

Exhibit No.:
Issues: Labor and Labor Related Expenses,
Performance Pay, Support Services,
Insurance Other than Group, Taxes other
than Income, and Other Operating
Expenses; miscellaneous expense,
contract services, maintenance supplies
and services, telecommunications,
building maintenance and services, office
supplies and services, and employee
expense
Witness: Nikole L. Bowen
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2020-0344
SR-2020-0345
Date: June 30, 2020

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2020-0344
CASE NO. SR-2020-0345**

DIRECT TESTIMONY

OF

NIKOLE L. BOWEN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Nikole L. Bowen under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Director Regulatory Services for 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.

A handwritten signature in black ink that reads "Nikole L. Bowen". The signature is written in a cursive style and is positioned above a horizontal line.

Nikole L. Bowen

June 30, 2020

Dated

**DIRECT TESTIMONY
NIKOLE L. BOWEN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2020-0344
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DIRECT TESTIMONY

NIKOLE L BOWEN

I. INTRODUCTION

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

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

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

5 A. I am Director of Regulatory Services for American Water Works Service Company,
6 Inc. (“Service Company”). Service Company is a wholly owned subsidiary of
7 American Water Works Company, Inc. (“American Water”) that provides services to
8 Missouri-American Water Company (“MAWC”, “Missouri-American” or
9 “Company”) and its affiliates.

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

11 A. I am a graduate of Fontbonne University in Missouri, with a Master in Business
12 Administration. I began my career with American Water in 2002 at the Customer
13 Service Center (“CSC”) in Alton IL. In 2009, I was promoted to Billing Manager,
14 responsible for all facets of the revenue generation process, new business integration
15 into the Customer Service Center, rates implementation, and Sarbanes Oxley
16 Compliance for billing related controls. In March 2015, I joined Regulatory Services
17 and currently hold the position of Director Regulatory Services.

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

19 A. My duties consist of reviewing, preparing and assisting in regulatory filings and related

1 activities for all of the regulated subsidiaries of American Water. My responsibilities
2 and my team’s responsibilities include the preparation of written testimony, exhibits
3 and work papers in support of rate applications and other regulatory filings as well as
4 responses to data requests for Missouri-American and its regulated utility affiliates.
5 My duties also include staying apprised of economic and regulatory developments and
6 conditions that may affect regulated water utilities, rates and regulatory policy analysis,
7 support and analysis, guidance and coordination of process improvement to support
8 continuous improvement of rates and regulatory processes and services, data
9 compilation and reporting, data and revenue analysis.

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

11 A. Yes.

12 **Q. Have you previously testified before a regulatory body?**

13 A. Yes. I presented testimony before the Missouri Public Service Commission (“the
14 Commission” or “PSC”) in Case No. WR-2017-0285. I also have assisted in the
15 preparation of rate cases and presented testimony to the California Public Utility
16 Commission, the Indiana Utility Regulatory Commission, the Kentucky Public Service
17 Commission, and the Iowa Utilities Board.

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

19 A. The purpose of my Direct Testimony is to support and explain the Company expense
20 levels in several areas. I will discuss the level of expenses associated with labor and
21 labor related, support services, insurance other than group, taxes other than income,
22 miscellaneous expense, contract services, maintenance supplies and services,

1 telecommunications, office supplies and services, and employee expenses. Company
2 Witness Todd Wright will discuss the level of expense associated with production
3 costs, customer accounting, postage, rents, transportation, and uncollectible expense.

4 **Q. What methodology did the Company use in making its pro forma adjustments**
5 **to its historical expense levels in this case?**

6 A. Our case is based on a future test year, that was developed from a normalized historical
7 test year.

8 In general, the historical test year expenses (12 months ended December 31, 2019) were
9 updated to include known and measurable changes, adjusted based on Company
10 experience, or adjusted based on an inflation factor annualized, through a verifiable
11 link period ending May 31, 2021. In general, in order to obtain representative levels
12 of expenses that can vary, MAWC used a three-year average of Company experience
13 for pro forma expense adjustments to labor and labor related, main break expense,
14 chemical costs, purchased water, PSC fees, and uncollectibles. The Company then
15 used a monthly projection for the 12 months ended May 31, 2022 (the “future test
16 year”) using known and measurable changes, adjustments based on Company
17 experience, or adjustments based on an inflation factor.

