

Exhibit No.:
Issue(s): *Employee Expenses;*
Labor and Related
Costs
Witness: *Ali Arabian*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *WR-2020-0344*
Date Testimony Prepared: *January 15, 2021*

MISSOURI PUBLIC SERVICE COMMISSION

AUDITING DEPARTMENT

FINANCIAL AND BUSINESS ANALYSIS DIVISION

REBUTTAL TESTIMONY

OF

ALI ARABIAN

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2020-0344

Jefferson City, Missouri
January 15, 2021

Rebuttal Testimony of
Ali Arabian

1 Q. Has Staff changed its methodology for determining employee expense since
2 Staff's direct revenue requirement filing?

3 A. Yes, originally employee expense was comprised of both relocation expense and
4 travel expense. A three-year average was used to determine Staff's adjustments for total
5 employee expense. However, after reviewing OPC's management expense workpaper and
6 discussion with Staff upper management, it was decided that the relocation expense should be
7 a separate issue since the methodology used by Staff for relocation expense now will vary from
8 travel expense. Staff will continue to use a three-year average to determine relocation expense.
9 However, for travel expense, Staff believes it is appropriate to go through the list of individual
10 travel expenses for both MAWC and Service Company to determine whether to allow or
11 disallow the expense. If Staff deems a particular expense to be imprudent and excessive and not
12 to the benefit of the ratepayers, it would be disallowed and removed from the test year to
13 determine Staff's adjustment.

14 Q. Do you agree with OPC's witness Amanda Conner's proposed removal of
15 imprudent or excessive expenses explained in her direct testimony?

16 A. Yes, but not entirely. Staff included expenses related to domestic travel for
17 businesses purposes and training that were disallowed by OPC. However, Staff agrees that
18 expenses related to overseas travel, gifts and parties associated with retirements, bereavement,
19 and holiday/birthday celebrations, award ceremonies, alcohol consumption, and travel related
20 to lobbying are imprudent and should be disallowed. Staff believes these expenses do not
21 benefit the ratepayers and are not necessary for MAWC to provide sufficient and reliable
22 service.

1 For more information related to lobbying expense, please refer to Staff witness Barron's rebuttal
2 testimony in this case.

3 **Labor and Related Costs**

4 Q. What comprises the expense category of labor and related costs?

5 A. Labor and related costs includes payroll and payroll taxes, incentive
6 compensation, and employee benefits other than pensions and OPEBs.

7 Q. Has Staff's adjustment for labor and related costs for MAWC and
8 Service Company changed since filing direct revenue requirement?

9 A. Yes. For MAWC labor & related costs, the test year amounts used to calculate
10 Staff's adjustment for payroll and incentive compensation were incorrect. Staff inadvertently
11 used several data request responses to calculate test year payroll and incentive compensation
12 rather than using the 2019 General ledger amounts provided by MAWC. MAWC also provided
13 incorrect group insurance and 401K amounts. MAWC has since provided updated information
14 related to group insurance and 401K and Staff is now using the appropriate test year amounts.
15 Based on updated information provided by MAWC and Staff's corrections to test year, the
16 revised adjustment amounts resulted in an increase of \$7,533,109 in Staff's revenue
17 requirement amounts presented in its direct testimony for MAWC payroll, payroll-related and
18 incentive compensation expense categories.

19 For Service Company, MAWC provided incomplete data for the roster of the Service Company
20 employees at June 30, 2020. This impacted labor, group insurance, 401K, and payroll tax
21 expenses. The company has since provided an updated listing. After receiving the updated
22 listing, the revised adjustments for these expenses resulted in an increase of \$1,423,934 in

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1 Staff's revenue requirement for Service Company payroll and payroll-related costs from the
2 amounts presented in direct testimony.

3 The Company also did not provide the correct information related to Service Company
4 incentive compensation. The original data request included an accrual amount of incentive
5 compensation for the Service Company rather than the actual payment. MAWC has since
6 provided the actual cash payment amount and that is now reflected in the revised adjustment.

7 Staff also incorrectly double counted incentive compensation adjustment for Service Company.

8 Normally, Staff performs analysis of incentive compensation separate from payroll.

9 MAWC provided labor test year that included incentive compensation; however,

10 Staff mistakenly did not remove the incentive compensation portion from the labor test year.

11 To resolve this issue, Staff removed incentive compensation from the labor test year costs and
12 created a separate test year amount for incentive compensation in calculating a separate
13 Service Company adjustment.

14 These two changes resulted in an increase of \$5,940,639 in Staff's recommended revenue
15 requirement related to Service Company incentive compensation costs from that presented in
16 direct testimony.

17 Q. What is the overall change in Staff's revenue requirement associated with the
18 corrections to MAWC and Service Company payroll and related expense categories?

19 A. These changes resulted in an increase of \$14,897,682 in Staff's recommended
20 revenue requirement from that presented in direct testimony.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
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Company's Request for Authority to)
Implement General Rate Increase for Water) Case No. WR-2020-0344
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 *Rebuttal 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

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