Exhibit No. 10

MAWC – Exhibit 10
Jeffrey T. Kaiser
Direct Testimony
File No. WR-2022-0303

Exhibit No.:	
Issues:	Operations and Facilities, Commitment to Water Quality, Operating and Maintenance Expense, Employee Levels and Compensation, Main Extension Rule
Witness:	Jeffrey T. Kaiser
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

JEFFREY T. KAISER

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Jeffrey T. Kaiser, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Vice President Operations for Missouri-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.

Jeffrey T. Kaiser

July 1, 2022
Dated

DIRECT TESTIMONY
JEFFREY T. KAISER
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303
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DIRECT TESTIMONY

JEFFREY T. KAISER

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jeffrey T. Kaiser, and my business address is 727 Craig Road, St. Louis, MO, 63141.

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

A. I am employed by Missouri-American Water Company ("MAWC", "Missouri-American" or "Company") as Vice President of Operations.

Q. Please summarize your educational background and business experience.

A. I received a Bachelor of Science degree in civil engineering from Washington University in St. Louis, Missouri in 1986. I am a registered professional engineer in the states of Missouri and Indiana, and I have more than 35 years of experience in water and wastewater design, construction, and operations. From 1986 until April 2018, I held various roles of increasing responsibility for large nationally based engineering firms, including positions as a project engineer, senior engineer, project manager, and office/ branch manager. In these roles, the primary focus of my work was the water and wastewater industry. In these roles, I was involved in or oversaw the completion of numerous planning, design, and construction projects, ranging in size and scope from small wastewater and water main extension projects to water and wastewater system planning studies, and the design and construction administration of treatment plant improvement projects. In April of 2008, I was employed by American Water Works Service Company (the Service Company) to serve as the Director of Engineering for Illinois American Water Company, Iowa American

Water Company, and Lake Water Company. In January 2017, my position changed to Director of State Procurement, overseeing the purchasing for all state subsidiaries of American Water. In November 2019, I became an employee of MAWC serving as the Director of Engineering for MAWC. In January of 2020, I assumed the responsibilities of Vice President of Operations for MAWC, the position I currently hold.

Q. What are your current employment responsibilities?

A. I am responsible for the Company's water and wastewater operations across the State of Missouri, including field services, production, maintenance, water quality, environmental compliance and safety. My oversight includes ensuring that our operations team continues to provide high-quality water and wastewater service and meets MAWC's operational targets.

Q. Are you generally familiar with the operations of MAWC?

A. Yes.

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

A. Yes. I have provided testimony in Cases Nos. WR-2020-0344 and WA-2021-0376:

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

A. The purpose of my Direct Testimony is to sponsor and testify in support of several areas of this filing. First, I describe the Company's water and wastewater operations and facilities throughout Missouri. I also discuss the Company's commitment to water quality which benefits MAWC's customers. I then discuss MAWC's level of operating and maintenance ("O&M") expense in this case and how it supports the Company's efforts to continue providing high-quality water and wastewater service in the most cost-effective way to our customers in the long term. I support the Company's employee levels and explain

MAWC's employee "total market-based compensation" philosophy. Finally, I discuss proposed modifications to our developer refunds with the Company's Rule concerning Extension of Company Mains.

II. OPERATIONS AND FACILITIES

Q. Please generally describe MAWC's water and wastewater operations.

A. As of April 2022, MAWC provides water and/or wastewater utility service to a population of approximately 1.5 million Missourians through approximately 493,000 customer connections in the State of Missouri. We provide water service to more than 30 counties across the State with the largest concentration of customers in the areas of St. Louis County, Jefferson City, Mexico, Parkville, St. Joseph, Warrensburg, Joplin, and Branson. Our water systems range in size from St. Louis County, with more than 343,000 customer connections, to Golden Acres with less than 30 customer connections.

MAWC also operates nearly 90 wastewater systems across the state serving approximately 18,000 customer connections. These systems are also spread across the state with the largest being the Arnold district with more than 7,100 customer connections and the smallest system being Ozark Meadows with less than 30 connections.

