Exhibit No.:	
Issues:	Production Costs, Labor and Labor Related Expenses, Pension and OPEB Expense, Service Company, Contract Services, Miscellaneous Expenses, Transportation, and Insurance Other Than Group,
Witness:	Manuel Cifuentes, Jr.
Exhibit Type:	Direct
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2024-0320 SR-2024-0321
Date:	July 1, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320
CASE NO. SR-2024-0321

DIRECT TESTIMONY

OF

MANUEL CIFUENTES, JR.

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Manuel Cifuentes, Jr., under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Senior Principal Regulatory Analyst for American Water Works Service Company, Inc., that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

Manuel Cifuentes, Jr.
Manuel Cifuentes, Jr.

July 1, 2024
Dated

DIRECT TESTIMONY

MANUEL CIFUENTES, JR.
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2024-0320
CASE NO.: SR-2024-0321

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DIRECT TESTIMONY

MANUEL CIFUENTES, JR.

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Manuel Cifuentes, Jr., and my business address is 727 Craig Road, Saint Louis, Missouri 63141.

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

A. I am employed by American Water Works Service Company, Inc. ("Service Company") as Senior Principal Regulatory Analyst. The Service Company is a wholly owned subsidiary of American Water Works Company, Inc. ("American Water") that provides services to Missouri-American Water Company ("MAWC," or the "Company").

Q. Please summarize your educational background?

A. I received a Bachelor of Science in Public Accountancy from the City University of New York at Brooklyn College in 2006. I am a Certified Public Accountant licensed in the State of New York.

Q. Please summarize your business experience.

A. From 1999 to 2003, I served as a Sergeant on active duty in the United States Army. From 2006 to 2016, I held various roles of progressive accounting responsibility within the financial services industry, primarily related to statutory financial reporting and U.S. generally accepted accounting principles ("U.S. GAAP") reporting. From 2016 to 2019, I was employed by Southern Company Gas, a company engaged in the natural gas industry, as a Manager, Regulatory Reporting where I supported rate case proceedings and regulatory filings for New Jersey, Virginia, Illinois, Florida, Tennessee, Georgia, and

Maryland. From 2019 to 2020, I was employed by a global wireless telecommunications company as a Senior Accounting Manager. From 2020 to 2021, I was employed as a Utility Rate Case Consultant supporting Vectren Corporation, a wholly owned subsidiary of CenterPoint Energy, an energy company engaged in the natural gas and electric businesses where I supported rate case proceedings for Indiana. Most recently, I was employed by Liberty Utilities, a regulated water, wastewater, natural gas, and electric company, initially as a Senior Analyst, Rates and Regulatory Affairs for Arizona and Texas, before being promoted to Manager, Rates and Regulatory Affairs with responsibility for leading and executing the regulatory strategy in Georgia. In October 2022, I began my employment with the Service Company within Regulatory Services.

Q. What are your current employment responsibilities?

A. My duties consist of preparing, assisting, and reviewing regulatory filings and related activities for all the regulated subsidiaries of American Water. My responsibilities include but are not limited to the preparation of written testimony, exhibits, and workpapers in support of rate applications and other regulatory filings as well as responses to data requests for the regulated subsidiaries of American Water, including MAWC.

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

A. Yes.

Q. Have you previously submitted testimony before this or any other commission?

A. This will be my first-time providing testimony before the Missouri Public Service Commission ("Commission"). I have provided testimony before the Arizona Corporation Commission on behalf of Liberty Utilities in Docket No. SW-04316A-21-0325, the Indiana Utility Regulatory Commission on behalf of Indiana-American Water Company in Cause

No. 45870, the Virginia State Corporation Commission on behalf of Virginia-American Water Company in Case No. PUR-2023-00194, and the Illinois Commerce Commission on behalf of Illinois-American Water Company in Docket No. 24-0097.

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

A. The purpose of my Direct Testimony is to support and explain MAWC's expense levels in several areas. I will discuss the level of expenses as well as MAWC's pro forma adjustments associated with Production Costs, Labor and Labor Related, Pension and Other post-employment benefits ("OPEB"), Service Company, Contract Services, Miscellaneous Expenses, Transportation, Insurance Other Than Group, and MAWC's existing Pension and OPEB Tracker.

