.

Q. What are your current employment responsibilities?

A. As a principal regulatory analyst, my duties consist of: 1) preparing, assisting, and reviewing regulatory filings for the regulated subsidiaries of American Water, including coordinating with finance, engineering, accounting, and legal departments; 2) the preparation of written testimony, exhibits, and work papers in support of rate applications and other regulatory filings; 3) responses to data requests for the regulated subsidiaries of American Water and its regulated utility affiliates.

Q. What is the purpose of your Direct Testimony in this proceeding?

A. The purpose of my Direct Testimony is to support and explain the Company expense levels in several areas. I will discuss the level of expenses as well as the Company's pro forma adjustments associated with labor and labor related, uncollectible, customer accounting, transportation, contract services, miscellaneous expense, telecommunications, office supplies and services, and employee expense.

Q. What methodology did the Company use in making its pro forma adjustments to its historical expense levels in this case?

A. In general, the Company is filing this case using a historical test year that is the 12 months ending June 30, 2022. At the time of the filing, this historical test year is based on 9 months of actual financial results through March 31, 2022, and 3 months of estimated financial results through June 30, 2022. Our pro forma level of expense is derived using that historical test year, updated to include known and measurable changes or adjustments based on Company experience through the true-up period (12 months ending December 31, 2022). Additionally, we account for and annualize certain "discrete adjustments" based on known and measurable changes for line-item expenses beyond the true-up period. This discrete adjustment period is through May 31, 2023.

II. LABOR AND LABOR RELATED EXPENSES

Q. Please describe MAWC's labor and labor related expense.

A. There are three classifications of employees at MAWC: collective bargaining unit ("CBU") hourly employees, non-union-non-collective bargaining unit ("Non-CBU") hourly employees, and exempt employees. CBU employees receive market based total compensation that includes components of base pay, overtime pay, and in some cases, shift pay, and are eligible for performance pay. Non-CBU hourly employees receive market based total compensation that includes base pay, overtime pay, and are eligible for performance pay. Exempt employees receive market based total compensation that includes base pay and are eligible for performance pay. Therefore, market based total compensation for each classification of employees includes fixed pay (base pay) and some form(s) of variable pay (e.g., overtime, shift pay and meals, or performance pay). Labor related expenses include payroll tax, pension expense, postretirement benefits other than pension ("OPEB"), group insurance, 401k benefits, defined contribution plan benefits, retiree medical expense, and employee stock purchase plan. Company witness John Watkins will discuss pension expense and OPEB.

Q. Please describe how labor and labor related expense was calculated.

A. The pro forma salaries and wages expense was calculated on a position-by-position basis, based on 741 full-time positions and one temporary, intern, position. Initially, the 12 months ending December 31, 2021 labor hours for each full-time position, were analyzed and adjusted to reflect a normal level of labor hours. These hours were then multiplied by the position's actual individual wage rate as of March 31, 2022 for non-CBU and exempt positions and contractual wage rates for CBU positions, to determine a pro forma labor cost as of December 31, 2022. Additionally, these hours were then adjusted using a three-year average salary increase for non-CBU and exempt employees, and contractual wage rates for CBU employees, to determine a discrete adjustment to get to an on-going level of annual expense as of May 31, 2023.

Furthermore, because some labor and labor related costs are charged to capital projects and programs, labor and labor related costs are multiplied by an operations and maintenance ("O&M") percentage based on the three-year average of dollars charged to O&M versus capital to derive labor and labor related expense. This eliminates from expenses that labor and labor related costs associated with capital projects and programs, which are appropriately charged to those capital projects.

a. SALARIES AND WAGES

Q. Please explain how the various components of salaries and wages were calculated.

A. As explained in more detail below, salaries and wages expense is composed of our total market-based compensation that includes four components: 1) base pay, 2) overtime expense, 3) wage premiums required by collective bargaining agreement ("CBA") contracts, meals, and 4) annual and long-term performance compensation for eligible employees.

Base Pay – In order to calculate the base pay, the per hour wage levels as of March 31, 2022, were applied to 2088 and 2080 hours, for hourly non-CBU and exempt employees respectively, for each full-time position and then were added together. The hours for the one temporary position were based on adjusted work hours reflecting 0.25 hours of a full-time employee. Wages for CBU employees were based on the CBA wage rates through December 2022. If a contract rate has not been negotiated through this date, an hourly rate was calculated using a three-year average increase for each CBU. Non-CBU and exempt employees' wage rates were based on actual rates effective on March 31, 2022, to derive the year end 2022 level of expense. To calculate the expense for the discrete adjustment effective May 31, 2023, the applicable per hour wages or salaries for each CBU, non-CBU, and exempt position were adjusted using a three-year average increase percentage.

