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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

RICHARD C. SVINDLAND

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Richard C. Svindland, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am President 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.


Richard C. Svindland

July 1, 2022
Dated

**DIRECT TESTIMONY
RICHARD C. SVINDLAND**

**MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303
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TABLE OF CONTENTS

I. INTRODUCTION 2
II. BASIS FOR RELIEF REQUESTED..... 7
III. OPERATIONAL EXCELLENCE AND IMPROVING WATER EFFICIENCY.....11
IV. INDEPENDENCE.....13
V. COST OF CAPITAL/CAPITAL STRUCTURE15
VI. AFFORDABILITY.....17
VII. REVENUE STABILIZATION MECHANISM/COST RECOVERY MECHANISMS20
VIII. ACQUISITIONS.....23
IX. COMMUNITY INVOLVEMENT24

DIRECT TESTIMONY
RICHARD C. SVINDLAND

I. INTRODUCTION

1

2 **Q. Please state your name and business address.**

3 A. My name is Richard C. Svindland. My business address is 727 Craig Road, St. Louis,
4 Missouri 63141.

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

6 A. I am employed by Missouri-American Water Company (“MAWC,” “Missouri-American”
7 or the “Company”) as its President.

8 **Q. Please summarize your educational background and business experience.**

9 A. I received a Bachelor of Civil Engineering from the Georgia Institute of Technology in
10 June of 1990. I received a Master of Science in Civil Engineering from the University of
11 Kentucky in May 2005. I am a licensed Professional Engineer in Georgia and Kentucky.
12 My entire 32-year working career has been in the water and wastewater utility space both
13 as a consultant and as a utility employee. Upon graduation from Georgia Tech in June of
14 1990, I started my engineering career as an Associate Civil Engineer with Wiedeman and
15 Singleton in Atlanta, GA. In October of 1999, I started working for Kentucky American
16 Water as an Operations Engineer based in Lexington, KY. After several intervening roles
17 and promotions among various companies and jurisdictions with American Water, in
18 October of 2021, I relocated after being promoted to the President of Missouri-American
19 and now reside in the St. Louis, Missouri area.

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

21 A. Missouri-American maintains an independent executive management team, led by me in

1 my role as President. I am primarily responsible for the development, management and
2 operations of Missouri- American's systems throughout the State of Missouri. My
3 responsibilities include establishing and maintaining the standards of service, directing the
4 priorities for investments in the systems, developing operations and maintenance plans and
5 establishing controls to accomplish their delivery, developing and executing on MAWC's
6 business plans, implementing business practices and procedures to achieve MAWC's
7 overall business objectives, obtaining necessary funding, and maintaining the safety and
8 integrity of the systems for the protection of the customers, employees, and operations.

9 I am also responsible for overseeing MAWC's management team in Missouri including
10 the Vice President of Operations (Jeffrey T. Kaiser), Vice President of Engineering
11 (Rebecca B. Losli), the Director of Rates and Regulatory (Brian W. LaGrand), as well as
12 others in governmental affairs, external affairs, and communications. I also have direct
13 responsibility for Missouri-American's financial performance, supported by our Director
14 of Finance, Andie Cokel, which includes establishing the capital structure for MAWC
15 based on the capital investment and operating requirements of the Company. The MAWC
16 management team's collective duties include, but are not limited to:

- 17 • Management and responsibility for field services, production, maintenance, water
18 quality, environmental compliance and safety related to the Company's water and
19 wastewater operations across the State;
- 20 • Purchasing and materials management for MAWC supplier services agreements,
21 including bid solicitations, contract administration, ordering and inventory
22 management;
- 23 • Oversight and management of the planning, design and construction of MAWC's water

1 and wastewater systems across the State;

- 2 • Responsibility for the Company's capital program and maintaining compliance with
3 State and Federal requirements;
- 4 • Coordinating the procurement of all project design and construction services in the
5 State and providing comprehensive MAWC system planning;
- 6 • Responsibility for labor negotiations and hiring/retaining critical personnel in the State
7 that oversee and maintain MAWC's operations, including more than 726 existing
8 employees at the time of this filing;
- 9 • Preparing all rate change applications consistent with MAWC management policies,
10 guidelines and Missouri Commission regulatory requirements;
- 11 • Executing on the implementation of rate orders (including development of the revised
12 tariffs), responding to Commission inquiries, and providing support for financial
13 analyses (including preparation of all applicable Commission regulatory filings);
- 14 • Responsibility for the financial performance of MAWC, including the development of
15 the independent operating capital and financing plans; and
- 16 • Responsibility for payment of all State and local taxes, including income taxes, and
17 annual property taxes for all real property and facilities maintained in Missouri.

18 **Q. Have you provided testimony and/or appeared before regulatory commissions?**

19 A. Yes. I have provided testimony, responded to numerous data requests, and appeared before
20 the Kentucky Public Service Commission as a part of a general rate case and as a part of a
21 Certificate of Public Convenience and Necessity ("CPCN") case for a new water treatment

1 plant. I have also prepared testimony and appeared before the California Public Utilities
2 Commission in multiple general rate cases, as a part of a CPCN proceeding for a new water
3 supply in Monterey, California and large asset retirement proceeding also in Monterey,
4 California.