II. INFLATION FACTORS

Q. Please describe the inflation factors that MAWC is proposing.

A. MAWC used unique and specific inflation factors developed for each operations and maintenance ("O&M") category that aligns with the United States (U.S.) Bureau of Labor Statistics (the "BLS") by specific measure category and type of cost to recognize the impact of inflation on MAWC's expenses from the historical test year (12 months ended December 31, 2023), the true-up test year (12 months ending December 31, 2024) through the future test year (12 months ending May 31, 2026). The three (3) time periods that will be presented in this proceeding are further explained by MAWC Witness Brian W. LaGrand. The inflationary factors used in this proceeding were based on a three (3) year average (December 2021, December 2022, and December 2023) of the annual change in inflation for each respective O&M category. The inflationary factors are representative of specific cost changes and known inflationary pressures recently experienced in the economy. It is necessary to account for the effects of inflation on MAWC's O&M expenses based on the Consumer Price Index[1] ("CPI") as calculated by the BLS through the end of the future test year since this is a reasonable proxy for expected cost increases based on actual experience and/or likely to occur in the economy. The schedule can be found in Schedule CAS-9 and sponsored by Company Witness LaGrand.

Q. Has MAWC utilized an inflation factor in the past?

A. Yes. In Case No. WR-2020-0344, MAWC proposed and included inflationary factors in the development of the forecasted expenses.

III. PRODUCTION COSTS

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

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

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

A. System delivery is the amount of treated water that MAWC's treatment plants produce. Water sales as well as other factors impact the amount of water produced by the plants, which in turn impacts expenses associated with treating and distributing that water. As discussed by Company Witness Max W. McClellan, MAWC has proposed pro forma

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[1] The Consumer Price Index (CPI) and the gross domestic product (GDP) price index and implicit price deflator are measures of inflation in the U.S. economy. The CPI measures price changes in goods and services purchased out of pocket by urban consumers, whereas the GDP price index and implicit price deflator measure price changes in goods and services purchased by consumers, businesses, government, and foreigners, but not importers. Source: United States Bureau of Labor Statistics. https://www.bls.gov/opub/mlr/2016/article/comparing-the-cpi-with-the-gdp-price-index-and-gdp-implicit-price-deflator.htm

revenue adjustments related to declining usage and customer growth and has calculated associated pro forma system delivery.

a. Purchased Water

Q. Please describe purchased water expense.

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

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

A. In order to calculate the expense for purchased water, MAWC used the 2023 consumption from bills for each purchased water district for each month and multiplied that by the most recent rate and fees billed. The 2023 consumption was utilized through the proforma period of May 31, 2026. This adjustment is reflected on Schedule CAS-9.

b. Fuel and Power

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

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

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

A. The fuel and power expense was derived by starting with 12 months ending December 31, 2023, expense, which was then normalized by removing accruals, and closed accounts and ensuring12 monthly bills for each active vendor account. The expense was then adjusted for the projected rate increases for those service providers for the future test year. These adjustments are reflected on Schedule CAS-9.

c. Chemicals

Q. Please describe the operating expense for chemicals.

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

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

A. Chemicals expense was calculated by starting with the usage by plant and chemical for the period ended December 31, 2023. The annual usage was then adjusted for known changes in the treatment processes at each plant, or for new or discontinued chemicals. The projected annual usage was then divided by the three (3) year annual average of system delivery (2021-2023), to develop a chemical usage per system delivery rate. Pro forma chemical usage was then calculated by multiplying the chemical usage rate per system delivery rate by pro forma system delivery through May 31, 2026. Chemical expense was then calculated by multiplying pro forma chemical usage by the expected chemical price as of March 2024. These adjustments are reflected on Schedule CAS-9.

d. Waste Disposal

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

A. MAWC incurs waste disposal costs as a result of the need to properly dispose of sludge and other by-products resulting from water and wastewater treatment. MAWC treats waste disposal in some areas, while in others, specifically related to wastewater, MAWC uses a third party for treatment. Sludge removal and lagoon cleaning for MAWC occurs on a cycle ranging from monthly to several years. The cleaning schedule is based on the amount of waste and size of lagoon, consistent with EPA standards. The waste disposal costs and methods vary by treatment facility, with the average cleaning cycle of 24 months. The expense for waste disposal includes costs incurred and accrued for based on the scheduled frequency of cleanings as the result of current operations and weather conditions.

