

Exhibit No.:  
Issues: Support Services  
Witness: Patrick L. Baryenbruch  
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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**

**PATRICK L. BARYENBRUCH**

**ON BEHALF OF**

**MISSOURI-AMERICAN WATER COMPANY**

## AFFIDAVIT

I, Patrick Baryenbruch, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am President for Baryenbruch & Company, LLC, 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.



Patrick Baryenbruch

July 1, 2024

Dated

**DIRECT TESTIMONY  
PATRICK L. BARYENBRUCH  
MISSOURI AMERICAN WATER COMPANY  
CASE NO. WR-2024-0320  
CASE NO. SR-2024-0321**

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1 **I – INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

3 A. My name is Patrick L. Baryenbruch. My business address is 2832 Claremont  
4 Road, Raleigh, North Carolina 27608.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am the President of my own consulting practice, Baryenbruch & Company, LLC,  
7 which was established in 1985. In that capacity, I provide consulting services to  
8 utilities and their regulators.

9 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
10 **PROFESSIONAL EXPERIENCE.**

11 A. I received a Bachelor's degree in Accounting from the University of Wisconsin-  
12 Oshkosh and a Master's in Business Administration degree from the University  
13 of Michigan. I am a member of the American Institute of Certified Public  
14 Accountants and the North Carolina Association of Certified Public Accountants.

15 I began my career with Arthur Andersen & Company, where I performed  
16 financial audits. I left to pursue an M.B.A. degree, and upon graduation from  
17 business school, I worked with the management consulting firms of Theodore  
18 Barry & Associates and Scott Consulting Group (now ScottMadden) before  
19 establishing my own firm.

1 **Q. DO YOU HOLD ANY PROFESSIONAL CERTIFICATIONS?**

2 A. Yes. I am a Certified Public Accountant (CPA) with an active license from the  
3 states of Wisconsin and North Carolina. I am a Certified Information Technology  
4 Professional (CITP), an accreditation awarded by the American Institute of  
5 Certified Public Accountants to CPA professionals who can demonstrate  
6 expertise in cybersecurity and information technology management.

7 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY BEFORE THE**  
8 **MISSOURI PUBLIC SERVICE COMMISSION (MPSC) OR ANY OTHER**  
9 **REGULATORY AGENCY?**

10 A. Yes. I provided testimony before the MPSC in several rate cases for Missouri-  
11 American Water Company (MAWC). In addition, I have also provided testimony  
12 before 20 other state regulators.

13 During my career, I have performed more than 150 evaluations of affiliate  
14 charges to 46 utility companies. I have acted as an expert witness on  
15 utility/affiliate charges in over 100 rate case proceedings. SCHEDULE PLB-1  
16 presents my previous affiliate transaction-related assignments.

17 **Q. WHAT OTHER WORK EXPERIENCE DO YOU HAVE WITHIN THE UTILITY**  
18 **INDUSTRY?**

19 A. In addition to my work supporting rate cases, much of my career has been spent  
20 as a management consultant for projects related to the utility industry. I have  
21 performed consulting assignments for more than 70 utilities and 10 public service  
22 commissions. I have participated as project manager, lead consultant or staff  
23 consultant for 24 commission-ordered management and prudence audits of

1 public utilities. Of these, I was responsible for evaluating the area of affiliate  
2 charges and allocation of corporate expenses in the commission-ordered audits  
3 of Connecticut Light and Power (now Eversource), Connecticut Natural Gas,  
4 General Water Corporation (now Veolia), Philadelphia Suburban Water  
5 Company (now Essential Utilities), and Pacific Gas & Electric Company.

6 My firm performed the commission-ordered audit of Southern California  
7 Edison's 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate  
8 companies.

9 For 20 years, I was heavily involved in providing consulting services  
10 related to information technology ("IT") infrastructure within the utility industry.  
11 These projects involved improvements in business management practices of  
12 utility IT organizations, covering processes such as business planning, risk  
13 management, performance measurement and reporting, cost recovery,  
14 budgeting, cost management and personnel development.