Overtime – The second component of the labor expense is overtime expense. Overtime was calculated based on a three-year average of actual overtime dollars from 2019, 2020, and 2021. The average overtime dollars were divided by the average actual regular labor dollars to determine an overtime percentage. This percentage was then applied to the base wages for the pro forma periods ending December 31, 2022, and May 31, 2023, to calculate overtime dollars for December 31, 2022, and the discrete adjustment effective May 31, 2023.

Premium Pay – The third component of the labor expense is the wage rate premiums required by the CBAs for employees who obtain special licenses, who work specific shifts, who operate backhoes, or who work scheduled holidays such as Thanksgiving, Christmas, and the Fourth of July. The premium pay expense is based on the 2021 dollar amount by employee and applied to the pro forma periods ending December 31, 2022, and May 31, 2023.

Performance Pay – The fourth component of labor expense is the annual and long-term performance compensation for eligible employees. Performance Pay was calculated on a position-by-position basis. It was based on each position's target percent for both the Annual Performance Plan ("APP") and Long-Term Performance Plan ("LTPP"). The target percent was multiplied by each eligible employee's 2022 pro forma base salary to determine APP and LTPP. The discrete adjustments for APP and LTPP were calculated using the same methodology leveraging the pro forma base salaries as of May 31, 2023. Please see the Direct Testimony of Company witness Mr. Kaiser for a further discussion of the Company's total market-based compensation. The summary of this adjustment can be found on Schedule **CAS-13**.

<u>b. PAYROLL TAX</u>

Q. Please describe the operating expenses related to payroll tax.

A. Payroll tax expense is directly related to salaries and wages. Two types of taxes are required to be paid in accordance with the Federal Insurance Contributions Act – Old Age Survivors and Disability Insurance ("OASDI," or more commonly "FICA"), and Hospital Insurance (or more commonly "FICA Medicare"). Federal Unemployment Tax ("FUTA") and State Unemployment Tax ("SUTA") must also be paid. Pro forma payroll taxes were calculated on a position-by-position basis, using current 2022 tax rates and pro forma wages for the true-up period ending December 31, 2022, and the discrete adjustment applied to the period ending May 31, 2023. The tax rates include 6.2% FICA on up to $147,000 of wages, $1.45% FICA Medicare on the first $200,000 of wages plus an added .9% on wages in excess of $200,000, and 0.6% FUTA on the first $7,000 in wages. The summary of this adjustment can be found on Schedule **CAS-13.**

<u>c. GROUP INSURANCE</u>

Q. Please describe the operating expenses related to group insurance.

A. The adjustment to group insurance expense is composed of two components: OPEB, and other non-OPEB group insurance. I will discuss the non-OPEB group insurance expense.

The OPEB expense discussion can be found in the Direct Testimony of Company witness Mr. Watkins.

Q. What is non-OPEB group insurance?

A. Non-OPEB group insurance includes basic life insurance, short- and long-term disability insurance, accidental death and disability ("AD&D") insurance, and medical, dental, and vision insurance and the health savings account ("HSA") that Missouri American offers its employees.

Q. How was the pro forma adjustment for the non-OPEB insurance expense calculated?

A. While there are several types of insurance expense that make up this calculation, the main drivers are two categories: 1) basic life, short- and long-term disability, and AD&D; and 2) medical, dental, vision insurance and the HSA. The calculation of the pro forma expense for each of these categories is further described below.

<u>Basic life, short- and long-term disability and AD&D</u>. The 12 months ending December 31, 2022 pro forma expense and the May 31, 2023 discrete adjustments, for this category, were calculated based upon the current 2022 plan rates. The resulting plan costs and contribution rates were used to calculate costs for each employee, according to the insurance stipulations and applying any differences for CBU and non-CBU or exempt employees.

