

Exhibit No.:
Issue: *Labor and Labor-related Expenses*
Witness: *Ali Arabian*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *WR-2020-0344*
Date Testimony Prepared: *February 9, 2021*

MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY
OF
ALI ARABIAN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

Jefferson City, Missouri
February 2021

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **ALI ARABIAN**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **CASE NO. WR-2020-0344**

6 Q. Please state your name and business address.

7 A. Ali Arabian, P.O. Box 360, Suite 440, Jefferson City, Missouri 65102.

8 Q. Are you the same Ali Arabian who contributed to Staff's Cost of Service Report
9 filed on November 24, 2020 and rebuttal testimony filed on January 15, 2021 in this case?

10 A. Yes, I am.

11 Q. What is the purpose of your surrebuttal testimony in this case?

12 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
13 of Missouri-American Water Company's ("MAWC" or "Company") witnesses
14 Nikole L. Bowen and Jeffrey T. Kaiser concerning the calculation of Labor and Labor related
15 Expenses. Specifically, MAWC's concerns regarding staffing levels and number of hours used
16 by Staff in calculating labor and labor-related expenses, calculation errors related to basic life
17 and accidental death and disability ("AD&D"), the exclusion of licenses/certifications and meal
18 allowances, the exclusion of Employee Stock Purchase Plan ("ESPP"), and exclusion of 50%
19 of Annual Performance Plan ("APP") and 100% of Long Term Performance Plan ("LTPP").

20 **LABOR AND LABOR RELATED COSTS**

21 Q. Does Staff agree with MAWC witness Ms. Bowen's position on the adjustment
22 to staffing levels in her rebuttal testimony, page 3, lines 11 through 23, where she disagrees
23 with Staff using filled positions and salaries as of June 30, 2020?

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1 A. No. Staff has taken the position that payroll should be based on known employee
2 levels at a certain date, normally the end of the test year to be updated for known and measurable
3 changes through an update period, which in this case is June 30, 2020. Staff will also update
4 its calculations based on known employee levels as of December 31, 2020 during true-up.

5 Q. Does Staff agree with MAWC witness Ms. Bowen's position on the use of 2088
6 hours to calculate base wage expense for hourly employees as explained on page 4,
7 lines 2 through 11 and page 5, lines 1 through 5 of her rebuttal testimony?

8 A. Yes. Staff agrees to update the number of work hours from 2080 to 2088.
9 Staff found that for the period immediately following the operation of law date, there would be
10 2088 work hours in the 2021 calendar year. Staff will use the 2088 work hours amount to
11 calculate based wage expense in this surrebuttal to determine the appropriate level of annualized
12 payroll.

13 Q. Does Staff agree with MAWC witness Ms. Bowen's position on page 9,
14 lines 14 through 22 and page 10, lines 1 through 2, that Staff used an incorrect multiplier for
15 union employees to calculate AD&D?

16 A. Yes. Staff agrees with Ms. Bowen's position that an incorrect multiplier was
17 used for union employees. Staff mistakenly used 1.5% percentage to calculate basic life and
18 AD&D. The correct percentage that should have been used is 1.25%. Staff has corrected this
19 error for this surrebuttal filing. Additionally, Staff's calculation imputed a zero rate rather than
20 1.5% for 149 non-union employees' long-term disability expense. This error was corrected in
21 Staff's rebuttal filing.

22 Q. Does Staff agree with MAWC witness Ms. Bowen's position in her rebuttal
23 testimony, page 8, lines 9 through 18 that employees who obtain specific licenses or

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1 certifications and receive a wage rate premium should have their rates included in labor and
2 labor-related expense?

3 A. Yes, Staff has reviewed the collective bargaining agreement (“CBA”) and agrees
4 with MAWC witness Bowen that employees who obtain a license or certification should have
5 their license rate included in labor and labor-related expense since it is required by the CBA.
6 Staff has made this correction for this surrebuttal filing.

7 Q. What is the overall change in Staff’s revenue requirement associated with the
8 corrections to MAWC and Service Company labor and labor-related expense categories?

9 A. These changes resulted in a decrease of \$184,537 in Staff’s recommended
10 revenue requirement from that presented in rebuttal testimony.

11 Q. Does Staff agree with MAWC witness Ms. Bowen’s position in her rebuttal
12 testimony, page 3, lines 3 through 4 that meal allowances should be included in labor and-labor
13 related expense?

14 A. No. Staff disagrees with MAWC witness Bowen that meal allowances should be
15 included in labor and labor-related expense. Consistent with previous rate cases, Staff has not
16 included anything in payroll calculation except actual labor costs. Staff does not include meal
17 allowances unless employees are traveling, and such allowances are then treated as employee
18 expenses. Employee expenses were updated in my rebuttal testimony, page 3,
19 lines 22 through 44. Staff does review meal allowances in every rate case, but not as a part of
20 payroll. Those costs are considered non-labor and for payroll Staff is only dealing with labor.

21 Q. Does Staff agree with MAWC witness Ms. Bowen’s position in her rebuttal
22 testimony, page 6, lines 5 through 12 that ESPP should be included in labor and labor-related
23 expense?

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1 A. No, Staff disagrees with Ms. Bowen. Staff reiterates that ESPP expense was not
2 included in labor and labor-related expense because there is no cash outlay for this item.
3 Staff does not consider ESPP to be compensation that should be included in revenue
4 requirement.

5 Q. Does Staff agree with MAWC witnesses Ms. Bowen and Mr. Kaiser's position
6 that there should be full recovery for APP and LTPP?

7 A. Currently, Staff disagrees with MAWC witness Ms. Bowen and Mr. Kaiser.
8 Staff's position remains that 50% of APP compensation and 100% LTPP compensation for both
9 MAWC and Service Company employees should be disallowed. This is due to the fact that 50%
10 of APP and 100% of LTPP are tied to a company's financial performance.
11 Historically, Staff has recommended the removal of incentive compensation awards tied to
12 company financial performance. However, according to Mr. Kaiser's rebuttal testimony,
13 page 8, lines 8 through 21, Staff did not give consideration to applicability of Section 386.315.1,
14 RSMo, which states that "In establishing public utility rates, the commission shall not reduce
15 or otherwise change any wage rate, benefit, working condition, or other term or condition of
16 employment that is the subject of a collective bargaining agreement between the public utility
17 and a labor organization." Staff did not receive the CBA in time to review costs related to APP
18 and LTPP payouts to union employees. Thus, Staff's position at the time of the direct filing was
19 not to include 50% of the APP and 100% LTPP for union employees.
20 Staff is currently reviewing the CBA received in response to Data Request No. 0377. Based on
21 our review, Staff's position on this issue will be reevaluated. Any necessary changes will be
22 made in true-up.

23 Q. Does this conclude your surrebuttal testimony?

24 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water)
Company's Request for Authority to) Case No. WR-2020-0344
Implement General Rate Increase for)
Water and Sewer Service Provided in)
Missouri Service Areas)

AFFIDAVIT OF ALI ARABIAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW ALI ARABIAN and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Ali Arabian*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiants sayeth not.

/s/ Ali Arabian
ALI ARABIAN