Q. Please describe MAWC's plant and property.

A. MAWC's utility plant accounts include land and land rights, structures and improvements, wells, pumping equipment and associated facilities, purification plant and equipment, sludge disposal facilities, transmission and distribution mains, collection pipes, distribution storage facilities, service lines, meters, hydrants and other facilities, including materials and supplies. All of this plant and property is used and useful in providing safe, proper, efficient, and reliable water and wastewater services to MAWC's customers.

Q. Please describe MAWC's sources of water supply, treatment facilities, pumping equipment and distribution system property used to provide water service.

A. MAWC draws most of our water supply from surface water (lakes and rivers), or from groundwater (wells and/or infiltration galleries). In some areas, MAWC also purchases water from neighboring water suppliers. About 85% of MAWC's total source of supply comes from surface water and 14% comes from groundwater. The remaining 1% is purchased water.

While treatment processes may vary between individual systems, generally the treatment processes typically include one or more of the following: sedimentation and clarification, filtration, disinfection, taste and odor removal, organic chemical absorption, iron and manganese removal or sequestering, pH adjustment, corrosion control, and fluoridation for dental prophylaxis. These treatment processes are provided to meet or surpass the standards of the drinking water regulations of the Drinking Water Branch of the Missouri Department of Natural Resources, the United States Environmental Protection Agency ("EPA"), municipal and county fluoridation ordinances, and a municipal water softening franchise requirement.

The MAWC water systems consist of more than 6,800 miles of main ranging in size up to 42 inch, more than 44,000 hydrants, and approximately 120 distribution storage tanks, 12 water treatment plants, 78 wells, and more than 100 pump stations. The Company's treatment facilities and wells produce approximately 70 billion gallons annually. The total capacity of water storage is more than 140 million gallons which is strategically located in the service areas for drawdown during peak demand periods and for fire protection services.

Q. Please describe MAWC's treatment facilities, equipment, and collection system property used to provide wastewater service.

A. The wastewater system facilities consist of approximately 270 miles of collection lines and force mains ranging in size from 2-inch to 36-inch diameter, approximately 7,700 manholes, and more than 120 lift stations. There are more than 50 mechanical wastewater treatment plants with capacity to treat more than 350,000 gallons of wastewater daily and more than 30 lagoons that serve our wastewater customers.

III. COMMITMENT TO WATER QUALITY

Q. Please discuss Missouri-American's commitment to water quality.

A. MAWC has provided water service to Missouri residential and business customers for more than 140 years. Water quality is of paramount importance to the health and well-being of our customers, and we are acutely aware that water is the only utility product intended for customers to ingest, and that our customers rely on MAWC to provide them with safe and reliable water service. Beyond health and safety, we know that MAWC's customers are also interested in the aesthetic qualities of the water we treat and deliver to them. The Company demonstrates its commitment to water quality by maintaining various partnerships with drinking water organizations and proactively looking for ways to optimize treatment capabilities.

Q. Please discuss MAWC's partnerships with respect to water quality.

A. The Company's participation in The Partnership for Safe Water (the "Partnership") program is one demonstration of MAWC's commitment to the health and safety of our customers through the delivery of clean, safe, aesthetically pleasing drinking water. The

Partnership is an alliance of six drinking water organizations[1] with a mission to improve the quality of water delivered to customers by optimizing water system operations. Each year, the Partnership recognizes water treatment plants for their optimization and water quality.

MAWC is also part of the Missouri River Public Water Suppliers Association (MRPWSA) - a group of water utility representatives along the Missouri River that engage in issues that impact treatment, Missouri River policy and management, regulatory and permitting concerns, and overall monitoring of the river. The group also shares knowledge and best practices regarding drinking water treatment along the Missouri River.

MAWC has also partnered with the University of Missouri – Rolla and The Water Research Foundation to evaluate the watershed for possible causes of taste and odor issues and to determine the best possible treatment methods.

