Exhibit No.:	
Issues:	Labor and labor related, performance based compensation, lobbying expense, employee awards, employee expenses, main breaks, insurance other than group
Witness:	Nikole Bowen
Exhibit Type:	Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2017-0285 SR-2017-0286
Date:	February 9, 2018

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

SURREBUTTAL TESTIMONY

OF

NIKOLE BOWEN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN WATER COMPANY FOR AUTHORITY TO FILE TARIFFS REFLECTING INCREASED RATES FOR WATER AND SEWER SERVICE	)))))	**CASE NO. WR-2017-0285** **CASE NO. SR-2017-0286**

AFFIDAVIT OF NIKOLE L. BOWEN

Nikole L. Bowen, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Nikole L. Bowen"; that said testimony was prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony, she would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of her knowledge.

Nikole L. Bowen
Nikole L. Bowen

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 7th **day of** February **2018.**

Mary Beth Hercules
Notary Public

My commission expires:

MARY BETH HERCULES
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires April 26, 2020
Commission # 96546828

SURREBUTTAL TESTIMONY
NIKOLE BOWEN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

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SURREBUTTAL TESTIMONY

NIKOLE BOWEN

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Nikole Bowen, and my business address is 727 Craig Road, St. Louis, MO, 63141.

Q. Are you the same Nikole Bowen who previously submitted direct and revenue requirement rebuttal testimony in this proceeding?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to rebut testimony and recommended pro forma adjustments by Staff and OPC related to labor and labor related expenses, performance based compensation, lobbying expense, employee awards, employee expenses, main breaks, and insurance other than group.

II. LABOR AND LABOR RELATED EXPENSES

Q Did Staff include an adjustment for the Company's Defined Contribution Plan ("DCP") in its direct filing or rebuttal testimony?

A. No. As mentioned in my rebuttal testimony, Staff did not include any allowance for DCP expense, outside of the expense included in the 2016 base year. Staff witness Bolin's testimony indicates Staff inadvertently left out the adjustment and intends to address its DCP calculation during the rate case true up. Staff witness Bolin states that

Staff apparently intends to annualize the expense based on employee levels as of June 30, 2017. (Bolin Reb., P. 2) The Company has recommended, with a full explanation, that the level of expense be calculated based on the current rate of 5.25% of all eligible employees' wages, multiplied by the O&M expense factor proposed by the Company. Given the lack of any opposition testimony, the Company's proposal should be accepted.

Q Did Staff discuss a change made to performance based compensation in its rebuttal testimony?

A. Yes, Staff witness Grisham indicates that the portion of performance based compensation attributed to American Water Works Service Company ("AWWSC") was inadvertently omitted from Staff's Accounting Schedules, further noting that the adjustment reduces the amount of allowed performance based compensation for AWWSC employees by $1,022,493. (Grisham Reb., P. 2)

Q Does the Company agree with Staff witness Grisham's assessment that the adjustment was omitted from Staff's Accounting Schedules?

A. No, the Company does not agree that the disallowed portion of AWWSC incentive compensation was missing from Staff's Accounting Schedules. In fact, after careful review of Staff's EMS model, the Company believes Staff has improperly disallowed performance based compensation at 150%, rather than the 50% it intended to disallow, as noted in Staff's direct case filing. Rather than correcting this miscalculation, Staff has improperly reduced this expense even further.

Q Does OPC take a position regarding incentive compensation as well?

A. Yes, OPC witness Roth supports Staff's 50% disallowance of APP and 100% disallowance of LTPP expense. (Roth Reb., P. 11)

Q What is the Company's position regarding disallowance of performance based compensation?

A. As I address in my rebuttal testimony, it is important for the Commission to view compensation as a whole. Whether an employee is compensated based, in part, on performance measures, should be immaterial to the Commission as long as the overall compensation levels are reasonable. Our evidence shows that our overall compensation levels are reasonable. Moreover, both the financial performance and the individual metrics provide benefits to our customers. Given these benefits, and given that the resulting overall compensation levels are also demonstrably reasonable, it would not be just or reasonable to disallow a portion of those expenses, regardless of how they are categorized.

Q Did Staff make changes to its adjustment amounts for lobbying?

A. Yes, as noted in Staff witness Grisham's testimony (Grisham Reb., P. 2), Staff made two changes to its lobbying adjustment. One was to correct a duplicated adjustment and the other was to correct a formula error.

Q Does the Company agree with the additional adjustments made for lobbying?

A. No, because the Company fundamentally disagrees that lobbying costs should be excluded from recovery. All companies, including utilities, must lobby the legislature to ensure that laws that are enacted represent the best interests of the Company and its customers, there is no reasonable basis to disallow recovery of the expense. Please see my direct testimony for further discussion.