15 I acted as the project manager and a member of the project management  
16 team for twenty large-scale IT implementation projects for a large electric utility.

## 17 **II – OVERVIEW**

18 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?**

19 A. I am presenting the results of my study that evaluated the necessity of services  
20 provided by American Water Works Service Company, Inc. ("Service Company")  
21 to MAWC and the reasonableness of the associated charges during 2023. The  
22 Service Company is a subsidiary of American Water Works Company, Inc.  
23 ("American Water") that provides shared services to American Water's water and  
24 wastewater utility subsidiaries, including MAWC.

1 **Q. ARE YOU SPONSORING ANY SCHEDULES IN YOUR TESTIMONY?**

2 A. Yes. I am sponsoring SCHEDULE PLB-1, which presents my previous affiliate  
3 transaction-related assignments, and SCHEDULE PLB-2, which is the Market-  
4 to-Cost-Comparison of Service Company Charges to MAWC during 2023. This  
5 study was undertaken in conjunction with MAWC's rate case and the results are  
6 true to the best of my knowledge and belief.

7 **Q. HOW MUCH DID THE SERVICE COMPANY CHARGE MAWC DURING**  
8 **2023?**

9 A. The Service Company charged MAWC approximately \$57.5 million during 2023.  
10 The table below shows how the total breaks down between O&M and capital:

Table 1

	2023
Support Services - O&M	\$ 40,261,906
Support Services - Capital	\$ 17,237,892
Total Service Company Charges	\$ 57,499,798

11 Source: Company information

12 **Q. HOW MUCH HAVE SERVICE COMPANY CHARGES INCREASED SINCE**  
13 **MAWC'S LAST RATE CASE?**

14 A. Between the last MAWC rate case in 2021 and 2023, Service Company O&M-  
15 related charges to MAWC increased by 4%. That is far less than the inflation  
16 rate of 10%, as measured by the Consumer Price Index. The table below  
17 presents the calculation in these growth rates.

Change in MAWC's Service Company O&M Charges Versus Inflation

Service Company O&M-Related Charges to MAWC			Change 2021 to 2023	
2021	2022	2023	Amount	Percent
\$ 38,834,279	\$ 38,961,283	\$ 40,261,906	\$ 1,427,627	4%

Consumer Price Index (December)			Change 2021 to 2023	
2021	2022	2023	Amount	Percent
278.802	296.797	306.746	27.944	10%

Source: Company Information; BLS - CPI for All Urban Consumers (CPI-U) 1982-84=100 (Unadjusted) - CUUR0000SA0

1

2 **Q. WHAT WERE THE OBJECTIVES OF YOUR STUDY?**

3 A. My study was undertaken to answer six questions concerning the services  
4 provided by the Service Company to MAWC, each of which bears on the  
5 reasonableness of those charges as incurred during 2023:

- 6 1) Are the services provided by the Service Company similar to those provided  
7 by other utility service companies?
- 8 2) Are the Service Company's customer service and administrative and  
9 general ("CS/A&G")-related charges to MAWC during 2023 in line with  
10 charges by other service companies to their regulated affiliate operating  
11 companies?
- 12 3) Was MAWC charged the lower of cost or market for managerial and  
13 professional services provided by the Service Company during 2023?
- 14 4) Are MAWC's 2023 costs of Service Company's customer accounts services  
15 comparable to those of other utilities?
- 16 5) Are the services MAWC receives from the Service Company necessary?
- 17 6) Are the governance practices applied to total Service Company expenses  
18 and charges to MAWC appropriate?



1           **QUESTION 1, ARE THE SERVICES PROVIDED BY THE SERVICE**  
2           **COMPANY SIMILAR TO THOSE PROVIDED BY OTHER UTILITY SERVICE**  
3           **COMPANIES?**

4   **Q.    DID YOU DETERMINE IF THE SERVICE COMPANY’S SERVICES ARE**  
5           **SIMILAR TO THOSE PROVIDED BY UTILITY SERVICE COMPANIES?**

6    A.    Yes, the services provided to MAWC by the Service Company are similar to  
7           those provided by other utility service companies to their affiliate operating  
8           utilities. I determined this by analyzing information in the Form 60 – Annual  
9           Report of Service Companies, which each service company filed with the  
10          Federal Energy Regulatory Commission (FERC). Every centralized service  
11          company in a holding company system that is subject to regulation by FERC and  
12          must file a Form 60 in accordance with Section 1270 of the Public Utility Holding  
13          Company Act of 2005, Section 390 of the Federal Power Act, and Section 18  
14          Code of Federal Regulations paragraph 366.23. Among other things, the Form  
15          60 contains information on the types of services offered by the filing utility service  
16          companies.

