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Maintenance and Services,
Maintenance Supplies and Services
Witness: Michael L. Schwarzell
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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

MICHAEL L. SCHWARZELL

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Michael L. Schwarzell, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am 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.



Michael L. Schwarzell

July 1, 2022
Dated

**DIRECT TESTIMONY
MICHAEL L. SCHWARZELL
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303
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TABLE OF CONTENTS

I. INTRODUCTION.....	2
II. PRODUCTION COSTS.....	3
a. Purchased Water.....	4
b. Fuel and Power	4
c. Chemicals.....	5
d. Waste Disposal.....	7
III. RENT EXPENSE.....	8
IV. OTHER OPERATING EXPENSES.....	8
a. Building Maintenance and Services.....	8
b. Maintenance Supplies and Services.....	9

DIRECT TESTIMONY

MICHAEL L. SCHWARZELL

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Michael L. Schwarzell, and my business address is One Water Street, Camden, NJ, 08102

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

A. I am a Principal Regulatory Analyst for American Water Works 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”) and its affiliates.

Q. Please summarize your educational background.

A. I received a Master of Business Administration degree from the Ohio State University in 2001 with concentrations in Corporate Finance and Logistics. Prior to that, I received a Juris Doctor degree from The University of Cincinnati in 1994 following my undergraduate degree in Business Administration with a major in Accounting from Bucknell University in 1991.

Q. Please summarize your business experience.

A. I began my current position of Principal Regulatory Analyst in June 2021. Prior to that, I worked in multiple finance roles for Service Company in the Budgeting and Internal Reporting department. These included Finance Manager starting in November 2018, Financial Analyst III (senior analyst) starting in December 2017, and Finance Intern starting in January 2017. Prior to working for American Water, I was employed by Lexmark International from 2001-2016 in various Supply Chain roles.

1 **Q. What are your current employment responsibilities?**

2 A. My responsibilities consist of reviewing, preparing, and assisting in regulatory filings and
3 related activities for multiple regulated subsidiaries of American Water. My
4 responsibilities include the preparation of written testimony, exhibits, and work papers in
5 support of rate applications and other regulatory filings, as well as responses to discovery
6 requests for MAWC and its regulated utility affiliates.

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

8 A. Yes.

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

10 A. The purpose of my Direct Testimony is to sponsor and testify in support of MAWC expense
11 levels in several areas. I will discuss the level of expenses associated with production costs,
12 rents, and two categories of other operating expenses: building maintenance and services,
13 and maintenance supplies and services.

14 **II. PRODUCTION COSTS**

15 **Q. Please describe which operating expenses are considered production costs.**

16 A. Production costs are expenses incurred to provide water and wastewater services to our
17 customers, and that vary depending on the volume of water provided or wastewater
18 processed. These costs include purchased water, fuel and power, chemical, and waste
19 disposal.

20 **Q. Please explain the impact of system delivery on production costs.**

21 A. System delivery is the amount of treated water that MAWC's treatment plants produce.
22 Water sales as well as other factors impact the amount of water produced by the plants,
23 which in turn impacts expenses associated with treating and distributing that water. As

1 discussed by Company witness Charles Rea, MAWC has proposed pro forma revenue
2 adjustments related to declining usage and customer growth and has calculated associated
3 pro forma system delivery. MAWC used the same level of system delivery in its pro
4 forma fuel and power, and chemicals production related expenses.

5 **a. Purchased Water**

6 **Q. Please describe purchased water expense.**

7 A. Purchased water expense includes costs for purchasing water from other entities. These
8 entities include KC Water Services, City of Excelsior Springs, City of St. Louis, Ozark
9 Water System, Callaway County District #1, City of California, PWSD #1 of Clinton
10 County, and City of Orrick (the “purchased water districts”).