18 To gauge cost increases where it was appropriate to use an inflation factor, MAWC
19 used the average Gross Domestic Product (GDP) Price Index forecast as compiled by
20 Blue Chip Economic Indicators. This forecast is a survey of a wide range of financial
21 professionals, including bank, academic and corporate forecasters. As of March 2020,
22 the 2020 GDP Price Index is 2.0% and the 2021 GDP Price Index is 2.1%. We applied
23 inflation to the following pro forma expense adjustments: purchased water, fuel and

1 power, chemicals, waste disposal, non-PBOP insurance, other employee benefits,
2 contract services, building maintenance, telecommunications, postage printing and
3 stationary, office supplies, employee related expenses, miscellaneous expense, rents,
4 transportation, customer accounting, insurance other than group, and maintenance
5 services and supplies.

6 **Q. Can you provide an overview of the increased Company's O&M expense level?**

7 A. Yes, I can. MAWC is seeking recovery of \$141.4 million in O&M expense for the
8 future test year ending May 31, 2022, which represents a 1.4% annual increase from
9 2010 expense levels, inclusive of acquisitions. The increase in O&M expense in this
10 case is primarily driven by the Company's salaries & wages and related expenses,
11 service company, uncollectible expense, insurance other than group, and production
12 expenses. I will discuss the level of expenses associated with labor and labor related,
13 performance pay, support services, insurance other than group, taxes other than income,
14 miscellaneous expense, contract services, maintenance supplies and services,
15 telecommunications, office supplies and services, and employee expenses. Company
16 Witness Todd Wright will discuss the level of expense associated with production
17 costs, customer accounting, postage, rents, transportation, and uncollectible expense.

18 **II. LABOR AND LABOR RELATED EXPENSES**

19 **Q. Please describe MAWC's labor and labor related expense.**

20 A. There are three classifications of employees at MAWC: collective bargaining unit
21 ("CBU") hourly employees, non-union non-collective bargaining unit ("non-CBU")
22 hourly employees, and exempt employees. CBU hourly employees receive base pay,

1 overtime pay, in some cases, shift pay, and are eligible for performance pay. Non-CBU
2 hourly employees receive base pay, overtime pay, and are eligible for performance pay.
3 Exempt employees receive base pay and are eligible for performance pay. Therefore,
4 total compensation for each classification of employees includes fixed pay (base pay)
5 and some form(s) of variable pay (e.g., overtime, shift pay and meals, or performance
6 pay). Labor related expenses include payroll tax, pension expense, postretirement
7 benefits other than pension (“OPEB”), group insurance, 401k benefits, defined
8 contribution plan benefits, retiree medical expense, and employee stock purchase plan.
9 Company Witness Watkins will discuss pension expense and PBOP.

10 **Q. Please describe how labor and labor related expense was calculated.**

11 A. The pro forma salaries and wages expense were calculated on a position-by-position
12 basis, based on 714 full-time positions and 13 temporary summer positions. This
13 means that the 2019 test year labor hours for each employee were analyzed and adjusted
14 to reflect a normal level of labor hours. These hours were then multiplied by the
15 employees’ actual individual 2020 wage rate to determine pro forma labor costs for
16 2020 and adjusted using a three-year average salary increase for non-CBU and exempt
17 employees and contractual wage rates for CBU employees, to determine future test year
18 costs.

19 Also, because some labor and labor related costs are charged to h capital projects
20 and programs, labor and labor related costs are multiplied by an operations and
21 maintenance (“O&M”) percentage based on the 2019 ratio of dollars charged to
22 O&M versus capital to derive labor and labor related expense. This eliminates from

1 expenses the labor and labor related costs associated with capital projects and
2 programs, which are appropriately charged to those capital projects.

3 **a. SALARIES AND WAGES**

4 **Q. Please explain how the various components of salaries and wages were calculated.**

5 A. As explained in more detail below, salaries and wages expense is composed of four
6 components: 1) base pay, 2) overtime expense, 3) wage premiums required by
7 collective bargaining agreement (“CBA”) contracts, meals, and 4) annual and long-
8 term performance compensation for eligible employees.

