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and Contract Services
Witness: Courtney Pallies
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SR-2026-0305
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2026-0304
CASE NO. SR-2026-0305

DIRECT TESTIMONY

OF

COURTNEY PALLIES

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

**DIRECT TESTIMONY
COURTNEY PALLIES
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2026-0305
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DIRECT TESTIMONY

COURTNEY PALLIES

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Courtney Pallies, and my business address is 1 Water Street, Camden, New Jersey 08102.

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

A. I am employed by American Water Works Service Company, Inc. (“Service Company”) as Senior Regulatory Analyst. The Service Company is a wholly owned subsidiary of American Water Works Company, Inc. (“American Water”) that provides services to Missouri-American Water Company (“MAWC,” or the “Company”).

Q. Please summarize your educational background and business experience.

A. I earned a Bachelor of Science in Accountancy from Rutgers University in 2013. From 2013 through 2015, I worked in public accounting, leading financial statement audits for both private and public companies. From 2015 through 2021, I was employed at American Water within the Internal Audit department, where I performed external audit work under PricewaterhouseCoopers (PwC) and led operational audits. In July 2021, I began my employment with the Service Company within Regulatory Services.

Q. What are your current employment responsibilities?

A. My duties consist of preparing, assisting, and reviewing regulatory filings and related activities for all the regulated subsidiaries of American Water. My responsibilities include, but are not limited to, the preparation of written testimony, exhibits, and workpapers in support of rate applications and other regulatory filings as well as responses to data requests

1 for the regulated subsidiaries of American Water, including MAWC.

2 **Q. Are you generally familiar with the operations, books and records of MAWC?**

3 A. Yes.

4 **Q. Have you previously testified before the Missouri Public Service Commission?**

5 A. No.

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

7 A. The purpose of my Direct Testimony is to sponsor and testify in support of MAWC's Labor
8 and Labor Related and Contract Services expenses for the future test year, which is the 12
9 months ending May 31, 2028.

10 **II. LABOR AND LABOR RELATED EXPENSES**

11 **Q. Please describe MAWC's labor and labor-related expenses.**

12 A. MAWC's labor and labor-related expenses cover local MAWC employees. There are three
13 classifications of MAWC employees: (1) collective bargaining unit ("CBU") hourly
14 employees, (2) non-collective bargaining unit ("non-CBU") hourly employees, and
15 (3) exempt employees. CBU hourly employees receive base pay, overtime pay, and in
16 some cases, other compensation (such as shift premiums and meal allowances) and are also
17 eligible for performance pay. Non-CBU hourly employees receive base pay and overtime
18 pay and are eligible for performance pay. Exempt employees receive base pay and are
19 eligible for performance pay. Therefore, total wages or salaries include fixed pay (base
20 pay) and some form(s) of variable pay (e.g., overtime, shift pay, and performance pay) for
21 eligible employees. The details of this adjustment can be found in Schedule CAS-13.

22 The labor and labor-related costs discussed in my testimony include:

- 1 1. Salaries and Wages, which includes: base pay, overtime, shift premium and meal
2 compensation pursuant to the terms of applicable collective bargaining agreements
3 (“CBAs”); and performance pay in the form of annual and long-term performance
4 compensation for eligible employees;
- 5 2. Group Insurance;
- 6 3. Other Benefits, which includes 401k, Defined Contribution Plan (“DCP”), Employee
7 Stock Purchase Plan (“ESPP”), and Pension and Other Post-Employment Benefits
8 (“OPEB”) expense for certain eligible employees;
- 9 4. Payroll Taxes.

10 **Q. Please describe the overall approach to calculating labor and labor-related expenses.**

11 A. MAWC’s proposed labor and labor-related expenses begins with a starting point of 722
12 full-time positions as of December 31, 2025, with 83 positions layered in for the future test
13 year (34 full time employees, 49 temporary summer interns working 5 months out of the
14 year) to reflect the planned employee level for that period. Company witness Jody L.
15 Carlson provides additional information regarding the Company’s employee levels. The 2026
16 labor hours worked were annualized and adjusted on a position-by-position basis to reflect
17 a normalized level. These hours were then multiplied by the employees’ actual 2026 wage
18 rates to determine an annualized level of expense. As I explain below, this level of expense
19 was then adjusted using a three (3) year average of base pay increases for non-CBU hourly
20 employees and exempt employees. To adjust the level of expense for CBU employees, the
21 most recent CBAs were used to determine the future test year costs. As discussed by
22 MAWC witness Carlson, MAWC is working to fill vacancies and plans to do so prior to
23 the end of the future test year. The future test year labor expense for all vacant positions