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

6 A. The purpose of my Direct Testimony is to provide an overview of MAWC's filing and
7 demonstrate how our proposals in this case will continue to support the long-term best
8 interest of our customers, the communities we serve and our Company. Specifically, I will
9 provide a summary of the Company's base rate filing and basis for its proposed rate relief
10 and introduce other witnesses who are sponsoring testimony in this proceeding. I will
11 further summarize MAWC's successes in operational excellence and water efficiency and
12 the critical work we are doing today to maintain the reliability and resiliency of our system.
13 I will discuss the independence of MAWC's operations and financing and how that
14 supports the Company's proposed cost of capital and the importance of capital structure in
15 this proceeding. I will further highlight the work the Company is doing to evaluate and
16 maintain customer affordability. I will also support the prudence and the need for timely
17 recovery of our ongoing investment in the State and other mechanisms that support timely
18 recovery of expenses and investments (e.g., Revenue Stabilization Mechanism,
19 Uncollectible Expense Tracker, Property Tax Tracker, and Production Cost Tracker).
20 Finally, I will address our recent acquisition efforts, including supporting troubled systems
21 in the State, and MAWC's extensive community involvement.

22 **Q. Who will testify on behalf of the Company and what subjects will they address?**

23 A. In addition to my Direct Testimony, the following witnesses provide testimony in support

of the Company's filing:

| Witness Name | Title | Subject of Testimony |
|-------------------------|---|--|
| Baryenbruch, Patrick L. | President, Baryenbruch & Company, LLC | Support Services |
| Bulkley, Ann E. | Principal, The Brattle Group | Return on Equity (ROE) and Capital Structure |
| Grisham, Jennifer M. | Senior Manager of Regulatory Services, AWWSC | Rate Base, Depreciation Expense, Amortization Expense |
| Kaiser, Jeffrey T. | Vice President – Operations, MAWC | Operations and Facilities, Commitment to Water Quality, Operating and Maintenance Expense, Employee Levels and Compensation, Main Extension Rule |
| LaGrand, Brian W. | Director of Rates and Regulatory Support, MAWC | Test Year, Regulatory Lag, Production Cost Tracker, Revenue Requirement, Company Accounting Schedules, Minimum Filing Requirements, Acquisitions, Rate Case Expense, Excess ADIT Stub Period |
| Losli, Rebecca B. | Vice President – Engineering and Business Development, MAWC | Capital Investment Program, Description of Plant Additions, Water Storage Tank Rehabilitation, Risk Associated with Providing Public Water and Wastewater Services |
| Mason, Matthew S. | Principal Regulatory Analyst, AWWSC | Labor and Labor Related Expenses, Uncollectible Expense, Customer Accounting, Transportation, and Other Operating Expenses |
| Merante, James S. | Vice President and Treasurer, AWWSC | Capital Structure |
| O'Drain, Thomas | Senior Manager of National Category Management and Interim Director of Procurement, AWWSC | Chemical Expense |
| Rea, Charles B. | Senior Director, Rates and Regulatory, AWWSC | Rate Design, Affordability, Water Consumption, Revenue and Revenue Stabilization Mechanism (Policy) |

| | | |
|------------------------|---|--|
| Schwarzell, Michael L. | Principal Regulatory Analyst, AWWSC | Production Costs, Rents, Building Maintenance and Services, Maintenance Supplies and Services |
| Selinger, Wesley E. | Director of Regulatory Services, AWWSC | Class Cost of Service Study, Discrete Adjustments, Uncollectible Expense Tracker, and Property Tax Tracker |
| Walker, Harold | Gannett Fleming | Working Capital |
| Watkins, John M. | Senior Director, Regulatory Services, AWWSC | Pension, Other Post-Employment Benefits, Service Company, Insurance Other than Group and Revenue Stabilization Mechanism (Mechanics) |

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II. BASIS FOR RELIEF REQUESTED

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Q. When were Missouri-American’s current rates approved?

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A. The Commission approved Missouri-American's current base rates by its *Order Approving Stipulation and Agreement*, issued April 7, 2021 in Case No. WR-2020-0344. The rates were subsequently implemented by the Commission’s *Order Approving Tariffs*, issued May 20, 2021, which was effective May 28, 2021. Those rates were based on costs that reflected a 2020 historical test year with certain updates through December 31, 2020.

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Q. Why is Missouri-American seeking to increase base rates at this time?

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A. This filing is primarily driven by the significant capital investments that the Company made and will continue to make since its last base rate proceeding. Since the Company’s last base rate case in 2020, MAWC has or will invest by the operational of law date in this case approximately \$769 million of capital. These investments enhance the safety, reliability and resiliency of Missouri-American’s water and wastewater system, support customer service, and maintain the health, welfare, and economic wellbeing of the communities we serve. The Company has and continues to manage its business responsibly and effectively, especially in this rising inflationary environment, and continues to provide high quality

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1 service to its customers. The Company must be provided with the opportunity to earn a
2 fair return on its investments and recover prudently incurred costs to continue to attract the
3 necessary capital to support ongoing investments that will enable it to provide safe and
4 reliable service to customers for years to come. Moreover, our continuing investments play
5 a critical role in maintaining jobs and contributing to job creation and the overall economy
6 of the State.