Moreover, MAWC, along with St. Louis Metropolitan Sewer District and Northeast Public Sewer District, is conducting a three-year, Missouri Department of Natural Resources ("MDNR") approved study on the Meramec River. Harmful Algal Blooms ("HABs") have been noted across the country and have significantly impacted drinking water sources. The Meramec River is a drinking water source for many Missourians and during certain times, it meets the conditions that promote algal growth – UV penetration, stagnant water, and plentiful nutrients. The three-year study is gathering data on the occurrence of algae and related water quality characteristics to determine the vulnerability of the river.

[1] Partnership organizations include EPA, the American Water Works Association ("AWWA"), Association of State Drinking Water Administrators ("ASDWA"), Association of Metropolitan Water Agencies ("AMWA"), National Association of Water Companies ("NAWC") and the Water Research Foundation ("WRF").

Q. Has MAWC been recognized for its optimization and water quality achievements?

A. Yes. Missouri-American is a participant in the Partnership's water treatment plant optimization program and has repeatedly been recognized for its optimization and water quality achievements. MAWC's six largest surface water treatment plants have received Phase III Directors Awards and five[2] of them have been recognized for maintaining the Phase III Directors Award status for more than fifteen years.

Q. Please describe other ways the Company is demonstrating its commitment to water quality.

A. The Company evaluates water quality and associated risks from the source all the way to the customer. MAWC's integrated approach to monitoring its source water quality and using innovative technologies to evaluate risk supports the Company's ability to make more informed decisions regarding treatment and when responding to potential source water contamination events. The integrated approach includes our continued use of source water quality monitoring panels, utilization of technologies and applications (WaterSuite and Sample One View), installation of dedicated sampling stations, and gaining insights at more points throughout the distribution systems, such as chlorine residuals and potential cross-connection points.

Q. What efforts has MAWC taken to monitor source water to verify it is safe for customers?

A. The Company has continued its use of WaterSuite, a map-based tool that collects information about potential sources of contamination, and source water quality monitoring panels. This system provides a method to monitor source water quality prior to the water

[2] The five plants include the Central Plant, North Plant, South Plant, Meramec Plant, and Joplin Plant.

entering the treatment plant where it could interrupt the treatment process and availability of water for customers, or potentially pass through the plant and into the distribution system exposing customers to the contaminate. While it is not capable of identifying every potential water quality concern, it has provided benefits since its implementation. For example, in May of 2019, an oil sheen, accompanied by a strong crude oil odor, was observed on the Missouri River upstream of our St. Louis County Central Plant. While the sheen never made it to our intakes in sufficient quantities to be detected, we were able to utilize WaterSuite to confirm the location of several potential sources. We determined that it was related to an oil company's crude oil pipeline located near the Boone Bridge on I-64. Having the ability to use WaterSuite, and the detection capabilities of the source water quality monitoring panels provided an extra layer of protection. Additionally, the panels help establish baseline water characteristics that enable operations and water quality staff to make informed decisions about treatment levels when river conditions change. Additionally, Source Water Protection Plans (SWPPs) have been developed for all the major surface water systems and four of our larger groundwater systems. The SWPPs follow the guidelines provided by the Missouri Department of Natural Resources for developing SWPPs and help raise awareness about the importance of protecting drinking water sources.

Q. What is the Company doing to maintain safe quality drinking water in its distribution system?

A. MAWC has implemented a chlorine residual monitoring program and expanded the Cross-Connection Control ("CCC") program. In 2018, a CCC supervisor position was added to improve the implementation of MDNR CCC regulations. Since adding this position, more

than 200 field inspections have been completed, testing compliance required by customers has increased by more than 30%, and multiple potential backflow hazards have been identified and corrected. Most recently, MAWC has repositioned three Field Service Representatives (FSRs) in its St. Louis County district to focus solely on distribution system sample collection and response to customer-initiated water quality concerns. By having staff solely focused on these duties rather than ad-hoc assignments, the consistency of these critical bacteriological samples and the interaction with customers has been improved.