III. EMPLOYEE AWARDS

Q Did Staff include an adjustment for employee rewards?

A. Yes, Staff witness Newkirk is recommending disallowance of charges associated with the vendor Engage2Excel in the amount of $36,245. (Newkirk Reb., P. 3)

Q Please explain the services provided by the vendor Engage2Excel.

A. Engage2Excel manages employee service awards. At each five-year milestone of service with the Company, all full time employees receive a certificate of appreciation, as well as a link to an online catalog where the employee can select an award for their years of service. The program requires tracking of each individual employee's hire date, years of service, and award management, all of which is managed by the vendor Engage2Excel.

Q Please explain Staff's position regarding the expense.

A. While Staff witness Newkirk recognized the importance of acknowledging employees' service, but did not agree with inclusion of the vendor charges. (Newkirk Reb., P. 3) Staff witness Newkirk argued that, "Staff does not agree with the inclusion of these expenses because they are excessive in amount and are not strictly necessary for providing safe and reliable service to customers." Thus, Staff recommended disallowance of the total expense.

Q Do you agree with Staff's assessment that the charges are excessive?

A. No, I do not. Staff provides no basis for its conclusion that the charges are excessive. Staff makes a conclusory statement that the vendor's prices for the awards are above market without providing any evidence regarding what constitutes the market or what market prices are for the services Engage2Excel provides to the Company. A review of the Engage2excel invoices do not provide sufficient information upon which to perform a market analysis[1] and, in addition, Staff provided no support or analysis for its conclusion the market prices of the items in question were excessive. Engage2Excel is an independent third party and its prices should be deemed consistent with the market and appropriate for recovery unless the Staff can show otherwise. An empty assertion that costs are "excessive" should not be sufficient to disallow recovery of a prudently incurred cost.

Q. Are the costs a just and reasonable expense?

A. Yes, the costs are demonstrably just and reasonable. The retention of well trained and motivated employees is very important to the provision of service to our customers. The cost of the vendor's service is minimal and the benefit gained through an employee's loyalty by recognition of his/her years of dedicated service by a relatively inexpensive gift is significant. It is well known that employee turnover creates costs and disruptions to our workforce and ability to provide high quality service. This modest expense, which foments employee loyalty and appreciation, is a small price to pay to recognize our loyal employees and to keep them on the job for our customers.

IV. EMPLOYEE EXPENSES

Q Please discuss OPC witness Amanda Conner's adjustment to employee expenses.

A. OPC recommends removal of $218,583 of various employee related expenses.

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[1] The invoices contain information regarding the individual employee's order, shipping information and cost, and a high level description of the product. The invoices contain no model number, only a high level description of the item. The price contained in the invoice represents the cost of the product as well as the administrative expenses associated with management of the program.

Q How did the OPC derive the $218,583 dollar adjustment?

A. As stated in OPC witness Conner's rebuttal testimony (Connor, Reb., p. 3), OPC reviewed charges of a sample of 15 MAWC and Service Company employees to derive an average expense amount per employee. This average was then applied to 205 "management employees", later defined by OPC as any non-union workers with the exception of independent contractors. An allocation factor was then applied for the MAWC portion of the total expense, and was subsequently reduced by 40% to account for varying levels of "management employees" expenditures.

Q Does OPC witness Conner provide any basis for what she considers to be excessive charges?

A. No. OPC witness Conner takes several charges by certain executives to extrapolate a level of expense incurred by all "management employees" and then arbitrarily reduces it to try to account for varying level of expenses by different employees. OPC witness Conner's recommended disallowance is based on an arbitrary calculation and not on any specific expenses it proposes to challenge. The notion that expenses incurred by 15 MAWC and Service Company officers would be the same type of expenses incurred by all 205 non-hourly MAWC employees is self-evidently wrong, as evidenced by the expenses Ms. Conner chose to exclude. For example, OPC witness Conner concludes that travel expenses incurred by American Water executives to a board meeting outside of Missouri or to visit operations outside the state of Missouri are improper. They are not. American Water executives rotate the location of their board meetings and visit various state subsidiaries so they can take time to visit operations across the business. Regularly visiting operating subsidiaries is an important tool for ensuring proper governance and compliance with regulations, alignment on key initiatives, identifying risks and opportunities, and building strong relationships with key personnel and an understanding of the local market and regulatory environment. This also allows executive leadership to engage with local employees and stakeholders to hear firsthand the challenges and opportunities faced by the operating subsidiary and the communities it serves.

Furthermore, one of the great strengths of the American Water system is the sharing of ideas and new initiatives. If our employees did not have the opportunity to visit other state operations and interact with their counterparts this valuable resource would be lost. Furthermore, it is customary in the utility industry – even in non-affiliated companies – for employees to interact and share best practices.