7 Without appropriate rate relief in this proceeding, MAWC will not have a fair opportunity
8 to earn a reasonable return on its investments, which will negatively impact MAWC's
9 ability to attract capital at reasonable rates and in turn, negatively impact customers.

10 **Q. In your opinion, is it appropriate to expect the Company to continue to operate**
11 **effectively in an environment where it does not have a realistic opportunity to**
12 **recovery its authorized revenues?**

13 A. No, it is not. As explained in the Direct Testimony of Company witness Charles B. Rea,
14 most of Missouri-American's costs are fixed, while most revenue is variable, collected
15 through volumetric rates charged on a per gallon basis. Missouri-American is operating in
16 a declining sales, rising cost environment. As a result, Missouri-American's ability to
17 proactively invest in infrastructure to improve efficiency and continue to serve the long-
18 term best interest of customers is constrained because Missouri-American has not been
19 provided with a realistic opportunity to collect its authorized return.

20 **Q. Are there consequences of operating under these constraints?**

21 A. Missouri-American faces significant revenue recovery lag under its current ratemaking
22 structure, and as a result, has not received funding levels that best service the long-term
23 interests of its customers. Despite these constraints, Missouri-American has worked to

1 obtain funding for investments that support the safety and integrity of our systems for the
2 protection of customers, employees, and operations. We continue to maintain adequate
3 sources of supply, treatment, pumping, transmission and distribution facilities, as well as
4 comply with applicable laws and regulations. That is our public service obligation. But
5 the funding to maintain the safety and integrity of the systems is not the same as the funding
6 levels that best serve the long-term interests of our customers. From the perspective of
7 long-term sustainable customer service and pricing, the Company's goal is to continue
8 providing high quality water and wastewater service in the most cost-effective way through
9 the replacement, operation, maintenance, and rehabilitation of assets for present and future
10 customers.

11 **Q. Do Missouri-American's ratemaking proposals in this case address the constraints**
12 **with the existing ratemaking structure?**

13 A. Yes, in part. As discussed further in the Direct Testimonies of Company witnesses Messrs.
14 Watkins, Rea, LaGrand, and Selinger, Missouri-American is requesting approval of an
15 RSM, an Uncollectible Expense Tracker, a Property Tax Tracker, a Production Cost
16 Tracker, as well as certain discrete adjustments beyond the historical test year period.
17 These mechanisms mitigate some of the impacts that a historical test year has on the
18 Company's opportunity to collect its authorized return, and properly recognize the plant
19 and expense levels that will be serving Missouri-American's customers when the new rates
20 take effect.

21 **Q. What amount of rate relief is the Company seeking in this case?**

22 A. Missouri-American is seeking to increase its base rates by approximately \$99.6 million
23 annually or approximately 25.7% over revenues currently authorized by the Commission

1 in Case Nos. WR-2020-0344 and WO-2021-0428, as well as revenues pending in Case No.
2 WO-2022-0176. This request is based on a proposed rate of return of 7.53%, with a capital
3 structure that includes an equity component of 50.43% and a return on equity of 10.50%.
4 The proposed increase will provide the Company with the opportunity to recover its
5 reasonable cost of service and earn a fair return on the capital invested in its water and
6 wastewater systems. See also the Direct Testimony of Company witnesses James Merante
7 and Ann Bulkley.

8 Missouri-American is fully committed to continued investment in MAWC's operations in
9 a manner and at a level that will allow the Company to continue to provide its customers
10 with safe and reliable service.

11 **Q. What amount of MAWC's plant additions in this case is eligible for recovery through**
12 **the Water and Sewer Infrastructure Rate Adjustments (WSIRA)?**

13 A. As explained further in the Direct Testimony of Company witness Mr. LaGrand, since the
14 Company's last rate case, through the period ended May 31, 2023, the Company has
15 invested or will invest \$769,025,807 in its water and sewer facilities. Investments that are
16 currently included in WSIRA (and thus currently reflected in rates) are 48.2%, or
17 \$370,607,375 of the total investment amount. As explained further in the Direct Testimony
18 of Company witness Mr. LaGrand, through this filing, the Company has included these
19 investments in this case and the WSIRA will be reset to zero once new rates go into effect.

20 **Q. In its last general rate case, Case No. WR-202-0344, the Company proposed a future**
21 **test year. Is MAWC proposing a future test year in this case?**

22 A. No. However, in the last general rate case the Commission expressed some interest in
23 considering discrete adjustments. As a result, the Company is proposing to utilize a

1 traditional historical test year with a true-up period and discrete adjustments that are
2 designed to include specific known and measurable changes through the operation of law
3 date in this case. Company witness Wesley Selinger provides additional details on these
4 discrete adjustments in his Direct Testimony.