<u>Medical, dental, vision insurance, and HSA</u>. This category of insurance involves a Company cost net of employee contribution for medical, dental, and vision and Company contributions for HSA's. The costs and contributions vary by plan type (e.g., family, employee, or employee plus spouse). Costs and contributions were calculated on a position-by-position basis, considering actual employee plan

selections. The December 31, 2022 pro forma expense, the May 31, 2023 discrete adjustment, along with employee contributions, were basedon current 2022 rates. The resulting plan costs and contribution rates were used to calculate costs for each employee, according to the insurance stipulations and applying any differences for CBU and non-CBU or exempt employees.

d. EMPLOYEE BENEFITS

Q. Please describe the operating expense related to 401k benefits.

A. Missouri-American incurs 401k expense when it matches employee contributions to 401k retirement accounts. The matching amounts are determined by each employee's benefit group or hire date. For employees whose benefit group falls into an "original" category (including CBA employees hired before 2001 and non-CBA and exempt employees hired before 2006), the Company matches 50% of the first 5% of the employee's contribution (for a maximum of 2.5%). For the remaining employees, the Company matches 100% of the first 3%, and 50% of the next 2% of the employee's contributions (for a maximum of 4%). The December 31, 2022 pro forma expense for 401k costs were calculated for each employee based on their 2022 wages, current employee contribution levels, and the corresponding match for their benefit group. The May 31, 2023 discrete adjustment for 401k costs was calculated based on the adjusted 2023 wages, current employee contribution levels and the corresponding match for their benefit group. This adjustment is summarized on Schedule **CAS-13**.

Q. Please describe the adjustment to operating expenses related to the defined contribution plan ("DCP").

A. DCP is a retirement savings program for employees not eligible for the defined benefit pension program. Under the DCP, Missouri-American contributes an amount equal to

5.25% of an employee's base pay into a retirement account. The December 31, 2022 pro forma DCP expense was calculated by multiplying the 2022 pro forma regular time pay of each eligible employee by 5.25%. The May 31, 2023 discrete adjustment DCP expense was calculated using the same methodology; however, they were based on the employees' adjusted May 31, 2023 pro forma wages. A summary of this adjustment is indicated on Schedule **CAS-13**.

Q. Please describe the adjustment to operating expenses related to retiree medical expense.

A. CBU employees, who are not eligible for OPEB, are entitled to Company-provided retiree medical benefits. MAWC has set up a trust (referred to as the Voluntary Employee Benefits Association, or VEBA) to fund this benefit in the amount of $600 per eligible employee. In an effort to control costs, the Company excludes those employees from OPEB coverage. A summary of this adjustment is shown on Schedule **CAS-13**.

Q. Please describe the adjustment to operating expenses related to the employee stock purchase plan.

A. The purpose of this adjustment is to annualize the Company's expense associated with the Employee Stock Purchase Plan ("ESPP"). ESPP expense relates to the Company funded 15% discount of American Water stock purchases made through payroll deductions by enrolled employees. The expense was calculated based on the 2022 wages for each employee who participates in the plan. The employees 2022 base wage, times their individual contribution amount, applied to the fifteen percent company discount, was used to calculate the 2022 expense. A summary of this adjustment is shown on Schedule **CAS-13**.

Q. Please describe the adjustment to other employee benefits.

A. The purpose of this adjustment is to annualize the Company's expense associated with other employee benefits. These benefits include certain employee related expenses associated with training, tuition reimbursement, employee rewards, and other such benefits. A three-year average expense for the years 2018, 2019, and 2021 was used to determine the December 31, 2022 pro forma adjustment (2020 was excluded in the calculation due to COVID pandemic impacts making 2020 not indicative of a "normal" year). Additionally, a discrete adjustment was applied to this expense as of May 31, 2023, utilizing a three-year average of year over year percentage increase in cost over the same time periods. That percentage was applied to the December 31, 2022 pro forma amount to derive an on-going level of expense as of May 31, 2023.

III. UNCOLLECTIBLE EXPENSE

Q. Please describe the operating expense for uncollectible (or bad debt) expense.

A. Uncollectible expense is made up of net charge-offs associated with bad debt related to billed revenues. Each year a portion of revenues that were billed for collection is charged off due to non-payment. Net charge-offs comprise billed revenue written-off net of prior bad debt that was subsequently collected.

Q. Please explain how the pro forma calculation for uncollectible expense was developed.

A. The Company is proposing a bad debt tracker, as is described by Company Witness Selinger. In conjunction with that proposal, the Company computed a pro forma level of uncollectible expense that is derived from the method that has historically been used for the calculation: a historic 3-year average. The Company calculated an uncollectible rate for the years 2018, 2019, and 2021 by taking actual net charge-offs over annual billed revenue (2020 was excluded in the calculation due to COVID pandemic impacts making 2020 not indicative of a "normal" year). Any adjustments for the recording of an allowance for doubtful accounts have been removed from the calculation. The uncollectible rate has been trending slightly upward, increasing year over year from 2018 to 2019 and then again in 2021. Yet the Company recognizes that excluding the 2020 uncollectible rate layers in an element of variability to that trend. The Company concluded that due to "2020 Covid variability", excluding 2020 would lead to a more accurate calculation of uncollectible expense. Therefore, the computed bad debt expense calculation utilized a 3-year average of expense for the years 2018, 2019, and 2021. This 3-year average was then applied to present rate and proposed rate revenues to develop the on-going level of expense that will be applicable to the filed revenue requirement.