9 Base Pay - In order to calculate the base pay, the wage levels in effect during the 2019
10 period were applied to 2,088 and 2080 hours, for hourly non-CBU and exempt
11 employees respectively for each full-time position and then were added together. The
12 hours for the 12 temporary summer positions were based on adjusted work hours, each
13 position reflecting .25 hours of a full-time employee. Wages for CBU employees were
14 based on the CBA wage rates through 2021. If a contract rate has not been negotiated
15 through this date, an hourly rate was calculated using a three-year average increase for
16 each CBU. Non-CBU and exempt employees’ wage rates were based on actual rates
17 effective at April 1, 2020, to derive the 2020 expense levels. In order to calculate the
18 expense for the future test year, the salaries and wages for each non-CBU and exempt
19 position were inflated using a three-year average increase percentage.

20 Overtime - The second component of the labor expense is overtime expense. Overtime
21 was calculated based on a three-year average of actual over time dollars from 2017,
22 2018 and 2019. The actual regular labor dollars were divided by the overtime dollars

1 to determine an overtime percentage. This percentage was then applied to the wages
2 for the future test year to calculate the overtime dollars for each pro forma period
3 respectively.

4 Premium Pay - The third component of the labor expense is the wage rate premiums
5 required by the CBAs for employees who obtain special licenses, who work
6 particular shifts, who operate backhoes, or who work scheduled holidays such as
7 Thanksgiving, Christmas, and the Fourth of July. The premium pay expense is based
8 on the 2019-dollar amount by employee.

9 Performance Pay - The fourth component of labor expense is the annual and long-term
10 performance compensation for eligible employees. Performance Pay was calculated on
11 a position by position basis. It was based on each position's target percent for both the
12 Annual Performance Plan ("APP") and Long-Term Performance Plan ("LTPP"). The
13 target percent was multiplied by each eligible employee's 2020 pro forma base salary
14 to determine APP and LTPP. The future test year APP and LTPP were calculated using
15 the same methodology leveraging the future test year pro forma base salaries. Please
16 see the Direct Testimony of Company witness Grant A. Evitts for a further discussion
17 the Company's Performance Pay. The summary of this adjustment can be found on
18 Schedule CAS-13.

19 **b. PAYROLL TAX**

20 **Q. Please describe the operating expenses related to payroll tax.**

21 A. Payroll tax expense is directly related to salaries and wages. Two types of taxes are
22 required to be paid in accordance with the Federal Insurance Contributions Act -

1 Old Age Survivors & Disability Insurance (“OASDI,” or more commonly “FICA”),
2 and Hospital Insurance (or more commonly “FICA Medicare”). Federal
3 Unemployment Tax (“FUTA”) and State Unemployment Tax (“SUTA”) must also
4 be paid. Pro forma payroll taxes were calculated on a position-by-position basis, using
5 current 2020 tax rates and pro forma wages for the future test year. The tax rates include
6 6.2% FICA on up to \$137,700 of wages, 1.45% FICA Medicare on all wages, 0.176%
7 SUTA on the first \$12,000 in wages, and 0.6% FUTA on the first \$7,000 in wages. The
8 summary of this adjustment can be found on Schedule CAS-13.

9 **c. GROUP INSURANCE**

10 **Q. Please describe the operating expenses related to group insurance.**

11 A. The adjustment to group insurance expense is composed of two components:
12 Other Post-Employment Benefits (“OPEB”), and other non-OPEB group insurance. I
13 will discuss the non-OPEB group insurance expense. The OPEB expense discussion
14 can be found in the direct testimony of Brian LaGrand.

15 **Q. What is non-OPEB group insurance?**

16 A. Non-OPEB group insurance includes basic life insurance, short- and long-term
17 disability insurance, accidental death and disability (“AD&D”) insurance, and
18 medical, dental, and vision insurance and the health savings account that Missouri-
19 American provides its employees.

20 **Q. How was the pro forma adjustment for the non-OPEB insurance expense**
21 **calculated?**

22 A. As previously discussed, several types of insurance expense make up this calculation,

1 but they basically comprise two categories: 1) basic life, short- and long-term
2 disability, and AD&D; and 2) medical, dental, vision insurance and health savings
3 account (“HSA”).