17                 The schedule below compares service categories for the Service  
18                 Company and the service companies of other utility holding companies.

Table 3

A&G Service Categories	AWWSC	AEP	AES	Algonquin	Alliant	Ameren	Avangrid	Black Hills	Dominion	Duke	Energy	Eversource	Exelon	FirstEnergy	National Grid	NIsource	PPL	Southern Co	Unitil	WEC	Xcel	
Executive/Management	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Corporate Planning and Budgeting	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X				X
Legal	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			X	X
Corporate/External Affairs	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Human Resources	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Financial Services																						
Finance	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Accounting	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Taxes	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Investor Relations	X	X	X	X	X	X	X	X	X	X	X	X	X	X			X	X			X	X
Corporate Risk Management	X	X	X	X	X	X	X	X	X	X		X		X	X	X	X		X			X
Audit Services	X	X	X	X	X	X	X	X	X	X		X		X	X	X	X				X	X
Rates and Regulatory Affairs	X	X	X		X		X	X	X	X			X	X	X	X	X	X	X	X	X	X
Customer Service	X	X	X		X			X	X	X	X	X	X	X	X	X	X			X	X	X
Information Technology	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Environment and Safety	X	X	X	X	X	X	X	X	X	X	X			X	X	X	X	X			X	X
Supply Chain	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X				X
Other (A)	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X			X	X	X
<b>Total Services</b>	<b>17</b>	<b>17</b>	<b>16</b>	<b>15</b>	<b>17</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>17</b>	<b>15</b>	<b>16</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>13</b>	<b>11</b>	<b>15</b>	<b>17</b>	

Note A: includes services such as transportation/fleet, aviation, real estate, facilities and rights of way.

Source: FERC Form 60 (2022); company information; Baryenbruch & Company, LLC, analysis

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**QUESTION 2, ARE THE SERVICE COMPANY’S CUSTOMER SERVICE AND ADMINISTRATIVE AND GENERAL (“CS/A&G”)-RELATED CHARGES TO MAWC DURING 2023 IN LINE WITH CHARGES BY OTHER SERVICE COMPANIES TO THEIR REGULATED AFFILIATE OPERATING COMPANIES?**

7

**Q. WERE YOU ABLE TO DETERMINE IF THE SERVICE COMPANY’S 2023 CHARGES TO MAWC WERE REASONABLE?**

8

9

**A.** Yes. I was able to determine that the Service Company’s 2023 cost per MAWC customer is reasonable because it is in line with, albeit lower than, the average cost per customer for the proxy service companies. During 2023, MAWC was charged \$72 per customer for CS/A&G services. This compares to the 2022 average of \$129 for the service company comparison group. As shown below,

10

11

12

13

1 twenty of the twenty-two comparison group service companies had a higher cost  
2 than MAWC.

Table 4

Service Company  
CS/A&G Charges per Customer

Unitil	\$289
Algonquin	\$235
Nat Grid	\$219
Entergy	\$197
Exelon	\$196
Eversource	\$180
Duke	\$164
Black Hills	\$154
Alliant	\$146
PNM	\$145
Group Average	\$129
PPL	\$121
AEP	\$113
Xcel	\$111
NiSource	\$105
Southern Co	\$102
AES	\$99
Avangrid	\$79
CenterPoint	\$78
Dominion	\$73
Ameren	\$72
MAWC	\$72
WEC	\$70
FirstEnergy	\$66

Source: FERC Form 60; company  
information; Baryenbruch &  
Company, LLC, analysis

3

4 **Q. HOW DID YOU MAKE THIS DETERMINATION?**

5 A. I used financial information from the Form 60 to identify and isolate the same  
6 type of charges for the service company comparison group that the Service  
7 Company charged to MAWC during 2023. The table below shows which  
8 CS/A&G FERC accounts are included in the cost comparison.