V. MAIN BREAKS

Q Does OPC address the calculation of the average number of main breaks?

A. Yes, OPC witness Roth addresses main break expense. OPC witness Roth supports Staff's position regarding the methodology used to determine the average number of main breaks.

Q Does the Company agree with Staff's calculation of the average number of main breaks?

A. No. Staff did not use the actual 2014 main break counts, which are considered to be part of a "polar vortex" in calculating its average number of main breaks. Rather, it used an average of January, February, and March from 2011, 2012, and 2013 to replace those counts, and then calculated a three year average.

Q. Why is this inappropriate?

A. The very purpose of using an average is to smooth out variations and fluctuations in the data set. Ignoring the 2014 data thwarts the very purpose of the method chosen by Staff. Further, Staff's underlying assumption that the 2014 polar vortex related main breaks are a one-time occurrence that must be addressed separately is flawed. The Company's January 2018 main break experience (which is further discussed below) shows exactly why Staff's methodology is flawed.

Q Are there various factors that impact main breaks?

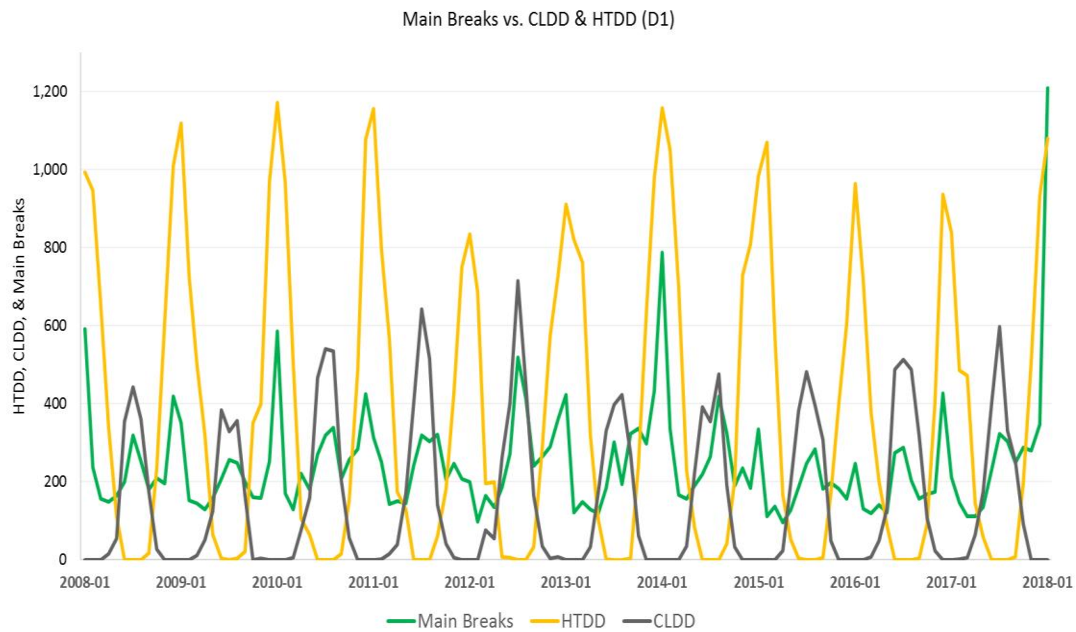
A. Yes, the rebuttal testimonies of both Company witnesses Andrew Clarkson and Bruce Aiton address the various factors that can contribute to a higher volume of main breaks. One of those driving factors is weather. "For example, in the winter of 2014, and again this winter, huge expanses of cold, Arctic air swept through parts of the United States, including Missouri. Known as a "polar vortex," these weather systems delivered record-setting low temperatures resulting in increased water main and service line breaks and NRW." (Clarkson Dir., P. 4)

Q Has the Company done any analysis on the impact of weather related to main breaks?