4 The calculation of the pro forma expense for each of these categories is further
5 described below.

6 Basic life, short- and long-term disability and AD&D. The 2020 pro forma
7 expense for this category was calculated based upon the current 2020 plan rates.
8 The resulting plan costs and contributions rates were used to calculate costs
9 for each employee, according to the insurance stipulations and applying any
10 differences for CBU and non-CBU or exempt employees. An inflation factor
11 was applied to the 2020 pro forma expense to derive the annualized 2021
12 expense. The respective inflation factor was then applied to 2021 expense to
13 calculate the future test year expense amounts.

14
15 Medical, dental, vision insurance, and HSA. This category of insurance
16 involves a Company cost net of employee contributions for medical, dental and
17 vision and Company contributions for HSAs. The costs and contributions vary
18 by plan type (e.g. family, employee, or employee plus spouse). Costs and
19 contributions were calculated on a position-by-position basis, considering
20 actual employee plan selections. The 2020 pro forma plan costs and employee
21 contributions were based on current 2020 rates. An inflation factor was applied
22 to the 2020 pro forma expense to derive the annualized 2021 expense.

1 Similarly, an inflation factor was then applied to 2021 expense to calculate the
2 future test year expense amounts. The summary of this adjustment can be found
3 on Schedule CAS-13.

4 **d. EMPLOYEE BENEFITS**

5 **Q. Please describe the operating expenses related to 401k benefits.**

6 A. Missouri-American incurs 401k expense when it matches employee contributions to
7 401k retirement accounts. The matching amounts are determined by each employee's
8 benefit group or hire date. For employees whose benefit group falls into an "original"
9 category (including CBA employees hired before 2001 and non-CBA and exempt
10 employees hired before 2006), the Company matches 50% of the first 5% of the
11 employee's contribution (for a maximum of 2.5%). For the remaining employees, the
12 Company matches 100% of the first 3%, and 50% of the next 2% of the employee's
13 contributions (for a maximum of 4%). The 2020 pro forma 401k costs were
14 calculated for each employee based on his or her 2020 wages, his or her current
15 employee contribution levels, and the corresponding match for his or her benefit group.
16 The future test year expense amount was calculated using the same methodology;
17 however, based on the employees' future test year pro forma wages. This adjustment
18 is summarized on Schedule CAS – 13.

19 **Q. Please describe the adjustment to operating expenses related to the defined
20 contribution plan ("DCP").**

21 A. DCP is a retirement savings program for employees not eligible for the defined
22 benefit pension program. Under the DCP, Missouri-American contributes an amount

1 equal to 5.25% of an employee's base pay into a retirement account. The 2020 pro
2 forma DCP expense was calculated by multiplying the 2020 pro forma regular time
3 pay of each eligible employee by 5.25%. The future test year expense amounts were
4 calculated using the same methodology; however, they were based on the employees'
5 future test year pro forma wages. A summary of this adjustment is shown on Schedule
6 **CAS – 13.**

7 **Q. Please describe the adjustment to operating expenses related to retiree medical**
8 **expense.**

9 A. CBU employees who are not eligible for PBOP, are entitled to Company-provided
10 retiree medical benefits. Missouri-American has set up a trust (referred to as the
11 Voluntary Employee Benefits Association, or VEBA) to fund this benefit in the amount
12 of \$600 per eligible employee. In an effort to control costs, the Company excludes
13 those employees from PBOP coverage. A summary of this adjustment is shown on
14 Schedule **CAS – 13.**

15 **Q. Please describe the adjustment to operating expenses related to the employee**
16 **stock purchase plan.**

17 A. The purpose of this adjustment is to annualize the Company's expense associated with
18 the Employee Stock Purchase Plan ("ESPP"). ESPP expense relates to the Company
19 funded 15% discount of American Water stock purchases made through payroll
20 deductions by enrolled employees. The expense was calculated based on the 2020
21 wages for each employee who participates in the plan. The employees 2020 base wage,
22 times their individual contribution amount, applied to the fifteen percent company

1 discount, was used to calculate the 2020 expense. The future test year expense amount
2 was calculated using the same methodology; however, they were based on the
3 employee's future test year pro forma wages. The summary of this adjustment can be
4 found on Schedule CAS-13.