Table 5

FERC Account	Included In Cost Calculation
901 - Supervision	X
902 - Meter reading expenses	
903 - Customer records and collection expenses	X
904 - Uncollectible accounts	
905 - Miscellaneous customer accounts expenses	X
907 - Supervision	
908 - Customer assistance expenses	
909 - Informational & Instructional Advertising Expenses	
910 - Misc. Customer Service & Info Expenses	X
911 - Supervision	
912 - Demonstrating and Selling Expenses	
913 - Advertising Expenses	
916 - Miscellaneous Sales Expenses	
920 - Administrative and General Salaries	X
921 - Office Supplies and Expenses	X
923 - Outside Services Employed	X
924 - Property Insurance	X
925 - Injuries and Damages	
926 - Employee Pensions and Benefits	X
928 - Regulatory Commission Expenses	
930.1 - General Advertising Expenses	
930.2 - Miscellaneous General Expenses	X
931 - Rents	X
935 - Maintenance of Structures and Equipment	X

1

2 **Q. IS IT APPROPRIATE TO COMPARE THE SERVICE COMPANY EXPENSES**  
 3 **TO THOSE OF ELECTRIC UTILITIES?**

4 A. Yes. It is true that the utility infrastructure for an electric utility is completely  
 5 different from that of a water utility. Thus, it is impossible to make a relevant  
 6 comparison of the system O&M expenses for the two types of utilities. However,  
 7 I compare CS/A&G expenses, not utility O&M expenses. All utility service  
 8 companies provide CS/A&G services, and the cost of those services generally  
 9 makes up a large majority of total charges to the utility affiliates. This is the case  
 10 because considerable economies of scale derive from centralizing the  
 11 management of corporate CS/A&G services.

12 I do not benchmark against service companies that provide services to  
 13 water utility affiliates because there are no publicly available sources of  
 14 information. Water companies with a centralized service company arrangement

1 are not overseen by a single regulatory authority that requires standard  
2 informational filings as does the FERC for the electric utility industry. The annual  
3 reports that water utilities file with state regulators generally do not require  
4 disclosure of charges from affiliates. If a source of cost data similar to the Form  
5 60 existed for water service companies, I would include them in the CS/A&G  
6 cost-per-customer comparison.

7 **Q. PLEASE DESCRIBE THE EXPERIENCE YOU HAVE TO MAKE THE**  
8 **DETERMINATION THAT CS/A&G SERVICES ARE SIMILAR ACROSS**  
9 **UTILITY TYPES.**

10 A. For over 45 years, I have provided services to more than 70 investor-owned and  
11 publicly owned utilities. The following are examples of the work that provides me  
12 with a deep understanding of utility A&G functions:

- 13 • Financial Audits – My career began in public accounting, performing financial  
14 audits of gas and electric utilities and banks.
- 15 • Commission-Ordered Management Audits – I have been a project manager  
16 or team member for 22 commission-ordered management and prudence  
17 audits of electric, gas and water utilities. In these audits, I was the lead  
18 consultant in evaluating A&G-related functions, including finance,  
19 accounting, financial planning and analysis, internal audit, taxes and human  
20 resources.
- 21 • IT Project Management – For one of the largest US electric utilities, I was the  
22 project manager or a member of the project management team for twenty  
23 large IT projects involving over 800,000 hours of work performed by hundreds  
24 of client employees, contractors and consultants. This work required a deep

1 understanding of the CS/A&G business processes impacted by new or  
2 upgraded business applications.