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

A. MAWC started with historical average of expense for the 12-month calendar periods ending 2021, 2022, and 2023, and normalized costs based on waste disposal costs incurred and the frequency of the cleanings by individual location. An inflation factor was applied to project the costs beginning in 2024 through the future test year ending May 31, 2026. These adjustments are reflected on Schedule CAS-9.

IV. LABOR AND LABOR RELATED EXPENSES

Q. Please describe MAWC's labor and labor-related expenses.

A. MAWC's labor and labor-related expenses cover local MAWC employees. There are three (3) classifications of MAWC employees: (1) collective bargaining unit ("CBU") hourly employees, (2) non-collective bargaining unit ("non-CBU") hourly employees, and (3) exempt employees. CBU hourly employees receive base pay, overtime pay, and in some cases, other compensation (such as shift premiums and meal allowances) and are also eligible for performance pay. Non-CBU hourly employees receive base pay and overtime pay and are eligible for performance pay. Exempt employees receive base pay and are eligible for performance pay. Therefore, total wages or salaries include fixed pay (base pay) and some form(s) of variable pay (e.g., overtime, shift pay, and performance pay) for eligible employees.

The labor and labor-related costs discussed in my testimony include:

1. Salaries and Wages, which includes: base pay, overtime, shift premium and meal compensation pursuant to the terms of applicable CBAs; and performance pay in the form of annual and long-term performance compensation for eligible employees;
2. Group Insurance;
3. Other Benefits, which includes: 401k, Defined Contribution Plan ("DCP"), Employee Stock Purchase Plan ("ESPP"), and Pension and Other Post-Employment Benefits ("OPEB") expense for certain eligible employees;
4. Payroll Taxes.

Q. Please describe the overall approach to calculating labor and labor-related expenses.

A. MAWC's proposed labor and labor-related expenses begins with a starting point of 704 full-time positions as of March 31, 2024, with 97 positions layered in for the pro-forma period (59 full time employees, 28 temporary summer interns, and 10 interns). The 2024 labor hours worked were annualized and adjusted on a position-by-position basis to reflect a normalized level. These hours were then multiplied by the employees' actual 2024 wage rates to determine an annualized level of expense. As I explain below, this level of expense was then adjusted using a three (3) year average of base pay increases for non-CBU employees. To adjust the level of expense for CBU employees, the most recent collective bargaining agreements ("CBAs") were used to determine the forecasted test year costs. As discussed by MAWC Witness Carlson, MAWC is working to fill vacancies and plans to do so prior to the end of the future test year. The pro forma labor for all vacant positions was increased in the same manner as existing employees, and the associated labor-related expenses were calculated based upon the average plans/elections of existing employees. A portion of labor and labor-related costs is capitalized with capital projects and programs. A capitalization percentage was used to calculate net expense. Labor and labor-related costs are multiplied by the capitalization percentage to derive capitalized dollars. The capitalized dollars were then deducted from the total cost to derive the O&M labor and related expense which is consistent methodology used in prior proceedings. The capitalization percentage is based on the three (3) year average of dollars charged by position to O&M versus capital. This eliminates from expenses the labor and labor-related costs which are charged to capital projects and programs.

a. Salaries and Wages

Q. Please describe how the various components of the future test year salaries and wages are calculated.

A. Salary and wage expense has four components: (1) base pay; (2) overtime; (3) shift premium and meal compensation pursuant to the terms of applicable CBAs; and (4) annual and long-term performance compensation for eligible employees. Each component is discussed in further detail below. Note, that exempt employees do not receive overtime, shift premiums, or meal compensation.

Base Pay – Base pay was calculated for the future test year by applying a three (3) year average (2021-2023) of the historical percentage increases to the annualized wage rates for non-CBU employees. The wage rate projected to be in effect for each month of the future test year is applied to the working hours for each month. Regular working hours total 2,088 for all full-time hourly employees and 2,080 for all full-time non-hourly employees. Wage rates for CBU employees were based on CBAs for each month of the future test year. If wage rates have not been established by CBAs that will be in effect at the end of the future test year, the wage rates were adjusted using an annual increase percentage equal to the historical three (3) year average (2021-2023) of contracted increases. Non-CBU employees' wage rates were based on the rates that became effective on January 8, 2024. Those rates were adjusted through the future test year based on a three (3) year average (2021-2023) of the historical percentage increases and were annualized as of the end of the future test year.

Overtime – Overtime was calculated by using a three (3) year average of actual overtime hours by position and multiplying those hours by the projected overtime wage rate for each employee position.