Q. Are there other efforts MAWC is making to safeguard water quality?

A. Yes. In 2020, MAWC implemented an Environmental Near Miss program to help identify and correct potential water quality and environmental issues that could lead to non-compliance events. The focus is on identifying and correcting "leading indicators" to reduce the risk of a non-compliance event. To date, more than 200 near misses have been identified and corrected. For example, by following our chemical delivery protocols, we have had several chemical deliveries of off-spec treatment chemicals identified and sent back to vendors. In addition, the Company has implemented the use of Sample One View ("S1V"). This system provides real-time access to our compliance sampling requirements for our drinking water systems. S1V can be accessed anytime to determine how many compliance samples are required for the month, how many have been collected, and how many have results. Individual water system level detail can be accessed to view the specific sample types and the results. Currently, all chemical samples and most bacteriological samples are monitored via S1V.

IV. OPERATING AND MAINTENANCE (O&M) EXPENSE

Q. Please discuss the results of Missouri-American's efforts to control O&M costs over the past several years.

A. Missouri-American has successfully controlled costs over the past several years. The Company's 2021 operating expenses are essentially flat compared to 2012, excluding the additional O&M expense related to new acquisitions, and we are continuing our cost mitigation efforts. During this same period, the Consumer Price Index experienced a 2.2%[3] compound annual growth rate ("CAGR"). Had the Company's O&M expense simply grown at CPI from 2012 through the test year in this case, the Company's revenue requirement in this case would have been more than $17 million higher. Please see Table JTK-1 for details.

Table JTK-1

$Millions	MAWC	CPI	Difference
2012 MAWC O&M	$130.1	$130.1	$0.0
Test Year MAWC O&M	145.5	162.9	17.4
$ Change	**$15.4**	**$32.8**	**$17.4**
CAGR	**1.1%**	**2.2%**	**1.1%**

Note: O&M amounts exlude systems acquired since 2010

Q. Is the level of O&M expense requested by the Company important to its provision of safe and proper service?

A. Yes. The requested increase in O&M expense supports the Company's efforts to continue providing high-quality water and wastewater service in the most cost-effective way to our customers over the long term. The Direct Testimony of MAWC witnesses Matthew Mason and Michael Schwarzell discusses MAWC's specific O&M pro forma adjustments in this case.

[3] Bureau of Labor Statistics: Consumer Price Index, US City Average, All Urban Consumers, not seasonally adjusted. December 2012 index of 229.601 compared to December 2021 index of 278.802, 2.2% CAGR.

V. EMPLOYEE LEVELS AND COMPENSATION

a. Employee Levels

Q. Please discuss how MAWC staffs its business operations.

A. The Company continually strives to find more efficient and cost-effective ways to operate and maintain its business. As part of that effort, we attempt to manage our cost structure as efficiently as possible, including employee costs. We recognize our duty to staff our business in a manner consistent with the provision of safe, reliable, and affordable service. This requires a constant evaluation of the right mix of internal and contract labor, straight time versus overtime, training programs, and utilizing technology to optimize our workforce efforts. We continue to evaluate costs and expenses going forward, always looking for the best solution for the unique challenges we face. A large portion of our cost structure is for labor, and as a position becomes vacant in our organization, we look to the value of that position. We consider the overall need for that position and, among other things, whether that existing position should be filled as is, repurposed, or if other efficiencies could be gained in how the work gets done. Cost control and improved business performance are the goals of these efforts. We continue to evaluate the new roles that will be created as new regulatory requirements are promulgated and the appropriate positions that MAWC will need to optimize new technology and most effectively serve our customers.

Q. What is MAWC's forecasted staffing level in this case?

A. We have identified 742 full-time equivalent ("FTE") employees and fourteen (14) temporary summer employees as the appropriate staffing level for the Company's water and wastewater operations. The number of employees is based upon each department and

functional area's plans to continue providing safe, clean, reliable, and affordable service to our customers. Service needs and related resource requirements are consistent with meeting regulatory requirements, tariff requirements, industry standards, service requests, customer needs, and providing support to the business operations in the most cost-effective way to best serve the long-term interests of our customers. The Direct Testimony of Company witness Matthew Mason explains how the Company's labor and labor-related costs were determined.

b. Missouri-American's Compensation Philosophy

Q. Does Missouri-American have an overall compensation philosophy?

A. Yes. Missouri-American offers compensation that allows it to attract and retain customer-committed, dedicated, and highly qualified employees. The Company's overall compensation philosophy is to provide employees with a total compensation package that is market based and competitive with those of comparable organizations with jobs of similar responsibility. As part of its compensation philosophy, MAWC has chosen to place a portion of its total compensation at risk, driving continued performance across the enterprise. Specifically, the Company targets its total direct compensation (inclusive of base and at-risk compensation) for each role near the market median (50th percentile). By using a combination of fixed and at-risk compensation, MAWC satisfies a dual objective of offering competitive market-based total compensation for all employees, while continuing to motivate employees to achieve goals that will improve performance and efficiency for the benefit of our customers.