5 **III. OPERATIONAL EXCELLENCE AND IMPROVING WATER EFFICIENCY**

6 **Q. Please describe the Company's approach to operational excellence and water**
7 **efficiency in providing water and wastewater services to its customers.**

8 A. MAWC has provided water service to Missouri residential and business customers for
9 more than 140 years. Water quality is of paramount importance to the health and well-
10 being of our customers, and we are acutely aware that water is the only utility product
11 intended for customers to ingest, and that our customers rely on MAWC to provide them
12 with safe and reliable water service. MAWC's six largest surface water treatment plants
13 have received Phase III Directors Awards and five¹ of them have been recognized for
14 maintaining the Phase III Directors Award status for more than fifteen years.

15 Drinking water quality is controlled by a combination of federal (EPA) regulation
16 established under the Safe Drinking Water Act of 1973 and state regulation under the
17 Missouri Safe Drinking Water Act. Under that authority, EPA has created standards for
18 contaminant levels in drinking water² and a series of mandatory treatment method
19 standards, coupled with monitoring and reporting requirements, and public notification
20 mandates in the event of contaminant level or treatment method non-compliance.³ In turn,
21 Missouri has adopted the federal regulatory standards, plus certain other rules, which are

¹ The five plants include the Central Plant, North Plant, South Plant, Meramec Plant, and Joplin Plant.

² See: <https://www.epa.gov/sdwa/drinking-water-regulations-and-contaminants#List>

³ See 40 C.F.R. Parts 141-143.

1 administered by the Missouri Department of Natural Resources (MDNR).

2 In recent years, there has been an increase in public concern over potential contaminants
3 that laboratories can now identify at levels that, in the past, could not be detected, and
4 which research suggests might have health effects. The EPA and state drinking water
5 regulators have responded by increasing their own research and, in some cases, imposing
6 or proposing more stringent regulatory standards. The Company is at the forefront of the
7 water industry in proactively eliminating the risks that might accompany the presence of
8 lead service lines. However, these efforts also require the dedication of management time
9 and resources and the commitment of significant investment of capital to achieve the
10 intended results. These factors, in addition to the demands the Company already faces to
11 rehabilitate, replace, and enhance aging infrastructure and meet evolving regulatory
12 demands, add to risk factors that MAWC faces as it works to provide safe, adequate and
13 reliable water service.

14 **Q. How is the concept of water efficiency relevant to this case?**

15 A. Missouri-American continually strives to develop and implement water efficiency
16 measures that deliver steady or improved levels of service to consumers while mitigating
17 cost increases. As discussed in the Direct Testimony of Company witness Ms. Losli, the
18 investments we are making to better serve our customers are primarily in non-revenue
19 producing investments – replacing aging infrastructure and maintaining compliance with
20 environmental regulations. As we plan our investments, however, we know how important
21 it is to balance the need for system improvements while maintaining affordable water
22 service.

23 Our ability to maintain O&M costs demonstrates the effectiveness of our efforts and the

1 resulting cost benefit to our customers. But after 10 years of relatively flat O&M costs,
2 combined with growth in the number of customers we serve and current inflationary
3 circumstances, an O&M expense increase is justified to provide the expected level of
4 service without jeopardizing system reliability and expected responsiveness to customers.
5 Our focus on controlling expenses produces direct benefits to our customers. For example,
6 we know that for every \$1 of O&M expense that we save, we can invest almost \$8 of
7 capital with no cost increase to our customers.

8 **Q. Are there benchmarks that demonstrate the Company performance against goals of**
9 **safety and environmental compliance?**

10 A. Yes. MAWC's safety record has improved significantly over the last five years. From an
11 OSHA Recordable Injury Rate (ORIR) of 2.01 in 2018 to 1.46 in 2021, and 0.70 year-to-
12 date through May of 2022, we are closing in on our goal of having no employees injured
13 in work-related incidents. We have achieved improvement through focused efforts.
14 Company witness Mr. Kaiser will testify to actions that are helping us move toward this
15 goal.

16 **Q. What is the Company's ultimate goal in improving water efficiency?**

17 A. Our goal is to provide quality water and wastewater services as efficiently as possible today
18 and into the future, and by doing so, to increase the value of the services that we provide
19 to our customers.

20 **IV. INDEPENDENCE**

21 **Q. What is the significance of Missouri-American's independence in this case?**

22 A. As explained further in the Direct Testimony of Company witness Mr. Merante, and as
23 summarized herein, Missouri-American is a stand-alone business enterprise in all material

1 respects including, but not limited to, its independent state operations, capital investments,
2 management, and corporate governance. MAWC's independence, both operational and
3 financial, supports Commission approval of a stand-alone capital structure for ratemaking
4 purposes as explained in greater detail by Mr. Merante.

5 **Q. Please explain Missouri-American's operating structure.**

6 A. Missouri-American is a wholly-owned regulated utility subsidiary of American Water that
7 was incorporated in the State of Missouri in 1879. Its operations are independent of
8 American Water and its other affiliates and it is a separate legal entity in all material
9 respects including, but not limited to, maintaining its state specific operations, capital
10 investments, management, and corporate governance.