- 3 • Operational and Business Management Improvements – I have undertaken  
4 many projects that involved evaluating the effectiveness of CS/A&G functions  
5 and designing and implementing performance improvement solutions for  
6 utilities. For instance, for one utility’s IT organization, I designed and  
7 implemented improvements in its budgeting and cost-management process.  
8 I identified and implemented improvements in another utility’s corporate-wide  
9 capital budgeting program. I implemented an improved methodology for  
10 evaluating the performance and qualifications of staff members for IT staff  
11 members. For a large public power company, I evaluated the configuration  
12 of its warehouses and identified improvements. For another large utility, I  
13 evaluated and implemented improvements to the budgeting process for its  
14 nuclear operations group. On a two-year assignment for a utility’s nuclear  
15 construction project, I managed a team of cost engineers preparing  
16 information that was used in my client’s rate case once the plant went into  
17 service.
- 18 • Implementation of Sarbanes-Oxley 404 – I was on the project management  
19 team that implemented SOX 404 for a large electric utility. This project, which  
20 involved hundreds of client employees and outside consultants, evaluated  
21 management controls and designed and implemented improvements, where  
22 necessary.
- 23 • Rate Cases – I have acted as expert witness on the topic of affiliate  
24 transactions in over 100 rate cases in 21 states for 46 water, gas and electric

1 utility clients. Most of these involved service company services/charges. In  
2 these cases, I developed an understanding of the nature of services they  
3 provide to regulated affiliates. Recent water company rate-case clients  
4 include regulated operating companies of American Water, Liberty Utilities  
5 and Corix Infrastructure. Recent electric and gas company rate-case clients  
6 include American Electric Power, NiSource, Dominion Energy and PPL  
7 Energy.

8 Through this direct, hands-on experience, I have gained a thorough  
9 understanding of the structure, organization, operations and business processes  
10 for all types of utilities and their CS/A&G functions.

11 **Q. PLEASE PROVIDE EXAMPLES OF CS/A&G-RELATED SERVICES THAT**  
12 **ARE SIMILAR ACROSS UTILITY TYPES.**

13 A. Take, for instance, accounting services. Regardless of utility type, the work of  
14 accountants revolves around their assigned set of general ledger accounts; they  
15 ensure transactions have been processed and properly posted to their accounts,  
16 reconcile accounts to subsidiary ledgers, prepare journal entries, compile budget  
17 versus actual data, research variances and prepare cost performance reports for  
18 operating managers. These activities take place in water utilities in the same  
19 way as in electric utilities.

20 Investor-owned utilities of any type have similar processes for tax  
21 accounting and compliance. They all must deal with federal and state income,  
22 property, sales and use taxes. In general, tax personnel are responsible for  
23 determining tax provisions and preparing and filing various tax returns.

1 Information technology services cover a broad range of activities that are  
2 also generally quite similar among utilities. Employees are provided with  
3 workstations, email, Microsoft Office, phone service, internet connections and  
4 access to financial, human resources and various other corporate applications.  
5 Many of the same applications are used by different utilities. For example,  
6 American Water's enterprise resource planning system ("ERP") is SAP, which is  
7 also used by my electric clients Dominion Energy and Southern California  
8 Edison. American Water also uses an application called PowerPlant for project  
9 and fixed asset accounting. My past client Duke Energy uses the same  
10 application.

11 Corporate IT hardware and software is operated and supported in the  
12 same way regardless of utility type. Any type of utility company's computing  
13 infrastructure consists of a corporate data center or a cloud-based computing  
14 service. The computing infrastructure is operated and supported by the central  
15 IT organization. Telecom and network services are handled in the same  
16 centralized way. Corporate applications and the cyber security programs to  
17 protect Company and customer data are supported by technical personnel in the  
18 central IT organizations of any type of utility.

19 The processes and activities associated with delivering other CS/A&G  
20 services, such as legal, procurement, human resources, customer services and  
21 executive management are likewise similar among different types of utilities.

22 For all these reasons, my comparison provides a valid and useful way to  
23 put into perspective the CS/A&G-related charges from American Water's service  
24 company compared to the cost of other utility service companies.