Q. How should MAWC's employee compensation expense be assessed by the Commission?

A. Employee compensation is a cost of providing utility service, not unlike any other prudently incurred cost of service recoverable in rates. Employee compensation must therefore be assessed through the same lens as all other operating costs of the Company. Where the Company's total compensation level is in line with market, as will be demonstrated in this case, whether the compensation is fixed, or a combination of fixed and at-risk components, is irrelevant. The Company's total market-based compensation expense is reasonable and prudently incurred and thus, should be recoverable like all other costs of service.

c. Market Based Total Compensation

Q. How does the Company's total compensation, including at-risk compensation, compare to the market?

A. The Company retained the services of Willis Towers Watson ("WTW") to perform a total compensation study to determine if the total direct compensation provided to Missouri-American employees, when viewed against the market of talent for employees of similar positions, is at market based on the Company's stated compensation philosophy. The findings of WTW's compensation study are detailed in the Direct Testimony of Company witness Robert V. Mustich. Therein, Mr. Mustich reaches the following conclusions:

- MAWC's overall total direct compensation – which includes base compensation and all performance-based compensation – is 11% below the median and below the competitive market range on a national market perspective, and 6% below the median market but within the competitive market range on a Midwest regional perspective.
- If performance compensation were excluded from MAWC's total direct compensation and compared to market pay levels that include performance compensation, it would

be 17% below median from a national perspective and 12% below median from a Midwest Regional perspective.

- American Water's annual performance pay program (APP) is comparable to, and competitive with, plan designs of other similarly sized utilities.
- American Water's long-term performance pay (LTPP) is comparable to and competitive with plan designs of other similarly sized utilities.
- The various comparative studies performed by WTW show that MAWC's total direct compensation programs are comparable to and competitive with market practices of other similarly sized utilities and are therefore reasonable.

Q. Did Mr. Mustich reach any further conclusions regarding MAWC's compensation programs?

A. Yes. Mr. Mustich concludes that Missouri-American's total direct compensation is delivered through market-based programs intended to compete in the market for talent. He states that if the Company were to eliminate all or part of its performance based compensation, it would likely be forced to increase fixed pay above market competitive levels.

Q. Is providing market-based, competitive compensation to employees critical to the Company's ability to continue to provide safe and reliable utility service?

A. Yes, it is. Recruitment of skilled workers, as well as the retention of existing trained workers, is critical to MAWC's ability to continue to provide safe and reliable water/wastewater service for the benefit of all MAWC customers. Competition among companies to attract and retain the best and highest performing employees is intense. In

recruiting new employees or retaining existing employees, both the Company and American Water compete within the general industry in surrounding regions and nationally. Without the ability to provide competitive compensation and benefits, the Company would be hampered in its efforts to attract new employees and retain existing employees, particularly when competing with other utilities and other industries for this same pool of talent. This is especially true with respect to employee retention, where the loss of skilled employees imposes a real and added cost on a company, which must then recruit and train replacements.

The difficulty of attracting new talent and the resulting cost of doing so is further compounded by the fact that the utility industry as a whole is experiencing a disproportionate impact of our nation's aging workforce. The soon-to-retire "Baby Boomer" generation holds a wealth of knowledge and experience necessary to support the continuation of utility services, while the next generation of qualified talent is diminished in size. This presents a far greater challenge to MAWC in recruiting replacement, qualified personnel, if its total compensation is not competitive. Therefore, the Company's compensation program must provide employees with a total compensation package that is competitive with those offered by companies with which it competes for employees.