11 **Q. Can you describe Missouri-American's state-specific operations and overall capital
12 investment plan?**

13 A. Missouri-American provides water service to approximately 475,000 customers and
14 wastewater service to approximately 18,000 customers in several counties throughout the
15 state of Missouri. As explained further in the Direct Testimony of Company witness Mr.
16 Kaiser, MAWC's water systems consist of more than 6,800 miles of main, as well as
17 hydrants, distribution storage tanks, water treatment plants, wells and pump stations.
18 Missouri-American's wastewater system facilities include over 270 miles of collection
19 mains, lift stations, and wastewater treatment plants. Moreover, as detailed further in the
20 Direct Testimony of Company witness Ms. Losli, MAWC's water and wastewater
21 investments in Missouri contribute to a total rate base in excess of \$2.3 billion through May
22 31, 2023.

23 **Q. Please explain how Missouri-American finances its operations.**

1 A. As explained in greater detail in the Direct Testimony of Mr. Merante, MAWC develops
2 its own independent financing plans to support its Missouri-American operating and capital
3 plans. These plans, like all the other subsidiary utility financing and capital plans, are then
4 incorporated into and make up the overall financing/capital plans of AWK. Missouri-
5 American's financing plans consider MAWC's cash flows and liquidity needs in order to
6 maintain a capital structure (established by MAWC) and an overall cost of capital that is
7 consistent with its business risk profile. MAWC's business risk profile is further discussed
8 in the Direct Testimony of Company witness Ann Bulkley.

9 **Q. Can you describe Missouri-American's overall corporate governance?**

10 A. Pursuant to Missouri-American's Articles of Incorporation, as Amended and Restated
11 effective December 2013, the Company's business and affairs are managed under the
12 direction of an independent Board of Directors ("BOD"). The MAWC BOD is comprised
13 solely of MAWC officers and outside directors who are, as required under MAWC's
14 corporate By-Laws, independently appointed and approved by MAWC's BOD. MAWC's
15 BOD duties include, among others, authorizing the Company to enter into contracts;
16 altering, amending or repealing the By-Laws; approving all debt issuances of the Company
17 (such as the SRF funding that closed in March 2022, as described below); and approving
18 all dividend payments. In addition, the BOD annually elects the officers of the Company
19 including myself as President, the Vice President, Treasurer and Secretary.

20 **V. COST OF CAPITAL/CAPITAL STRUCTURE**

21 **Q. How has Missouri-American quantified the appropriate cost of capital for setting**
22 **rates in this proceeding?**

23 A. Missouri-American engaged the services of its outside consultant, Ms. Ann Bulkley,

1 Principal at the Brattle Group, to support the appropriate cost of capital for setting rates in
2 this proceeding. As detailed further in the Direct Testimony of Ms. Bulkley, based on her
3 qualitative analyses, a reasonable range of ROE results for MAWC is from 9.90 percent to
4 11.25 percent. Within that range, we are proposing an ROE of 10.50 percent and believe
5 that level is appropriate. Ms. Bulkley testifies that the recommended return of 10.50
6 percent considers current and prospective capital market conditions, MAWC's company-
7 specific risks relative to the proxy group and the Company's superior performance and
8 service quality. She further explains that the cost of equity for regulated utility companies
9 is being affected by several factors in the current and prospective capital markets,
10 including: 1) changes in monetary policy, 2) high inflation, and 3) rising interest rates.

11 MAWC has consistently under-earned its authorized ROE in each year since 2015 due in
12 part to the regulatory environment in Missouri, which relies on historical test years for rate
13 cases and where a limited number of adjustment mechanisms have traditionally been
14 available to utilities. Over this period, the Company's average earned ROE was 8.26
15 percent as compared with the average authorized ROE of 9.75 percent, for an average
16 under-earning of 158-165 basis points per year. As explained further in the Direct
17 Testimony of Company witness Ms. Bulkley, the Company's prior under earning and the
18 near-term effect of inflation highlights the importance of a constructive outcome in the
19 current proceeding so that MAWC has the opportunity to earn its authorized ROE.

20 **Q. Please describe the capital structure Missouri-American has included in this**
21 **proceeding.**

22 A. As supported by the Direct Testimony of Company witness Mr. Merante, MAWC's capital
23 structure represents how Missouri-American finances its independent operations and

1 capital investments, and therefore is the appropriate capital structure to be used for rate
2 making purposes. The capital structure reflected in this case is the actual capital structure
3 of Missouri-American (49.57% debt/50.43% equity) that finances MAWC's rate base and
4 operations in Missouri. The capital structure reflects the capital that will be in place to fund
5 MAWC's rate base during the time rates will be in effect, thus matching the rate base with
6 our capital structure. Moreover, MAWC's capital structure appropriately reflects its
7 operating risk profile.

8 Missouri-American's capital structure, supported by the financing arrangement with the
9 financing subsidiary of American Water Works Corp., has and will continue to yield
10 significant financial savings for the benefit of MAWC's customers in the form of lower
11 borrowing costs than would otherwise be realized if financed by MAWC. This cost benefit
12 extends to MAWC's customers resulting in millions of dollars of savings and therefore,
13 lower costs for customers.