Q. How much has the uncollectible expense incrementally increased over the applicable years of 2018, 2019, and 2021?

A. The Company's actual net charge-offs for 2018 were $3.12M, followed by $3.27M for 2019 and $3.54M for 2021. From 2018 to 2021, actual net charge-offs have risen about $420K.

Q. In past Missouri-American general rate proceedings, has there been a time when the uncollectible expense has been rising year over year for several years?

A. Yes. For example, in Case No. WR-2011-0337, a general rate case, the uncollectible expense had increased each year over a three-year period. Staff utilized the computed average of the annual expense as of the 12 months ending on the dates: December 31, 2008, December 31, 2009, and December 31, 2010, for its review. The historical values, from that general rate case are reflected below.

	WR-2011-0337 Net Charge-offs	3-Year Increase	Increase %
December 31, 2008	$1,809,762		
December 31, 2009	$2,072,122		
December 31, 2010	$2,334,734	$524,972	22.49%

Q. Subsequent to Case No. WR-2011-0337, did uncollectible expense continue to have an upward trend?

A. Yes, In the subsequent case, Case No. WR-2015-0301, the uncollectible expense continued its upward trend over a three-year period. While uncollectible expense decreased 12 months ending December 31, 2012, versus the same time period in 2010; the overall trend continued to increase each year over a three-year period. The historical values from that general rate case are reflected below.

	WR-2015-0301 Net Charge-offs	3-Year Increase	Increase %
December 31, 2012	$1,849,942		
December 31, 2013	$2,508,714		
December 31, 2014	$4,181,070	$2,331,128	55.75%

Q. How did Staff address uncollectible expense in Case No. WR-2015-0301?

A. In that case, Staff applied "the three-year average" ratio to Staff's proposed annualized revenue level for each of MAWC's districts for the period covering October 1, 2012, through September 30, 2015.

Q. What is MAWC's proposal to attempt to address this issue?

A. As stated above, MAWC's proposal is the bad debt tracker described by Witness Selinger. In conjunction with that proposed tracker, the computed bad debt on-going level of expense in this filing is consistent with how Staff has addressed uncollectible expense over the course of the past decade and more. If, however, the Company's proposed tracker is not approved, then the trend demonstrated since 2008 is that bad debt expense is increasing.

The use of a historic average will therefore understate our pro forma level. In that case, bad debt expense should be calculated using a year over year trend analysis of average increased bad debt expense from 2018 through 2021, which will produce an additional $180,398 in pro forma bad debt expense reflected below.

Yr. (A)	Revenues (B)	Net Charge-offs (C)	Charge off Rate (D)	% Increase (E)
2018	$320,863,615	$3,121,679	0.9729%	
2019	319,063,302	3,267,332	1.0240%	5.25%
2021	343,367,808	3,541,621	1.0314%	0.72%
		Average	**1.0094%**	**2.99%**

2022 projection*	(1.0314% + (1.0314% * 2.99%)	**1.0622%**	

*2021 charge off rate plus 2021 charge off rate multiplied by % increase
(2021 Column D + (2021 Column D * Avg Column E))

		Revenues (A)	Charge off Rate (B)	Net Charge-offs (A*B)
Projection- Avg Rate Basis	12 months ending May 31, 2023	$341,794,340	1.0094%	$3,450,186 (D)
Projection- Trend Basis	12 months ending May 31, 2023	341,794,340	1.0622%	3,630,584 (F)
			Increase in Pro Forma if based on trend	**$180,398 (F-D)**

IV. CUSTOMER ACCOUNTING

Q. Please describe the types of costs that are typically included for Customer Accounting.

A. The Company incurs operating expenses for customer accounting that include costs related to lock box fees for payment collection and bank fees. In order to calculate the appropriate expense level for 12 months ending 12/31/22, the Company started with the three-year average of expense for 2019, 2020, & 2021. Additionally, MAWC included projected annualized fees that were in effect at the end of 2021 and will be in effect through the end of the true-up period (12 months ending 12/31/22).