5 **Q. Please describe the adjustment to other employee benefits.**

6 A. The purpose of this adjustment is to annualize the Company's expense associated with
7 other employee benefits. These benefits include certain employee related expenses
8 associated with training, tuition reimbursement, employee rewards, and other such
9 benefits. The expense was based on actual 2019 expense, which is then inflated to
10 derive the 2020 expense. The future test year expense amounts were calculated using
11 the same methodology.

12 **III. SUPPORT SERVICES**

13 **Q. What services does MAWC obtain from the Service Company?**

14 A. The services provided by the Service Company include customer service, water quality
15 testing, innovation and environmental stewardship, human resources, communications,
16 information technology, finance, accounting, payroll, tax, legal, engineering, accounts
17 payable, supply chain, and risk management services. The Service Company operates
18 customer service centers in Alton, Illinois and Pensacola, Florida that handle customer
19 calls, billing, and collection activities for MAWC and its regulated utility affiliates.
20 The customer service centers respond to customer inquiries and correspondence, and
21 process service order requests. In addition, the Service Company operates two Field
22 Resource Coordination Centers responsible for tracking and dispatching service orders

1 for our field representatives and distribution crews. The Service Company also
2 operates the Central Laboratory, located in Belleville, Illinois—one of the most
3 advanced water quality laboratories in the United States.

4 **Q. What level of Service Company costs is MAWC seeking in this case?**

5 A. MAWC is seeking recovery of \$39 million in Service Company costs for the future test
6 year ending June 30, 2022. The direct testimony of MAWC witness Patrick
7 Baryenbruch demonstrates the reasonableness of Service Company costs that are
8 charged to MAWC. The summary of this adjustment can be found on Schedule CAS-
9 **13.**

10 **Q. Can you explain the increased in the level of Service Company expense MAWC**
11 **seeking in this case?**

12 A. Yes, the increase in expense is due in large part to the transfer of postage and customer
13 accounting expenses from MAWC to Service Company. This adjustment decreases
14 customer accounting expense, while increasing Service Company Expense. In addition,
15 the Company has included an adjustment that projects an increase in Service Company
16 expense related to the pending sale of the New York-American Water system,
17 anticipated to occur at the end of 2020. Both adjustments are discussed below.

18 **Q. Please first explain the transfer of postage and customer accounting expenses**
19 **from MAWC to Service Company.**

20 A. Effective January 2020, the following vendor costs are now included as part of the
21 Service Company charges: United States Postal Service large meter postage; EOS
22 CCA, GC Services and Penn Credit, the debt collection agency fees; Regulus form

1 creation costs; ORC International customer survey fees; and, language services
2 provided by Metrolina. In order to reflect the reclassification of these expenses, the
3 2020 pro forma expense of \$3.5 million was removed from MAWC and included in
4 the Service Company pro forma adjustment for 2020 under the Customer Service
5 Organization function. To calculate the pro forma adjustment, the 2019 per book
6 amounts for the customer accounting vendors above were inflated using the 2020 GDP
7 Price Index. The adjustment for postage at December 31, 2020 was calculated by
8 annualizing the postal increase that went into effect on January 26, 2020 and applying
9 that rate to the total number of mailings in the base year, adjusted for projected billings,
10 including acquisitions and changes from quarterly to monthly billings. For the pro
11 forma adjustments in 2021 and 2022, customer accounting and postage expenses were
12 increased by applying the appropriate inflation factor.

13 **Q. Please explain the adjustment due to the pending sale of New York-American**
14 **Water.**

15 A. The Company has included an adjustment to the allocation factor beginning in January
16 2021 to account for an increase in allocated regulated company costs due to the pending
17 sale of the New York-American Water system anticipated at the end of 2020. The
18 adjustment increases overall Service Company costs allocated to MAWC by 0.49%, or
19 approximately \$1.4 million. In calculating this adjustment, the costs previously charged
20 to New York-American Water were first removed, resulting in an overall reduction to
21 total Service Company costs. Those costs, however, were then allocated to each
22 operating company based on the ratio of customers to the overall number of customers,
23 resulting in a slightly higher ratio, due to the expected removal of customers in New