11 **Q. Please explain how pro forma expense for purchased water was developed.**

12 A. In order to calculate the expense for purchased water, MAWC used the three-year average
13 usage (except for City of California and City of Orrick as noted below) and applied the
14 most recent rates and fees billed. MAWC also included known rate increases that will be
15 in effect before the end of the true-up period ending December 31, 2022. For the City of
16 California, the first usage was billed in April 2021, so usage through February 2022 was
17 used to determine usage for the true-up period ending December 31, 2022. For the City of
18 Orrick, the first three months average billed usage and contracted rates were used.
19 Adjustments for the Discrete Adjustment Period ending May 31, 2023, discussed in the
20 Direct Testimony of Company witness Wesley Selinger, were also made. This adjustment
21 is reflected on Schedule CAS-9.

22 **b. Fuel and Power**

23 **Q. Please describe the operating expense for fuel and power.**

1 A. Fuel and power expense is composed of costs associated with treating, pumping, and
2 distributing water and collecting and treating wastewater. MAWC purchases electricity,
3 natural gas, and miscellaneous fuel from third parties to support this production. Fuel and
4 power expense does not include transportation fuel (reported in Transportation expense) or
5 office electric and natural gas expense (reported in Building Maintenance and Services).

6 **Q. Please explain how the pro forma expense for fuel and power was developed.**

7 A. The fuel and power expense was derived by starting with 12 months ending December 31,
8 2021, expense then normalizing the expenses, which included removing accruals, aligning
9 to invoiced activity captured in the ENGIE Impact invoice system, annualizing expenses,
10 and adjusting for known changes in treatment processes. This normalized level of expense
11 was then adjusted for the annual impact of price changes during the true-up period ending
12 December 31, 2022. This adjusted amount was then divided by system delivery for the
13 same period of 2021, to develop an expense per system delivery rate. The same time period
14 of system delivery was used because this allows for the actual average fuel and power cost
15 per unit of water produced to be determined. The expense per system delivery was then
16 multiplied by pro forma system delivery for the true-up period ending December 31, 2022.
17 Miscellaneous fuel expense (approximately 1% of pro forma fuel and power expense) was
18 normalized, and the most recent invoiced price was applied. Adjustments were also made
19 to include expense for acquisitions. Adjustments for the Discrete Adjustment Period
20 ending May 31, 2023, discussed in the Direct Testimony of Company witness Mr. Selinger,
21 were calculated similarly. These adjustments are reflected on Schedule CAS-9.

22 **c. Chemicals**

23 **Q. Please describe the operating expense for chemicals.**

1 A. MAWC uses chemicals to bring chemical and biological contaminants within safe levels,
2 as prescribed by the United States Environmental Protection Agency (“EPA”) in
3 accordance with the Safe Drinking Water Act. Chemicals are also utilized to remove
4 turbidity (cloudiness) of the water and to address any remaining taste or odor issues, and
5 for wastewater treatment. Water conditions can vary seasonally or due to other external
6 factors, which impacts chemical usage and expense levels. Examples include drought or
7 flood conditions, fertilizer runoff, water level and temperature. Therefore, the amount of
8 chemicals used by MAWC not only varies due to production volume, but also seasonal and
9 other external factors.

10 **Q. Please explain how the pro forma expense for chemicals was developed.**

11 A. Chemicals expense was calculated by starting with the three-year average usage by plant and
12 chemical for the period ended December 31, 2021. The three-year average was then
13 adjusted for known changes in the treatment processes at each plant, or for new or
14 discontinued chemicals. The adjusted three-year average was then divided by the three-
15 year annual average of system delivery, from the same time period, to develop a chemical
16 usage per system delivery rate. The same time period of system delivery was used because
17 this allows for the actual average chemical usage per unit of water produced to be
18 determined. Pro forma chemical usage was then calculated by multiplying the chemical
19 usage rate per system delivery by pro forma system delivery for the true-up period ending
20 December 31, 2022. Chemical expense was then calculated by multiplying pro forma
21 chemical usage by the expected chemical price as of December 31, 2022. Chemical pricing
22 was adjusted to reflect market conditions, as discussed in the Direct Testimony of
23 Company witness Thomas O’Drain. Miscellaneous chemicals and other expenses (less

1 than 0.5% of pro forma chemicals expense) were normalized to the three-year average
2 expense. Adjustments were also made to include expense for acquisitions. Adjustments
3 for the Discrete Adjustment Period ending May 31, 2023, discussed in the Direct
4 Testimony of Company witness Mr. Selinger, were calculated similarly. These adjustments
5 are reflected on Schedule CAS-9.