1 was increased in the same manner as existing employees, and the associated labor-related
2 expenses were calculated based upon the average plans/elections of existing employees. A
3 portion of labor and labor-related costs is capitalized with capital projects and programs.
4 A capitalization percentage was used to calculate net labor and labor-related expense,
5 which is consistent with the methodology used in prior proceedings. The capitalization
6 percentage is based on the three (3) year average of dollars charged by position to expense
7 versus capital. This eliminates from expenses the labor and labor-related costs which are
8 charged to capital projects and programs. In addition, expenses related to acquisitions were
9 also included in the test year.

10 **a. Salaries and Wages**

11 **Q. Please describe how the various components of the future test year salaries and wages**
12 **are calculated.**

13 A. Salary and wage expense has four components: (1) base pay; (2) overtime; (3) shift premium
14 and meal compensation pursuant to the terms of applicable CBAs; and (4) annual and long-
15 term compensation for eligible employees. Each component is discussed in further detail
16 below. Exempt employees do not receive overtime, shift premiums, or meal compensation.

17 **Base Pay** – Base pay was calculated for the future test year by applying a three (3) year average
18 (2023-2025) of the historical percentage increases to the annualized wage rates for non-CBU
19 employees. The wage rate projected to be in effect for each month of the future test year is
20 applied to the working hours for each month. Regular working hours total 2,088 for all hourly
21 employees and 2,080 for all full-time non-hourly (exempt) employees. Wage rates for CBU
22 employees were based on CBAs for each month of the future test year. If wage rates have not
23 been established by CBAs that will be in effect at the end of the future test year, the wage rates

1 were adjusted using an annual increase percentage equal to the historical three (3) year average
2 (2023-2025) of contracted increases. Non-CBU hourly employees and exempt wage rates
3 were based on the rates that became effective on January 5, 2026. Those rates were adjusted
4 through the future test year based on a three (3) year average (2023-2025) of the historical
5 percentage increases and were annualized as of the end of the future test year.

6 **Overtime** – Overtime was calculated by using a three (3) year average of actual overtime hours
7 by position and multiplying those hours by the projected overtime wage rate for each CBU and
8 non-CBU hourly employee position.

9 **Shift Premium** – CBU employees’ CBAs provide wage premiums for employees working on
10 uncommon shifts or when employees obtain certain licenses or complete certain training. The
11 actual total 2025 shift premiums, as well as licensing and training premiums, were determined
12 on a per-employee basis and included in salary and wage expense for the future test year.

13 **Meal Compensation** – CBU employees’ CBAs provide compensation for meals during
14 extended shifts and, therefore, meal compensation is included in salaries and wage expense. A
15 historical three (3) year average (2023-2025) of meal compensation was determined on a per-
16 employee basis and included in salary and wage expense for the future test year.

17 **Performance Pay** – The last component of labor expense is the annual and long-term
18 performance compensation for eligible employees. Performance pay was calculated on a
19 position-by-position basis for eligible employees based on each position’s target percent, or
20 percentage of base salary that is provided if program goals are achieved, under both the Annual
21 Performance Plan (“APP”) and Long-Term Performance Plan (“LTPP”). The target percentage
22 was multiplied by each eligible employee’s pro forma base salary in the future test year, to

1 determine the cost of compensation under the APP and LTPP. APP and LTPP are discussed
2 more fully by MAWC witnesses Jody L. Carlson and Robert V. Mustich.

3 **b. Group Insurance**

4 **Q. What is group insurance?**

5 A. Group insurance includes a variety of coverages that MAWC provides its employees.
6 Group insurance falls into two primary categories: (1) basic life, short-term disability, long-
7 term disability and accidental death and disability (“AD&D”) insurance, and (2) medical,
8 dental, and vision insurance.

9 **Q. How was the future test year level of the group insurance expense calculated?**

10 A. Costs were calculated for the future test year as follows:

11 Basic life, short- and long-term disability and AD&D. The starting point is the
12 2026 insurance premium rates for each position under the applicable insurance
13 plans for CBU and non-CBU/exempt positions. The 2026 rates were then applied
14 to the future test year salary levels to calculate the future test year level of expense.
15 The plan rates for 2026 were applied to each of the employee positions projected
16 for the future test year.