Shift Premium – CBU employees' CBAs provide wage premiums for employees working on uncommon shifts or when employees obtain certain licenses or complete certain training. The actual total 2023 amounts of shift premiums, as well as licensing and training premiums were determined on a per-employee basis and included in salary and wage expense for the future test year.

Meal Compensation – CBU employees' CBAs provide compensation for meals during extended shifts and, therefore, meal compensation is included in salaries and wage expense. A historical three (3) year average (2021-2023) of meal compensation was determined on a per-employee basis and included in salary and wage expense for the future test year.

Performance Pay – The last component of labor expense is the annual and long-term performance compensation for eligible employees. Performance pay was calculated on a position-by-position basis for eligible employees based on each position's target percent, or percentage of base salary that is provided if program goals are achieved, under both the Annual Performance Plan ("APP") and Long-Term Performance Plan ("LTPP"). The target percentage was multiplied by each eligible employee's pro forma base salary in the future test year, to determine the cost of compensation under the APP and LTPP. APP and LTPP are discussed more fully by MAWC Witnesses Jody L. Carlson and Robert V. Mustich.

b. Group Insurance

Q. What is group insurance?

A. Group insurance includes a variety of coverages that MAWC provides its employees. Group insurance falls into two (2) primary categories: (1) basic life, short-term disability, long-term disability and accidental death and disability ("AD&D") insurance, and (2) medical, dental, and vision insurance.

Q. How was the future test year level of the group insurance expense calculated?

A. Costs were calculated for the future test year as follows:

Basic life, short- and long-term disability and AD&D. The starting point is the 2024 insurance premium rates for each position under the applicable insurance plans for CBU and non-CBU positions. The 2024 rates were then applied to the future test year salary levels to calculate the future test year level of expense. The plan rates for 2024 were applied to each of the employee positions projected for the future test year.

Medical, dental, and vision insurance. This category of insurance involves a Company cost net of employee contributions. The costs and contributions vary by plan type (e.g. family, employee, or employee plus spouse). Costs and contributions were calculated on a position-by-position basis, which takes into consideration actual employee plan selections. The 2024 plan rates serve as a starting point. Using 2024 plan rates, costs and contributions were calculated on a position-by-position basis, considering actual employee plan selections for existing employees and projecting plan selections for vacancies based on current employee selections.

c. Other Benefits Expense

Q. Please describe the components of other benefits expense and how each was calculated.

A. Other benefits expense includes savings programs such as 401k, defined contribution plan ("DCP"), Retiree Medical, and the Employee Stock Purchase Program ("ESPP"). These costs were calculated on a position-by-position basis. The calculations are described below.

401k - MAWC incurs 401k expense when it matches employee contributions to 401k retirement accounts. The matching amounts are determined by each employee's benefit group or hire date. For CBU employees hired before 2001 and non-CBU employees hired before 2006, the Company matches 50% of the first 5% of the employee's contribution (for a maximum of 2.5%). For the remaining employees, the Company matches 100% of the first 3%, and 50% of the next 2% of the employee's contributions (for a maximum of 4%). Future test year 401k costs were calculated for each position based on future test year wages, current employee contribution levels, and the level of match for each employee.

DCP – DCP is a retirement savings program for employees not eligible for the defined benefit pension program. Under the DCP, MAWC contributes an amount equal to 5.25% of an employee's base pay into a retirement account. The pro forma DCP expense was calculated by multiplying the future test year regular time pay of each eligible position by 5.25%.

Retiree Medical Expense - CBU employees who are not eligible for OPEB are entitled to Company-provided retiree medical benefits. MAWC has set up a trust (referred to as the Voluntary Employee Benefits Association, or VEBA) to fund this benefit in the amount of $600 per eligible employee.

ESPP - ESPP expense relates to the Company funded fifteen percent (15%) discount of American Water stock purchases made through payroll deductions by enrolled employees. The expense was calculated based on the future test year wages for each employee participating in the plan. The employee's future test year wage, times their individual contribution amount, applied to the fifteen percent (15%) Company discount was used to calculate the future test year expense.