1 York from the allocation formula.

2 **IV. INSURANCE OTHER THAN GROUP**Q. Please describe how the Company's
3 **insurance other than group costs are determined.**

4 A. Missouri-American incurs costs related to several types of insurance, including Auto
5 Liability, General Liability, Worker's Compensation, and Property. These insurance
6 costs are referred to as insurance other than group ("IOTG"). The Company's General
7 Liability, Auto Liability and Workers Compensation premium is based upon a
8 combination of loss experience (50%) and exposure (50% estimated annual revenue
9 and payroll). Exposure for Auto Liability uses estimated annual revenue, payroll and
10 number of vehicles. The loss experience is based upon a 5-year average of historical
11 loss experience. The 5-year average is used to smooth out losses to the extent that
12 MAWC suffers an anomalous year of claims experience. This is consistent with the
13 commercial insurance market underwriting practice.

14 **Q. Please describe the IOTG pro forma adjustments to operating expenses.**

15 A. The majority of the Company's IOTG premiums renew on January 1 of each year
16 (Directors & Officers Liability insurance renews in April each year). Development of
17 the pro forma expense begins with adjustments to the 2019 base year, which remove
18 certain credits and remove capitalized credits for certain insurance premiums not
19 capitalized by other MAWC affiliates. In addition, an equipment discount credited
20 against IOTG expense in 2019 has been eliminated and is reflected as a deduction from
21 rate base, as discussed by MAWC witness Brian LaGrand. The Company then
22 leverages the annual premiums owed as of early 2020. The 2020 level of IOTG expense

1 is inflated to arrive at the annualized expense level for 2021. The 2021 expense is then
2 inflated to arrive at a forecast expense for the twelve months ending May 31, 2022.
3 The pro forma capitalized labor percentage was multiplied by the new Worker's
4 Compensation premium, to reduce the expense. Please also see Schedule CAS-13 for
5 the detailed calculation.

6 **V. TAXES OTHER THAN INCOME**

7 **Q. Please describe the adjustment to operating expenses related to the PSC**
8 **Assessment.**

9 A. The purpose of this adjustment is to normalize the PSC Assessment fee. The pro forma
10 amount is based on the three-year average expense derived from 2017, 2018 and 2019
11 actual expense paid. The three-year average expense is then inflated to determine the
12 current and future test year expense amounts. The summary of this adjustment is found
13 on Schedule CAS-13.

14 **VI. OTHER OPERATING EXPENSES**

15 **a. MISCELLANEOUS EXPENSE**

16 **Q. Please describe the operating expenses related to miscellaneous expense.**

17 A. The operating expense described as miscellaneous expense includes expenses for
18 charitable contributions, lobbying, penalties and membership dues, as well as other
19 miscellaneous expenses; such as telephone, cell phone, shipping, uniforms, and
20 customer education expenses. The miscellaneous expense adjustment removes
21 expenses for charitable contributions, certain penalties and membership dues, lobbying
22 and engineered coatings. As Company witness Brian LaGrand discusses, the Company

1 is proposing to capitalize investments in engineered coatings, therefore the amounts
2 were removed as an expense item. The remaining expense levels for 2019 are then
3 inflated to derive the 2020 expense levels. In a similar fashion the 2020 expense levels
4 are inflated to derive the 2021 expense, and finally the 2022 expense levels. The details
5 of this adjustment can be found at Schedule **CAS-13**.

6 **b. CONTRACT SERVICES**

7 **Q. Please describe the operating expenses related to contract services.**

8 A. The contracted services expense includes costs associated with landscaping, Missouri
9 one call, accounting, audit and legal fees that are performed by a contracted third party.
10 In order to calculate the appropriate expense levels, the Company took the 2019 actual
11 expenses and adjusted for acquisitions, removed the engineered coatings expense. As
12 previously mentioned, Company witness Brian LaGrand discusses the Company's
13 proposal to capitalize investments in engineered coatings, as such the amounts were
14 removed as an expense item. An adjustment was then made to account for costs
15 associated with the Aclara system to derive the 2020 level of expense. The 2020 levels
16 were inflated for an annualized 2021 period. The future test year expense was
17 calculated by applying an inflation factor to the January through May 2021 expense
18 levels. The details of this adjustment can be found at Schedule **CAS-13**.