Q. Please explain the performance pay component of the Company's total market based compensation.

A. The performance pay component of the Company's total market based compensation may be awarded under two plans – the Annual Performance Plan ("APP"), which is an annual cash payment, and the Long-Term Performance Plan ("LTPP"), which is stock based and vests over time.

Q. Please describe the key performance objectives underlying the APP.

A. Management and hourly non-union employees' APP pay is based on a combination of individual performance and achievement of plan goals. The performance pay component of Union employees' total market based compensation was established through collective bargaining and is based on the achievement of plan goals. For 2022, the APP goals are as follows:

STRATEGY	GOAL	TARGET	WEIGHT
GROWTH	EPS Range	$4.39 - 4.49	50%
SAFETY	OSHA Recordable Incident Rate (ORIR)	0.77	7.5%
	OSHA Days Away, Restricted, or Transferred (DART)	0.40	7.5%
PEOPLE	Women Representation	24.6%	2.5%
	Racial & Ethnic Diversity Representation	20.8%	2.5%
CUSTOMER	Customer Satisfaction	Top Half of Customer Satisfaction benchmarking survey	15%
	Water Quality	Achieve ≤ 6 drinking water NOVs with no more than 2 being health-based	15%

Q. In regard to the Union participation in the APP, is there a Missouri statute that should be kept in mind?

A. Yes. I am advised that Section 386.315.1, of the Revised Statutes of Missouri, may have some import as to this issue as it states, in part, that "In establishing public utility rates, the commission shall not reduce or otherwise change any wage rate, benefit, working condition, or other term or condition of employment that is the subject of a collective bargaining agreement between the public utility and a labor organization."

Q. Please describe the Company's LTPP.

A. American Water provides restricted stock units ("RSUs") and performance stock units ("PSUs") as long-term variable compensation under the LTPP. American Water's RSUs and PSUs are based on three-year vesting periods. RSUs are based on time-based vesting and PSUs are based on performance vesting conditions.[4]

Q. How do Missouri-American's APP and LTPP compensation plans benefit customers?

A. The Company's compensation plans align the interests of our customers, employees, and investors. The design of the plans emphasizes customer service, environmental compliance, a safe work environment, and other operational goals, as well as certain financial goals. All of the APP and LTPP objectives – both operational and financial – focus employees' efforts in ways that ultimately benefit customers. The use of multiple measures further strengthens our ability to drive results across the enterprise.

Q. How do the operational goals of the APP benefit customers?

A. The operational goals of the APP are designed to focus plan participants on the results that can most directly influence customer satisfaction, health and safety, and environmental performance. Customers benefit from the plan goals because operational performance is improved by controlling costs, capturing efficiencies, promoting effective safety and risk management practices, and enhancing customer service. Achievement is determined by goals that directly benefit customers by creating a more productive workforce that is focused on customer satisfaction and achieving efficiency, environmental and safety goals. For example, goals limiting the number of Notices of Violation (NOV) for drinking water

[4] American Water uses a combination of compounded earnings per share growth and relative total shareholder return ("TSR") ranking over a three-year performance period as the basis for measuring achievement for performance stock units (PSU) awards.

regulations help maintain a focus on providing safe and reliable water service, while goals for customer service levels track performance of customer service representatives and field employees as they directly interact with customers.

Q. How do the financial goals of the APP and the LTPP benefit customers?

A. The financial goals of the APP and LTPP benefit customers in many ways. Importantly, achieving financial goals, such as targeted earnings per share ("EPS"), demands the employees' attention to operating efficiency. That is, unless the utility controls its operating costs, it cannot achieve a targeted EPS. This necessitates employees at all levels of the organization to remain focused on increasing efficiency, decreasing waste, and boosting overall productivity. As a result, the Company controls operating costs to the benefit of customers, because doing so mitigates the need for rate increases, and potentially the frequency of rate cases. Consequently, when financial goals are achieved through efficiency, as is the case for Missouri-American, the interests of customers, employees, and investors are aligned.

Q. Is there other evidence of the tangible benefit to customers from the performance pay component of MAWC's total market-based compensation program?