14 VI. AFFORDABILITY

15 **Q. Has Missouri-American evaluated the impact of the proposed rate increases on its**
16 **customers?**

17 A. Yes, we have. We know our water and wastewater service is critical, and we know how
18 important it is for that service to remain affordable. A residential customer using 138
19 gallons of water per day would pay approximately \$576 per year for water under our rate
20 proposal. Put another way, under the Company's proposed rates, an annual residential bill
21 of \$576 equates to less than \$1.58 per day. Therefore, for about \$1.58 per day an average
22 residential customer has all the water they and their family need to drink, cook, wash, and
23 maintain their general health and well-being.

1 **Q. Has the Company performed an analysis of the affordability of its water and**
2 **wastewater service under the proposed rates?**

3 A. Yes. Company witness Mr. Rea has conducted a detailed analysis of the affordability of
4 the Company's historical and proposed rates and relates the median household income
5 ("MHI") for customers in our service territory to our utility bills over time. Mr. Rea's
6 analysis demonstrates that our water service, overall, has been affordable over time and
7 will remain well within the range of a percentage of MHI normally viewed as affordable.
8 As demonstrated in Mr. Rea's Direct Testimony, the bill-to-income (BTI) ratios for water
9 service have held steady from 2012-2021 generally between 0.5% and 0.6%, meaning that
10 on average MAWC's customers in total have steadily paid between 0.5% and 0.6% of their
11 household income over the last 10 years for water service for Missouri-American. This is
12 a tangible demonstration that our customer bills have been consistently affordable and will
13 remain affordable even with MAWC's requested rate increase.

14 **Q. How does MAWC maintain the affordability of its water service?**

15 A. An important way that we maintain affordability is by continuously seeking to improve our
16 business processes and make investments that improve operational efficiencies, and we
17 have been very successful in doing so. We use targeted investments that permit us to work
18 smarter and more efficiently, and we leverage the power of our organization to purchase
19 equipment and supplies at advantageous terms. All help us better manage our cost structure
20 and mitigate cost increases.

21 **Q. Notwithstanding the overall affordability of MAWC's rates, are there customers who**
22 **might face affordability issues?**

23 A. Yes, some of our customers face challenging economic circumstances. Thus, Mr. Rea also

1 examined the affordability of our rates for customers at different MHI levels. Mr. Rea's
2 analysis revealed that approximately 62,000 residential customers in MAWC's service
3 areas have household incomes at or below 150% of Federal Poverty Level ("FPL"), or
4 approximately 14% of the Company's residential water customer base. For these
5 customers, the Company continues to offer various assistance programs, which I describe
6 below.

7 **Q. What customer assistance programs does MAWC offer its low-income customers to**
8 **maintain the affordability of its service?**

9 A. MAWC offers several customer assistance programs to help our low-income customers.
10 The Company supports low-income customers through MAWC's H2O Help to Others
11 Program™ ("H2O"). The H2O program offers direct financial assistance of up to \$250
12 per year to customers that are struggling to pay their water or wastewater bill and meet the
13 low-income guidelines established by the local community action agency.

14 In addition, the Company offers both residential and non-residential customers flexible
15 payment arrangements through enhanced installment plans if they are financially unable to
16 pay a water and/or wastewater service bill when due. The enhanced installment plan
17 spreads payments over a period of up to 12 months, in many cases with no up-front
18 payment required. The Company also offers residential customers the option of paying
19 bills under its budget billing plan. For customers electing budget-billing, the Company
20 estimates the customer's total billed amount for service during a succeeding twelve-month
21 period and, for that period, issues monthly bills based on one-twelfth of the twelve-month
22 estimate.

23 While not a MAWC program specifically, Missouri-American customers also benefit from

1 newly available Low Income Household Water Assistance Program (“LIHWAP”)
2 administered by the Missouri Department of Social Services that provides up to \$750 of
3 water/wastewater bill assistance grants for eligible customers.

4 **VII. REVENUE STABILIZATION MECHANISM/COST RECOVERY MECHANISMS**

5 **Q. Is the Company proposing a Revenue Stabilization Mechanism in this case?**

6 A. Yes. A Revenue Stabilization Mechanism (“RSM”) is an accounting and ratemaking tool
7 that is designed to align the Company’s revenues going forward (i.e., beyond the
8 conclusion of this proceeding) with the level of authorized revenue ultimately approved by
9 the Commission. As explained further in the Direct Testimony of Company witness Mr.
10 Rea, this mechanism stabilizes changes in revenues resulting from changes in volumes of
11 water sold to customers on an ongoing basis due to factors largely beyond the control of
12 the Company. Furthermore, the Missouri legislature supports such adjustments based on
13 its adoption of Section 386.266.4, RSMo.