17 Medical, dental, and vision insurance. This category of insurance involves a
18 Company cost net of employee contributions. The costs and contributions vary by
19 plan type (e.g. family, employee, or employee plus spouse). Costs and
20 contributions were calculated on a position-by-position basis, which takes into
21 consideration actual employee plan selections. The 2026 plan rates serve as a
22 starting point. Using 2026 plan rates, costs and contributions were calculated on a
23 position-by-position basis, considering actual employee plan selections for existing

1 employees and projecting plan selections for vacancies based on current employee
2 selections.

3 **c. Other Benefits Expense**

4 **Q. Please describe the components of other benefits expense and how each was**
5 **calculated.**

6 A. Other benefits expense includes programs such as 401k, defined contribution plan
7 (“DCP”), Retiree Medical, and the Employee Stock Purchase Program (“ESPP”). These
8 costs were calculated on a position-by-position basis. The calculations for savings-related
9 programs are described below.

10 **401k** - MAWC incurs 401k expense when it matches employee contributions to 401k
11 retirement accounts. The matching amounts are determined by each employee’s benefit
12 group or hire date. For CBU employees hired before 2001 and non-CBU/exempt
13 employees hired before 2006, the Company matches 50% of the first 5% of the employee’s
14 contribution (for a maximum of 2.5%). For the remaining employees, the Company
15 matches 100% of the first 3%, and 50% of the next 2% of the employee’s contributions
16 (for a maximum of 4%). Future test year 401k costs were calculated for each position
17 based on future test year wages, current employee contribution levels, and the level of
18 match for each employee.

19 **DCP** – DCP is a retirement savings program for employees not eligible for the defined
20 benefit pension program. Under the DCP, MAWC contributes an amount equal to 5.25%
21 of an employee’s base pay into a retirement account. The pro forma DCP expense was
22 calculated by multiplying the future test year regular time pay of each eligible position by
23 5.25%.

1 **Retiree Medical Expense** - CBU employees who are not eligible for OPEB are entitled to
2 Company-provided retiree medical benefits. MAWC has set up a trust (referred to as the
3 Voluntary Employee Benefits Association, or VEBA) to fund this benefit in the amount of
4 \$600 per eligible employee.

5 **ESPP** - ESPP expense relates to the Company funded fifteen percent (15%) discount of
6 American Water stock purchases made through payroll deductions by enrolled employees.
7 The expense was calculated based on the future test year wages for each employee
8 participating in the plan. The employee's future test year wage, times their individual
9 contribution amount, applied to the fifteen percent (15%) Company discount was used to
10 calculate the future test year expense.

11 **Pension** – Certain Company employees, upon retirement, are eligible for pension benefits
12 under a defined benefit plan. Generally, non-CBU employees hired before January 1, 2006,
13 and CBU employees hired before January 1, 2001, are eligible for pension benefits.
14 Consistent with MAWC's calculation of pension expense in its last base rate case, the
15 Company calculated its pension expense in this case in accordance with Financial Account
16 Standards Board Accounting Standards Codification Topic 715 or "ASC 715" (formerly
17 Statement of Financial Accounting Standards 87). The Company started with the report
18 furnished by its actuary, Willis Towers Watson ("WTW"), that furnished pension costs for
19 2026 determined in accordance with ASC 715. From that report, the Company identified
20 the service and non-service cost components of its pension cost. The service cost
21 component was then reduced by a capitalization rate to determine post-test year pension
22 expense.

1 **III. CONTRACT SERVICES**

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

3 A. The contracted services expense includes a myriad of costs performed by contracted third
4 parties. Examples include, among other things, costs related to accounting fees, audit fees,
5 legal fees, landscaping, excavating, janitorial, and costs associated with Missouri One Call.
6 In order to calculate the appropriate expense level, the Company took the 2025 actual
7 expenses and projected the going level of expense as of 12 months ending December 31,
8 2025. As future contracts have yet to be negotiated, an inflation factor of 2.18 % as derived
9 from the U.S. Bureau of Labor Statistics was applied to project the costs beginning in 2026
10 through the future test year ending May 31, 2028. The details of this adjustment can be
11 found in Schedule **CAS-13**.

12 **Q. Does this conclude your direct testimony?**

13 A. Yes.

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