A. Yes. Again, it's important to consider the impact of a utility's financial health on its access to capital at reasonable costs. MAWC's customers have benefitted from the Company's access to capital at favorable rates. Because utilities are capital intensive and must routinely and consistently access the capital markets at reasonable costs, customers ultimately benefit when their utility has the financial health to do so. This is further confirmed by Company witness Mr. Mustich wherein he recognizes in his Direct Testimony that the availability of sources of capital at reasonable costs depends on the utility's financial

performance, including credit and bond ratings. As such, according to Mr. Mustich, it is important for Missouri American Water to focus employees on the financial health of the organization. In turn, as Mr. Mustich concludes, a financially healthy utility benefits customers because it enables the utility to meet its service obligations at reasonable financing costs.

Q. Please summarize why the Company's total market based compensation, including its performance based compensation component, should be recoverable through rates.

A. The performance-based compensation component of the Company's total market-based compensation plan aligns the interests of our customers, employees, and investors. The market-based compensation philosophy that MAWC has adopted allows it to attract and retain the workforce needed to continue to provide safe and reliable service. The plans contain tangible goals that are designed to do several things, i.e., measure and compensate employees for achieving goals based on delivering clean, safe, reliable, and affordable water service and provide first-in-class customer service when doing so. The operational components include goals that can most directly influence customer satisfaction, health and safety, environmental performance, and operational efficiency. Customers derive a direct benefit from our focus on these key measures in the plan. Further, the plans' well-grounded financial measures keep the organization focused on improved performance at all levels, particularly in increasing efficiency, decreasing waste, and boosting overall productivity. The Company has demonstrated that its overall compensation levels are in line with the market, and thus, are a reasonable and prudently incurred cost of service that is appropriately included in rates.

VI. MAIN EXTENSION RULE

Q. How does MAWC fund developer driven main extensions within the distribution system?

A. Prior to 2012, MAWC participated in the cost of new water main extensions through a refund driven model based on revenue per customer over a seven to 10-year contract period, depending on the district. This process resulted in a significant accounting burden for the Company and developers and changes were implemented to simplify the process. In 2012, MAWC's Extension of Company Mains Rule changed to reflect a process calling for an upfront share of the total cost of the water main extension, plus a revenue refund for any service connected within 120 days of the water main extension in-service date. The upfront contribution by MAWC was determined based on a historical review of refunds provided on main extensions during the seven to 10-year contract periods prior to 2012. The MAWC share of the total cost was determined, at that time, to be 5% in the St. Louis Metro area and 14% in all other districts.

Q. Should the MAWC share of the cost for new developer driven main extensions be updated?

A. Yes. MAWC reviewed the total cost of typical developer driven main extensions, and the corresponding MAWC share of that cost compared to the original determination in 2012. As a result of this review, MAWC believes that this process should be updated. The information examined by MAWC is found on **Schedule JTK-1**

Q. What does MAWC's review show?

A. MAWC is currently refunding only a very small percentage of the potentially eligible cost of infrastructure to developers. This is due in large part to the 120-day connection

requirement in the rule and the inability of the developers to make a substantial number of connections in this short period. Based on the total cost of typical developer main extensions from 2018-2022, and the potential number of new customer connections available in the representative subdivisions, MAWC's review indicates that a more appropriate share of cost for MAWC would on average be approximately 35% of the total cost of infrastructure. This percentage more closely represents the number of new connections expected in the developments than the current process.

Q. Were there any observations as to the appropriate length of time related to refunds?

A. Yes. It appears to be very difficult for developers to complete new service connections within the 120-day window currently available in the rule and the information reviewed indicated that significantly more connections occurred after the 120- day period. Therefore, MAWC believes this time 120-day time frame to be inappropriate for the basis of refunds.

Q. What changes does MAWC propose going forward?

A. The tariff sheets filed with this case (Sheets Nos. R48-R51, and R55), propose a change to the Extension of Company Mains Rule to increase to the current share of Company cost to 35%, an amount more accurately reflecting refunds for the build out of the developments reviewed, and the removal of the option of a revenue refund for any service connection made within 120 days of the in-service date on the main extension.