Pension – Certain Company employees, upon retirement, are eligible for pension benefits under a defined benefit plan. Generally, non-CBU employees hired before January 1, 2006, and CBU employees hired before January 1, 2001 are eligible for pension benefits. Consistent with MAWC's calculation of pension expense in its last base rate case, the Company calculated its pension expense in this case in accordance with Financial Account Standards Board Accounting Standards Codification Topic 715 or "ASC 715" (formerly Statement of Financial Accounting Standards 87). The Company started with the report furnished by its actuary, Willis Towers Watson ("WTW"), that furnished pension costs for

2024 determined in accordance with ASC 715. From that report, the Company identified $2,220,148 of service costs and $974,684 of non-service costs. The service cost portion was reduced by the capitalization rate of 45.01% described above to determine the portion of total pension costs recorded as an expense. The non-service costs are all expensed. The net Pension expense is $2,195,597.

OPEB – Certain MAWC employees are eligible for OPEBs upon their retirement depending on their employment start date. Generally, this includes non-CBU employees hired before January 1, 2002, and CBU employees hired before January 1, 2006.

OPEB expense is based on the accrual cost recognized under ASC 715, as projected by WTW for 2024. From that schedule, the Company identified $162,884 of service costs and ($3,779,465) of non-service costs. The service cost portion was reduced by the capitalization rate of 50.97% to determine the portion of service costs recorded as an expense. The non-service costs are all expensed. The net OPEB expense is ($3,699,599).

d. Payroll Tax Expense

Q. Please describe the payroll tax expense.

A. Payroll tax expense is directly related to salaries and wages. Two types of taxes are required to be paid in accordance with the Federal Insurance Contributions Act: Old Age Survivors & Disability Insurance ("OASDI," or more commonly "FICA"), and Hospital Insurance (or more commonly "FICA Medicare"). Federal Unemployment Tax ("FUTA") and State Unemployment Tax ("SUTA") must also be paid. Future test year payroll taxes were calculated on a position-by-position basis, using current 2024 tax rates and forecasted wages for the future test year. The tax rates include 6.2% FICA on up to $168,600 of wages in 2024 and $178,246 of wages in 2025, 1.45% FICA Medicare on all wages and an additional 0.9% on wages greater than $200,000, and 0.6% FUTA on the first $7,000 in wages.

VII. PENSION AND OPEB TRACKER

Q. Please explain the purpose of the Pension and OPEB Tracker and the method for calculating it?

A. As part of the Stipulation and Agreement in Case No. WR-2020-0344, the Company agreed to track actual pension and OPEB costs in comparison to the levels included in rates in the same manner as agreed by the parties in Case No WR-2011-0337. The purpose of the tracking mechanisms for pension and OPEB costs is to protect customers and the Company from the wide variations that can exist in expected costs. Pension and OPEB costs are largely dependent upon market conditions, which can, and have, experienced great volatility. Therefore, a base level of pension and OPEB expense has been established in the Company's rate proceeding and actual costs above or below that base level are recorded monthly as deferrals on the Company's books. Both excess recoveries and shortages can and have occurred. At the time of the next rate case, the cumulative excess or shortage is included in rate base and amortized. The current amortization period is five (5) years.

The Pension and OPEB Tracker pro forma included in rate base in this case is based on the projected average 13-month balance ending May 31, 2026. The projected balance includes the amortization of the vintage deferrals totaling $996,270 from January 1, 2023 through May 31, 2023 which was based on balances at December 31, 2022 authorized in rate case WR-2020-0344, balances authorized to be amortized in the Company's last rate case (WR-2022-0303) totaling $6,357,600 projected from June 1, 2023 through May 31, 2025, and 12 months of projected amortization expense totaling $1,698,029 from June 1, 2025 through May 31, 2026, based on the projected deferral balance at May 31, 2025. The pro forma also includes the deferral of actual cost excesses or shortages from January 1, 2023 to May 31, 2024. The projected cost deferrals for June 1, 2024 to May 31, 2026 are based on actuarial studies conducted annually by WTW and reduced by the amounts anticipated to be capitalized.

Missouri-American's pro forma pension expense is the amortization of the pension portion of the Company's Pension and OPEB Tracker (discussed further below). The total forecasted balance of the pension tracker at May 31, 2025 is a credit of $4,883,271. The Company is proposing a five (5) year amortization of the credit balance, which would reduce expense by $976,654 annually. Total pro forma pension expense is the sum of these components. For the forecasted twelve months ended May 31, 2026, the sum is an expense of $1,218,943 [$2,195,597 + ($976,654)]. Please refer to Schedule CAS-13 for a summary of this adjustment.