19 **c. MAINTENANCE SUPPLIES AND SERVICES**

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

22 A. The operating expense associated with maintenance supplies and services are those

1 expenses associated with maintenance cost for the general operation of the business,
2 hydrant painting expense, and finally main break expense for St Louis County.

3 **Q. Please discuss the maintenance supplies and services expense.**

4 A. The Company leveraged the 2019 expense as the basis for the going level of expense.
5 This expense was then inflated to derive the 2020 expense levels. The 2020 levels were
6 inflated for an annualized 2021 period. The future test year expense was calculated by
7 applying an inflation factor to the January through May 2021 expense levels. The
8 details of this adjustment can be found at Schedule **CAS-13**.

9 **Q. Please discuss the maintenance supplies and services expense associated with main**
10 **breaks for St. Louis County.**

11 A. The Company calculated an adjustment for main break expense associated with breaks
12 that occur in St Louis County. The purpose of this adjustment is to annualize main
13 break expense to a normalized, pro forma level based on a review of historical main
14 breaks and the cost to repair the breaks in St Louis County. In order to calculate the
15 appropriate expense levels, the Company took a three-year average count of main
16 breaks and expense from 2017, 2018, and 2019 actual expenses. The three-year
17 average expense was then inflated to derive the annualized 2020 expense levels. The
18 2020 levels were inflated for an annualized 2021 period. The future test year expense
19 was calculated by applying an inflation factor to the January through May 2021 expense
20 levels. The details of this adjustment can be found at Schedule **CAS-13**. Please see
21 the Direct Testimony of Grant Evitts for additional detail regarding main breaks.

1 **d. TELECOMMUNICATIONS**

2 **Q. Please discuss the operating expense related to telecommunications.**

3 A. The operating expense for telecommunications expense includes those expenses
4 associated with office phone services, wireless services, and other data lines used by
5 the Company. The 2019 actual expense levels were inflated for an annualized 2020
6 period. The 2020 expense levels were then inflated to derive the 2021 expense levels.
7 The future test year expense was calculated by applying an inflation factor to the
8 January through May 2021 expense levels. The details of this adjustment can be found
9 at Schedule CAS-13.

10 **e. BUILDING MAINTENANCE AND SERVICES**

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

12 A. The operating expense associated with building maintenance and services are those
13 expenses associated with grounds keeping, security, trash, janitorial expenses, building
14 electricity, heating, and other related costs.

15 **Q. Please discuss the building maintenance and services expense.**

16 A. The Company leveraged the 2019 expense as the basis for the going level of expense.
17 This expense was then inflated to derive the 2020 expense levels. The 2020 levels were
18 inflated for an annualized 2021 period. The future test year expense was calculated by
19 applying an inflation factor to the January through May 2021 expense levels. The
20 details of this adjustment can be found at Schedule CAS-13.

21 **f. OFFICE SUPPLY AND SERVICES**

22 **Q. Please discuss the operating expense related to office supply and services.**

1 A. The operating expense for office supply and services are those expenses related to
2 various software licenses, bank fees and other various office supplies. In order to
3 calculate the projected expense, the Company first took the most recent monthly license
4 fee amounts and annualized the expense through the end of the amortization period.
5 The Company then removed any accrued expense. The 2019 expense was inflated
6 using the 2020 inflationary factor. The Company then took the remaining expense
7 items for bank fees and other miscellaneous office fees and inflated the 2020 levels
8 inflated for an annualized 2021 period. The future test year expense was calculated by
9 applying an inflation factor to the January through May 2021 expense levels. The
10 details of this adjustment can be found at Schedule **CAS-13**.

11 **g. EMPLOYEE EXPENSE**

12 **Q. Please discuss the operating expense related to employee expense.**

13 A. The operating expense for employee expense includes those expenses associated
14 with employee travel and relocation expense. In order to calculate the projected test
15 year expense for the period ending the Company used the base period ending December
16 31, 2019. The 2019 base year expense was adjusted for inflation to derive the expense
17 amount for 2020. The 2020 expense amount was subsequently inflated to derive the
18 current and future test year expense amounts.

19 **Q. Does this conclude your direct testimony?**

20 A. Yes, it does.