14 **Q. How does an RSM work?**

15 A. An RSM adjusts rates up or down over time so that the revenue the Company collects is
16 consistent with the revenue requirement approved by the Commission for water service in
17 this proceeding. In any given year after final rates are approved in this case, the Company’s
18 revenue collected in that year is compared to the Commission-approved level of authorized
19 revenue. If actual revenues exceed the authorized level, then the difference (less the
20 incremental production cost of water) is credited to customers in the next year through a
21 one-time credit provided through the RSM adjustment. If actual revenues fall short of the
22 authorized level, then the difference (less the incremental production cost of water) is
23 collected from customers in the next year. The RSM is designed so that the Company

1 collects an annual revenue amount consistent with the authorized revenue amount and that
2 customers in total pay the revenue level found appropriate in this case. The RSM proposal
3 is discussed in detail in the Direct Testimony of Company witnesses Mr. Rea and Mr.
4 Watkins.

5 **Q. Please explain the Uncollectible Expense Tracker the Company is seeking in this**
6 **proceeding.**

7 A. As explained in greater detail in the Direct Testimony of Company witness Mr. Selinger,
8 the Company is seeking to implement an Uncollectible Expense Tracker through this
9 proceeding. The proposed mechanism will record the difference between the expense
10 level established in base rates and the actual incurred uncollectible expense to a regulatory
11 asset or liability account with any recorded balance to be recovered/refunded through an
12 amortization following a subsequent base rate case.

13 **Q. What is the basis for the Company's proposal?**

14 A. MAWC's proposed tracker is designed to address fluctuations in bad debt expense and to
15 protect both MAWC customers and the Company. Due to the ongoing and uncertain
16 impacts of the COVID-19 pandemic, the ability to forecast the level of uncollectible
17 expense in base rates continues to be challenging in the current environment and the
18 historical approach utilized for setting a level of uncollectible expense in base rates carries
19 risks for both customers and the Company. As explained further in Company witness Mr.
20 Selinger, implementing the Uncollectible Expense tracker is designed so that the Company
21 receives, and customers pay, the level of uncollectible expense determined appropriate in
22 this case.

23 **Q. Please explain the Property Tax Tracker the Company is seeking in this proceeding.**

1 A. As explained in greater detail in the Direct Testimony of Company witness Mr. Selinger,
2 the Company is seeking to implement a Property Tax Tracker through this proceeding
3 consistent with recent legislative action. Specifically, on May 5, 2022, the Missouri
4 General Assembly passed Senate Bill 745 enacting RSMo 393.1275, and on June 29, 2022,
5 Governor Parson signed the bill into law, which will become effective August 28, 2022.
6 RSMo 393.1275 authorizes Missouri water and sewer corporations to defer to a regulatory
7 asset or liability account any difference in state or local property tax expense incurred, with
8 the property tax expense included within the revenue requirement used to set rates in that
9 corporation's most recently completed general rate proceeding.

10 **Q. What is the Company proposing in this case to help further reduce regulatory lag on**
11 **plant investments?**

12 A. The Company is proposing two regulatory treatments to reduce regulatory lag on plant
13 investments. The first is deferred depreciation, and the second is the capitalization of the
14 return. These are explained in greater detail in the Direct Testimony of Company witness
15 Mr. LaGrand.

16 **Q. Is the Company seeking to implement any additional cost recovery mechanisms**
17 **through this proceeding?**

18 A. Yes. As discussed in the Direct Testimony of Company witness Mr. LaGrand, the
19 Company is proposing that the Commission approve a tracker mechanism for production
20 costs as an alternative form of relief if the RSM is not authorized. This tracker would allow
21 any differences between the production costs incurred and the production costs in customer
22 rates to be deferred to a regulatory asset or liability.

23 **Q. What types of costs are considered production costs?**

1 A. These costs are related to Fuel & Power, Chemicals, Waste Disposal, and Purchased Water.
2 This would include things such as the costs of electricity at water and wastewater treatment
3 plants and booster pump stations, the costs of chemicals to treat and clean the water before
4 it is delivered to customers or discharged to the environment, sludge removal costs at our
5 treatment facilities, water purchased from a neighboring community to supplement our
6 production capacity and wastewater fees associated with agreements to dispose of
7 wastewater.

8 **Q. Why is the Company proposing a production cost tracker in this case?**

9 A. Similar to the Company's existing Pension/OPEB tracker that has been in place for nearly
10 15 years, the production cost tracker primarily consists of costs that are outside the
11 Company's control. As explained further in the Direct Testimony of Company witnesses
12 Mr. LaGrand and Mr. O'Drain, these are among the most critical costs incurred by MAWC
13 because they contribute to providing safe, clean drinking water and wastewater services to
14 our customers and their families.

15 **VIII. ACQUISITIONS**

16 **Q. Has the Company incorporated acquisitions into this rate case filing?**

17 A. Yes. The Company is including the acquisitions for water service and wastewater service,
18 including, but not limited to, those that are anticipated to close by the end of 2022 for the
19 following municipalities:

- 20 - Eureka
- 21 - Monsees Lake
- 22 - Purcell
- 23 - Stewartsville

1 - Smithton

2 The impact of these acquisitions on the overall revenue requirement in this case are further
3 detailed in the Direct Testimony of Company witness Mr. LaGrand.