Missouri-American's pro forma OPEB expense is the amortization of the OPEB portion of the Company's Pension and OPEB Tracker. The total forecasted balance of the OPEB tracker at May 31, 2025 is a credit of $3,606,876. The Company is proposing a five (5) year amortization of the credit balance, which would reduce expense by $721,375 annually. Total pro forma OPEB expense is the sum of these two components, or a negative $4,420,974 [($3,669,599) + ($721,375)] for the twelve months ended May 31, 2026. Please refer to Schedule CAS-13 for a summary of this adjustment.

VIII. SERVICE COMPANY

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

A. The services provided by the Service Company include customer service, water quality testing, environmental compliance, human resources, communications, information technology, finance, accounting, regulatory, legal, engineering, supply chain, risk management, among others. Included as part of the broad range of services summarized above, the Service Company provides a variety of financial and accounting services for Missouri-American that include payroll, human resource data management, utility plant accounting, cash management, general accounting and reporting, accounts payable, and tax accounting. The Service Company operates customer service and field resource coordination centers that handle customer calls, inquiries and correspondence, billing, and collection activities, and dispatching and tracking service orders for MAWC and American Water's other public utility subsidiaries.

The Service Company also operates the Central Laboratory, located in Belleville, Illinois, which employs chemists, laboratory technicians, analysts, and support employees to perform water quality testing and research. The Central Laboratory is certified by the EPA and owns and uses state-of-the-art water testing equipment to test source water and finished water.

Q. How do Missouri-American's customers benefit from the services you described from Service Company?

A. The Service Company provides Missouri-American with access to highly trained professionals who possess expertise in various specialized areas, whose background, experience and training are focused on water utility operations and who work exclusively for American Water's subsidiaries. Furthermore, the size of the Service Company and the scope of its operations have enabled it to assemble a uniquely qualified group of professionals who, through the Service Company, have a platform for sharing their extensive knowledge, expertise, experience and best practices across the American Water system to the benefit of all of American Water's state-regulated utilities and their customers. Missouri-American and by extension its customers benefit from these services and expertise of the Service Company's personnel at cost. MAWC also benefits from the size and breadth of American Water, which affords Missouri-American increased purchasing power that it could not obtain on its own, and provides access to discounts on equipment and supplies needed for utility operations, including, for example, pipe, fittings, and water treatment chemicals. In this way, Missouri-American achieves costs savings that it could not obtain otherwise for the benefits of MAWC's customers.

Q. How are Service Company expenses charged to Missouri-American?

A. The Service Company provides its services to MAWC at cost and issues monthly invoices. Service Company expenses are charged to the Company in two ways: (1) directly to the Company at 100% of the cost; or (2) a percentage allocation based on factors such as a per customer allocation across the American Water regulated subsidiaries. The Direct Testimony of Company Witness Patrick L. Baryenbruch demonstrates the reasonableness of Service Company costs that are charged to the Company. The summary of this adjustment can be found on Schedule CAS-13.

Q. How were the Service Company expenses calculated?

A. The Company's proposed Service Company expense is reflected in CAS-13 which incorporates the annualization of Historical Test Year expenses as well as known and measurable changes through May 31, 2026. Another example includes adjustments to the compensation and related expense portion of the Service Company expense. The Company made an adjustment to annualize the base pay increase effective January 1, 2024 at 3.95%, then the three-year average merit increase (based on 2022, 2023, and 2024) of 3.48% was applied to non-union employees for the adjustment period through May 31, 2026. For union employees, the actual contract rate increases were applied to derive the pro forma compensation and related expense levels. Additionally, adjustments were made to eliminate severance expense, to normalize pension and OPEB costs to reflect the forecast for 2024, and to reflect the movement of employees between MAWC and the Service Company. Additional adjustments were made for depreciation, interest associated with capital leases and travel expense. MAWC removed certain expenses or one-time costs from its requested pro forma expense, including but not limited to charitable contributions, donations, injuries and damages, and penalties. Lastly, an inflation factor of 2.54 % as derived from the U.S. BLS was applied to project the non-labor related costs beginning in 2024 through the future test year ending May 31, 2026.