6 **d. Waste Disposal**

7 **Q. Please describe the operating expense related to waste disposal.**

8 A. MAWC incurs waste disposal costs as a result of the need to properly dispose of sludge
9 and other by-products resulting from water and wastewater treatment. MAWC treats waste
10 disposal in some areas, while in others, specifically related to wastewater, MAWC uses a
11 third party for treatment. Sludge removal and lagoon cleaning for MAWC occurs on a
12 cycle ranging from monthly to several years. The cleaning schedule is based on the amount
13 of waste and size of lagoon, consistent with EPA standards. The waste disposal costs and
14 methods vary by treatment facility, with the average cleaning cycle of 24 months.

15 **Q. Please explain how the pro forma expense for waste disposal was developed.**

16 A. The expense for waste disposal includes costs incurred and accrued-for based on the scheduled
17 frequency of cleanings as the result of current operations. MAWC started with the 12 months
18 ending December 31, 2021, and normalized costs based on waste disposal costs incurred
19 and the frequency of the cleanings by individual location. Adjustments were also made to
20 include expense for acquisitions. Adjustments for the Discrete Adjustment Period ending
21 May 31, 2023, discussed in the Direct Testimony of Company witness Mr. Selinger, were
22 calculated similarly. These adjustments are reflected on Schedule CAS-9.

1 **III. RENT EXPENSE**

2 **Q. Please describe the types of costs in the operating expense for rent.**

3 A. MAWC incurs rent expense for copy machines, other miscellaneous items, the El
4 Chaparrel Estates Subdivision lagoon, and two office locations: one at 727 Craig Road,
5 St. Louis, Missouri, and one at 1050 Fox Chase Industrial Court in Arnold, Missouri. Rent
6 expense does not include expense for leased vehicles (which is reported in Transportation
7 expense).

8 **Q. Please explain how the pro forma expense for rent was developed.**

9 A. To calculate rent expense, MAWC began with the actual expense from the 12 months
10 ending December 31, 2021, then normalized and annualized activity to arrive at an
11 expected 12 months of expense. MAWC also made adjustments to reflect known rental
12 rate changes through the true-up period ending December 31, 2022. This adjustment is
13 reflected on Schedule CAS-9.

14 **IV. OTHER OPERATING EXPENSES**

15 **a. Building Maintenance and Services**

16 **Q. Please describe the operating expenses related to building maintenance and services.**

17 A. The operating expense associated with building maintenance and services are those
18 expenses associated with groundskeeping, security, trash, janitorial expenses, building
19 electricity, heating, and other related costs.

20 **Q. Please explain how pro forma expense for building maintenance and services was
21 developed.**

22 A. MAWC used the 12 months ending December 31, 2021, expense as the basis for the going
23 level of expense. MAWC then adjusted expenses with known rate changes to the latest

1 expected rates. For other expenses, MAWC made a pro forma adjustment to align with the
2 average annual expense increases incurred from 2019 to 2021. Adjustments for the
3 Discrete Adjustment Period ending May 31, 2023, discussed in the Direct Testimony of
4 Company witness Mr. Selinger, were also made. This adjustment is reflected on Schedule
5 CAS-9.

6 **b. Maintenance Supplies and Services**

7 **Q. Please describe the operating expenses related to maintenance supplies and services.**

8 A. The operating expenses associated with maintenance supplies and services are those
9 expenses associated with maintenance cost for the general operation of the business,
10 hydrant painting expense, main break expense, and Engineered Coatings expense.

11 **Q. Please explain how pro forma expense for maintenance supplies and services was
12 developed.**

13 A. MAWC used the average over the three-years ending December 31, 2021, as the basis for
14 the going level of expense, except for Engineered Coatings expense, which is detailed in
15 the Direct Testimony of Company witness Rebecca Losli. This adjustment is reflected on
16 Schedule CAS-9.

17 **Q. Does this conclude your Direct Testimony?**

18 A. Yes.