Q. Have there been other expenses included in Customer Accounting in prior general rate cases, other than lock box fees and bank fees?

A. Yes. In prior cases the Company included expenses related to collection agencies, forms, surveys, language services, and bill postage.

Q. Where is the Company accounting for the expenses referred to in the answer to the prior question?

A. Customer Accounting expenses relating to collection agencies, forms, surveys, language services, and bill postage are being billed through the Service Company charges. Please refer to Company Witness John M. Watkins for discussion of the Support Services charges.

V. TRANSPORTATION

Q. Please describe the types of costs in the operating expense for transportation.

A. Transportation expense is driven by costs associated with operating the Company's motor vehicle fleet in addition to general miscellaneous transportation costs incurred by the Company. These costs include accident management, titling, registration, fleet administration service fees, operating, vehicle and other rental, repairs and maintenance, and fuel costs. Miscellaneous costs include, *inter alia*, towing, delivery, washing vehicles, and employee reimbursement for personal car use.

Q. Please explain how the pro forma expense for transportation was developed.

A. The Company calculated its annualized 2022 pro forma fuel expense based on 2021 fuel usage in gallons multiplied by the most up to date, Mid-West region of the United States, per gallon fuel prices. The Mid-West region fuel prices are compiled and published by the U.S. Energy Information Administration on their website www.eia.gov and are delineated as the prices for the PADD 2 region (or, Petroleum Administration for Defense District number 2). The PADD-2 region comprises thirteen midwestern states including Missouri. As of the month ending May 31, 2022, the Mid-West region per gallon fuel price is listed as $4.260 on the eia.gov website. The remainder of transportation costs were calculated using a 3-year average expense on actual costs 12 months ending on the dates: December 31, 2019, December 31, 2020, and December 31, 2021.

VI. OTHER OPERATING EXPENSES

a. CONTRACT SERVICES

Q. Please describe the operating expenses related to contract services.

A. The contracted services expense includes a myriad of costs performed by contracted third parties. Examples include, among other things, costs related to accounting fees, audit fees, legal fees, landscaping, excavating, janitorial, and costs associated with Missouri One Call. In order to calculate the appropriate expense level, the Company took the 2021 actual expenses and projected the on-going level of expense as of 12 months ending December 31, 2022. This included removing engineered coating system costs that are being re-classed to O&M Maintenance within this case. Lastly, the projected amount as of 12 months ending December 31, 2022, utilized a 10.91% average annual trend increase in costs year over year from 2019 through 2021. The details of this adjustment can be found at Schedule **CAS-13**.

b. MISCELLANEOUS EXPENSE

Q. Please describe the operating expenses related to miscellaneous expense.

A. The operating expense described as miscellaneous expense includes expenses for charitable contributions, lobbying, penalties, community relations, and membership dues, as well as other miscellaneous expenses, such as telephone, cell phone, shipping, uniforms, and customer education expenses. The miscellaneous expense adjustment removes expenses for engineered coatings systems costs, charitable contributions, certain penalties and membership dues, and lobbying. The details of this adjustment can be found at

Schedule **CAS-13**.

c. TELECOMMUNICATIONS

Q. Please discuss the operating expense related to telecommunications.

A. The operating expense for telecommunications expense includes those expenses associated with the office phone services, wireless services and other data lines used by the Company. In order to calculate the appropriate expense level, the Company took the 2021 actual expenses and projected the on-going level of expense as of 12 months ending December 31, 2022.

d. OFFICE SUPPLY AND SERVICES

Q. Please discuss the operating expense related to office supply and services.

A. The operating expense for office supply and services are those expenses related to software licenses, bank fees, and other various office supplies. In order to calculate the projected expense, the Company first removed any accrued expense. The Company then took the most recent monthly license fee amounts and annualized the expense through the end of the true-up period (12/31/22). The Company projected the 12 months ending December 31, 2022 for the remaining office supply and service expenses by taking the actual 2021 expenses for these items and adjusting for trends and known changes that are expected to occur in 2022. The details of this adjustment can be found at Schedule **CAS-13**.

e. EMPLOYEE EXPENSE

Q. Please discuss the operating expense related to employee expense.

A. The operating expense related to employee expense includes those expenses associated with employee travel and relocation expense. In order to calculate the projected true-up period expense for the period 12 months ending December 31, 2022 the Company used a three-year average expense for the years 2019, 2020, and 2021 to determine the December

31, 2022 pro forma adjustment. The details of this adjustment can be found at Schedule **CAS-13**.

Q. Does this conclude your Direct Testimony?

A. Yes