IX. CONTRACT SERVICES

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

A. The contracted services expense includes a myriad of costs performed by contracted third parties. Examples include, among other things, costs related to accounting fees, audit fees, legal fees, landscaping, excavating, janitorial, and costs associated with Missouri One Call. In order to calculate the appropriate expense level, the Company took the 2023 actual expenses and projected the going level of expense as of 12 months ending December 31, 2023. As future contracts have yet to be negotiated, an inflation factor of 2.54 % as derived from the U.S. BLS was applied to project the costs beginning in 2024 through the future test year ending May 31, 2026. The details of this adjustment can be found in Schedule CAS-13.

X. OTHER OPERATING EXPENSES

Q. Please describe the expenses which are considered other operating expense.

A. The "Other Operating Expense" category includes Miscellaneous Expenses, Transportation Expenses, and Insurance Other Than Group. My testimony will address each category separately, below.

a. Miscellaneous Expenses

Q. Please describe the operating expenses and adjustments related to miscellaneous expense.

A. The operating expense described as miscellaneous expense includes expenses for charitable contributions, penalties and membership dues, lobbying, community relations, as well as other miscellaneous expenses, such as lab supplies, phone, shipping, uniforms and customer education expenses. The miscellaneous expense adjustment removes expenses for non-recoverable items such as charitable contributions, lobbying, penalties, and membership dues

to calculate the activity through the 12 months ended December 31, 2023. An inflation factor of 5.77 % as derived from the U.S. BLS was applied to project the costs beginning in 2024 through the future test year ending May 31, 2026. The details of this adjustment can be found at Schedule CAS-13.

b. Transportation Expenses

Q. Please describe the operating expenses and adjustments related to transportation expense.

A. Transportation expense is driven by costs associated with operating the Company's motor vehicle fleet in addition to general miscellaneous transportation costs incurred by the

Company. These costs include accident management, titling, registration, fleet administration service fees, operating, vehicle and other rental, repairs and maintenance, and fuel costs. Miscellaneous transportation costs include towing, delivery, washing vehicles, and employee reimbursement for personal car use.

Q. Please explain how the pro forma expense for transportation was developed.

A. To determine post-test year expense for fleet management costs, the Company used actual expenses incurred during the base year and adjusted for employee reimbursement for use of personal vehicles for Company business. To determine future-test year expense for maintenance and repairs, the Company used a three (3) year historical average of actual expenses and adjusted the expenses for the twelve months ended December 31, 2021, December 31, 2022, and December 31, 2023. To determine post-test year fuel expense, the Company used actual expenses incurred during the base year and made no adjustments as the Mid-West region fuel prices are anticipated to remain at base year levels. To determine future test year operation and miscellaneous expenses the Company used actual expenses incurred during the base year and made no adjustments. A capitalization rate of 46.01% was applied to each category of transportation costs to determine the portion that is recorded as future test year expense. An inflation factor of 9.41 % as derived from the U.S. BLS was applied to project the costs beginning in 2024 through the future test year ending May 31, 2026.

c. Insurance Other Than Group (IOTG)

Q. Please explain the components of the Company's "insurance other than group" expense.

A. MAWC incurs costs related to several types of insurance including Auto Liability, General

Liability, Excess Liability, Workers' Compensation, and Property. The Company also has other policy coverages such as Directors and Officers Liability, Employment Practices and Cyber Crime policies. These insurance costs are commonly referred to as "IOTG". The Company's General Liability, Auto Liability and Workers' Compensation premiums are based upon a combination of loss experience (50%) and exposure (50%), a combination of estimated annual revenue and payroll. Exposure for Auto Liability uses the number of vehicles as the base. The loss experience is based upon a five (5) year historical average. The five (5) year average is used to normalize losses in any particular year. This is consistent with the commercial insurance market underwriting practice.

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

A. The majority of the Company's IOTG premiums are renewed on January 1 of each year (Directors & Officers Liability, Crime, Employment Practices, Fiduciary, Lawyers and Travel insurances renew in April of each year). Development of the pro forma expense begins with adjustments to the 2023 base year, which removed capitalized credits for certain insurance premiums not capitalized by other Company affiliates. The Company then leverages the annual premiums owed as of early 2024. The 2025 level of IOTG expense is adjusted to arrive at the annualized expense level for 2026. The 2026 expense is then adjusted to arrive at a forecast expense for the twelve months ending May 31, 2026. The pro forma capitalized labor percentage rate was multiplied by the new Worker's Compensation premium to eliminate the portion of that cost that would be capitalized. Please also see Schedule CAS-13 for the detailed calculation.

XI. CONCLUSION

Q. Does this conclude your Direct Testimony?

A. Yes.