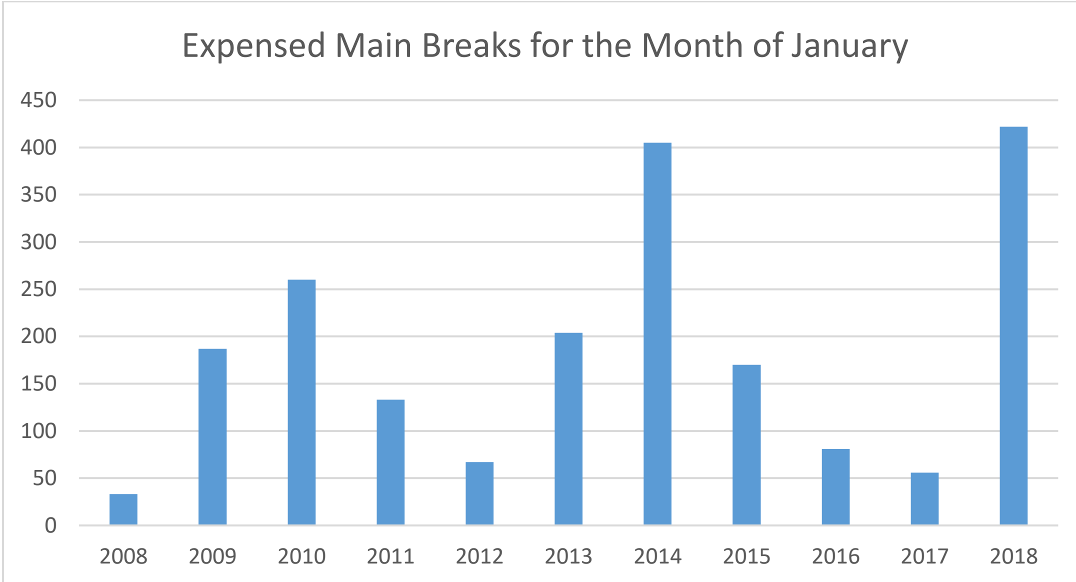
A. Yes. Using Company witness Roach's analysis on heating and cooling degree days[2] and overlaying it with the occurrence of total main breaks, shows the impact of weather on main breaks. As the chart below shows, as heating degree days increase the volume of main breaks also increases. Although not quite to the same extent, the same

[2] Heating degree days are the number of degrees that a day's average temperature is below 65 degrees Fahrenheit. Cooling degree days are the number of degrees that a day's average temperature is above 65 degrees Fahrenheit.

relationship can be seen between cooling degree days and main breaks.



The impact of weather alone on main breaks makes it difficult to discern any particular trend, up or down. The only discernable trend is that weather impacts main break volumes. The lack of trend in main break volume is further evident in looking at the number of expensed main break incidents for the month of January over a 10 year period. As the chart below illustrates the number of breaks fluctuates from year to year.



In fact, in January of 2018 the Company expensed approximately 422 main breaks which exceeds the "polar vortex" count of 405 breaks in 2014. In addition, as one can see from the chart the number of breaks for January 2016 and 2017 were unseasonably low, but Staff made no additional adjustment to average out these main breaks. Ultimately, these fluctuations in weather, and the resulting number of main break support the Company's methodology of calculating the count of breaks based on a three-year average, inclusive of all data points.

VI. INSURANCE OTHER THAN GROUP

Q Did Staff make changes to its adjustment amounts for Insurance Other Than Group ("IOTG")?

A. Yes. Staff witness Newkirk updated the capital rate applied to the insurance other than group expense amount. (Newkirk Reb., p. 1). Staff changed the capitalization rate to 10%, for all categories other than Worker's Compensation, from the 42.1% proposed in its direct filing, which is consistent with Staff's recommendation from Case No. WR-2007-0216.

Q Is Staff's update consistent with the Company's IOTG expense capitalization?

A. No. The Company used the labor capitalization rate of 42.3% for Worker's Compensation. My rebuttal testimony inadvertently indicates that the Company, also applied a 10% capital rate to all other IOTG policies. However, in its direct filing, the Company did not include a 10% capitalization rate for all other policies.

Q Does the Company agree that IOTG expenses other than Workers Compensation should be capitalized?

A. No. The Company concedes that the insurance expense associated with Workers Compensation should be and is appropriately capitalized following the labor capitalization rate, it does not agree with the 10% capitalization rate for the remaining IOTG expenses.

Q Why is it not appropriate to capitalize the remaining IOTG expenses?

A. The bulk of the remaining IOTG expense is related to general liability coverage. The claims that fall under these policies are related to injuries and damages to third parties. These costs are not for putting plant in service and thus should not be subject to capitalization. In fact, no other American Water subsidiary applies a capitalization rate, other than to Workers Compensation, to IOTG.

Q What is the Company's recommendation regarding IOTG?

A. The Company would recommend that the IOTG calculation include only a capitalization rate for the Workers Compensation expense portion. The remaining policies should be fully expensed.

Q Are there other items you believe need to be addressed regarding IOTG?

A. Yes. In its rate case filing, the Company applied an inflation factor to derive the IOTG future test year expense level. After further review, the Company determined an inflation factor should not be applied in this instance. As such, MAWC has recalculated the forecasted IOTG expense level. The updated expense is $6,161,338, for both the period ending May 2018 and the period ending May, 2019. This represents a reduction in expense from the original filing of $129,092, for the period ending May 2018, and $54,187 for the period ending May 2019.

Q Does this conclude your surrebuttal testimony?

A. Yes, it does.