4 Moreover, the majority of MAWC's wastewater acquisitions, including Purcell, Eureka,
5 and Garden City, involve circumstances where the owner/operator is unable to meet
6 environmental discharge requirements, or involve circumstances where they are facing the
7 need to replace aging infrastructure and/or to bring the systems into compliance with
8 regulations to protect public health and the environment. In these instances, MAWC works
9 directly with MDNR to remedy any such deficiencies on an agreed upon schedule in the
10 context of the acquisition. Thus, MAWC is often seen as a solutions provider for these
11 distressed systems to make investment efficiently with less impact on rates, because of its
12 economies of scale and larger customer base.

13 **IX. COMMUNITY INVOLVEMENT**

14 **Q. Please describe Missouri-American's outreach efforts in the communities that it**
15 **serves.**

16 A. Missouri-American is a responsible corporate citizen and is known for its community
17 involvement. We understand that it takes more than a one-time grant or volunteer effort to
18 make a lasting difference, so we seek out and support organizations that can best meet the
19 needs of our communities. On average, Missouri-American contributes roughly \$450,000
20 per year to communities and organizations to support programs and events that improve
21 the health and safety, quality of life, and education of our customers. Community support
22 is primarily provided at the local level, with Missouri-American teams identifying the
23 needs and priorities of their communities and providing support accordingly.

1 Our employees and their families are also passionate about giving back in the communities
2 we live in and serve, both financially and through volunteerism. In 2021 Missouri-
3 American employees donated more than \$65,800 to nonprofit organizations as reported
4 through the Company's MyGiving platform. This does not include special employee-led
5 donation drives, such as 280 pounds of food donated to Second Harvest in St. Joseph or
6 local school supply and toy drives. Employees also participate in river and park clean-ups,
7 days of service, and volunteer at community events throughout the year.

8 Many of our employees also serve their communities by being active members of
9 organizations, often holding leadership positions, including boards of directors and
10 committees for state and local chambers of commerce, economic development
11 organizations, rotary clubs, United Ways, hospitals, the arts, and environmental
12 organizations.

13 Missouri-American provides support to those in need in our communities, including, but
14 not limited to: The CoveringHouse, the Samaritan Center in Jefferson City, and the United
15 Way of Greater St. Louis. In 2021 Missouri-American provided more than \$135,000 to
16 local community action agencies to fund the company's H2O Help to Others program that
17 provides financial assistance to customers struggling to pay their bills. That year more than
18 500 households received grants totaling more than \$110,000. We also support programs
19 for the youth in our communities, including but not limited to: Girls Incorporated of St.
20 Louis, STL Artworks, St. Louis Youth Sports Outreach, The Little Bit Foundation, Bright
21 Futures, and Mexico Area Family YMCA and Jaycees.

22 Missouri-American also provides support for local emergency responders and fire
23 department through its annual Firefighter Grant Program. In 2021 the company provided

1 support to 37 fire and rescue organizations for training, equipment and tools, and needs
2 related to the pandemic. More than 150 grants have been awarded in the communities we
3 served since the program was launched in 2016.

4 Supporting environmental organizations that improve, protect and/or restore drinking
5 water supplies and surrounding watersheds is another key focus area of our community
6 involvement and support. This not only aligns well with our core business of water and
7 wastewater service, but it also provides an opportunity to work with community partners
8 to educate our customers and develop sustainable solutions to local environmental issues.
9 Environmental organizations we support include Missouri River Relief, Forest Relief of
10 Missouri, St. Louis Audubon Society, Wildcat Glades Friends Group in Joplin, Open Space
11 Council, and the St. Louis Earth Day festival. Missouri-American also sponsors the World
12 Bird Sanctuary's presence at local community and environmental events and in schools.
13 Bird handlers teach children and adults about the importance of keeping local watersheds
14 clean, both for drinking water purposes and for the health and well-being of the birds.

15 **Q. Are there other community related efforts MAWC is making?**

16 A. Yes. In 2022 Missouri-American launched an annual Hydration Station Grant Program to
17 improve on-the-go access to quality drinking water, especially in underserved
18 communities. The program also promotes environmental stewardship by reducing single-
19 use plastic bottles that frequently end up in landfills or bodies of water. In June 2022, the
20 company announced 20 schools, cities and non-profits in the communities we serve that
21 will receive funding for bottle-filling hydration stations.

22 We also offer speakers and plant tours to schools and civic organizations to help educate
23 our customers on how river water and/or groundwater is transformed into drinking water

1 that consistently meets or surpasses state and federal regulations. Operations team
2 members collaborate with local schools to educate students on career opportunities and
3 issues relevant to the water industry, including watershed protection, conservation, and the
4 importance of clean water to their daily lives.

5 While most schools were conducting classes virtually during much of the pandemic, we
6 offered an online, 360-degree tour of our Central Plant, the largest water treatment plant in
7 the American Water family, which serves St. Louis and St. Charles County customers with
8 up to 217 million gallons of water per day. The virtual tour is intended for educators,
9 students and others interested in learning about the water treatment process. It provides the
10 ability to digitally explore the water treatment plant, with pop-up bubbles, videos and
11 photos offering information about the treatment process and the plant itself.

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

13 **A. Yes.**