Q. Will the proposed rule maintain the distinction between the St. Louis district and the rest of the state?

A. No. MAWC also proposes that the distinction between the St. Louis district and the remainder of the state be eliminated such that the Company cost for the St. Louis district be the same as all districts throughout Missouri. The data for St. Louis is similar to other

areas and this would provide consistency across all districts for the Company's share of the main extension cost.

Q. Do you believe this change will have an impact on MAWC's existing customers?

A. No. The cost of this refund is reflective of revenue from new customers that are anticipated to be included in the developments and the percent refunded is based on recent developments in MAWC's service areas.

Q. Will MAWC retain information so that reviews of the Company's share may be performed going forward?

A. Yes. MAWC will continue to collect data similar to that included in Schedule JTK-1 so that reviews may be conducted from time to time.

VII. METER CHARGE CONSOLIDATION

Q. Is the Company proposing changes to the monthly fixed charge based upon meter size?

A. In this case Company witness Mr. Rea has provided a proposed rate structure that includes a fixed monthly charge based upon meter size and associated costs of service which is consistent with the approach utilized in previous proceedings. However, the Company is also including an alternative for the parties and Commission to consider that would have the fixed charges for a 5/8-inch, and 3/4-inch meters be combined into a single rate.

Q. Why should these meter sizes be combined into a single rate?

A. The 5/8-inch and 3/4-inch meters are used for typical residential customer connections and have similar physical characteristics. While the 3/4-inch meter does have slightly higher metering capacity, the differentiation between the use of these meter sizes is more historical in nature than based upon demand or flow capacity. Oftentimes the meter size is used

because it is what has always been used in a particular service area, not for operational reasons. Personal preferences across operating service areas as well as past and recent acquisitions have left the company with a mix of these meter sizes with no significant reason other than history.

Combining these meters into a single fixed charge class would allow the company to standardize on a single meter without a financial impact to either the customer or the company and would create a rate based more on customer needs and usage rather than the anomaly of which meter has been historically used.

Q. Are there benefits to combining these fixed meter charges?

A. Yes, combining the meters would simplify the rate structure currently in place and make it more easily understandable for our customers. It would make customer communications much simpler and clearer, as we could discuss our "typical" residential customer rates without having to clarify if they have one size meter or another. It would also simplify inventories as we would endeavor to standardize installation over time through our length of service (LOS) meter changes.

Q. What is the difference in cost of the meters?

A. The 5/8-inch meter currently has a cost of $63.75 from Badger meter. The cost of the 3/4-inch meter is $82.62. The cost of the meter reading register with the 5/8-inch meter is $78.50 and the 3/4-inch register costs is $98.50. The installation costs are the same for any of these meters. Therefore, the overall difference in cost between the 5/8-inch and 3/4-inch meter is approximately forty dollars.

Q. How many customers have these two types meters?

A. Approximately 420,000 customers currently have a 5/8-inch meter and approximately

33,000 have a 3/4-inch meter.

Q. What would be the impact to proposed customer rates if this alternative proposal is accepted by the Commission?

A. If the proposed rates were combined, the proposed rate would be approximately $12.27 per month. This would be $3.73 less than the proposed 3/4-inch meter rate, and only $0.27 more than the proposed 5/8-inch meter rate.

Q. Does this conclude your Direct Testimony?

A. Yes.

District	Total Cost of Developer Project	Total # of Lots	4 Times Revenue for District	Total MAWC Contribution Using 4 Times Revenue	MAWC % of Total Cost
St Joseph	485,891	77	1,710	131,661	27.10%
Parkville	2,620,143	501	1,710	856,650	32.69%
Joplin	1,145,826	341	1,637	558,067	48.70%
Warrensburg	521,452	91	1,637	148,927	28.56%
Jefferson City	84,377	9	2,283	20,548	24.35%
Mexico	111,256	25	2,283	57,079	51.30%
St Charles	859,752	147	2,283	335,625	39.04%
Total Non STL	5,828,695	1,191		2,108,557	36.18%
St Louis	6,011,083	1,189	1,849	2,198,318	36.57%