1 **Q. HAS YOUR CS/A&G COST COMPARISON METHODOLOGY BEEN**  
2 **ACCEPTED IN RATE CASES IN OTHER STATES?**

3 A. Yes, I have successfully employed this CS/A&G cost comparison in over 100  
4 rate cases in 20 other states. Many of these cases involved water utility clients.  
5 A number of my cases have been before the Virginia State Corporation  
6 Commission (“VSCC”), which is very particular about affiliate transactions. The  
7 VSCC has specifically accepted my methodology in a rate case order<sup>1</sup>. For  
8 one of my Virginia utility clients, for 20 straight years I have performed a market-  
9 cost comparison; this client files my report along with its annual report of affiliate  
10 transactions to the VSCC as evidence of compliance with affiliate transactions  
11 rules. VSCC would not continue to accept my work if the Commission had any  
12 doubt of its validity. This is just one example of the regulatory acceptance of  
13 my work.

14 **QUESTION 3, WAS MAWC CHARGED THE LOWER OF COST OR MARKET**  
15 **FOR MANAGERIAL AND PROFESSIONAL SERVICES PROVIDED BY THE**  
16 **SERVICE COMPANY DURING 2023?**

17 **Q. WHAT CONCLUSIONS WERE YOU ABLE TO DRAW CONCERNING THE**  
18 **PRICING OF THE SERVICE COMPANY’S SERVICES?**

19 A. I was able to draw the following conclusions:  
20 (1) MAWC was charged the lower of cost or market for managerial and  
21 professional services during 2023.

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<sup>1</sup> Case No. PUE-2002-00375, page 12-13.

1 (2) On average, the hourly rates for outside service providers are 59% higher  
 2 than the Service Company's hourly rates. The tables below show the  
 3 calculation of the dollar difference between the Service Company and  
 4 outside service providers. That difference of \$15,861,858, divided by  
 5 Service Company management and professional services-related  
 6 charges of \$26,961,851, results in the 59% differential.

Table 6

Service Provider	2023		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 242	\$ 265	\$ (23)
Management Consultant	\$ 215	\$ 355	\$ (140)
Certified Public Accountant	\$ 116	\$ 192	\$ (76)
IT Professional	\$ 127	\$ 224	\$ (97)
Professional Engineer	\$ 131	\$ 159	\$ (28)

Service Provider	2023		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (23)	11,196	\$ (258,338)
Management Consultant	\$ (140)	38,822	\$ (5,416,968)
Certified Public Accountant	\$ (76)	66,548	\$ (5,088,574)
IT Professional	\$ (97)	48,361	\$ (4,674,514)
Professional Engineer	\$ (28)	15,334	\$ (423,465)
Service Company Less Than Outside Providers			\$ (15,861,858)

7  
 8 (3) The managerial and professional services provided by the Service  
 9 Company are vital and could not be procured externally by MAWC without  
 10 careful supervision on the part of MAWC. If these services were  
 11 contracted entirely to outside providers, MAWC would have to add at least  
 12 two positions to manage activities of outside firms. These positions would  
 13 be required to ensure the quality and timeliness of services provided.

14 (4) If all the managerial and professional services now provided by the  
 15 Service Company had been outsourced during 2023, MAWC would have  
 16 incurred approximately \$16.6 million in additional expenses. This amount

1 includes the higher cost of outside providers and the cost of four new  
2 MAWC positions needed to direct the outsourced work.

3 (5) This Study's hourly rate comparison understates the cost advantages that  
4 accrue to MAWC from its use of the Service Company. Outside service  
5 providers generally bill for every hour worked. Service Company exempt  
6 personnel, on the other hand, charge a maximum of eight hours per day  
7 even when they work more hours. If all overtime hours of Service  
8 Company personnel were factored into the hourly rate calculation, the  
9 Service Company would have had an even greater annual dollar  
10 advantage than the \$16.6 million cited above.

11 (6) It would be difficult for MAWC to find local service providers with the same  
12 specialized water and wastewater industry expertise as that possessed  
13 by the Service Company staff. Service Company personnel spend  
14 substantially all their time serving operating water and wastewater  
15 companies. This specialization brings with it a unique knowledge of water  
16 and wastewater utility operations and regulation that may not be available  
17 from local service providers and provides efficiencies over third-party  
18 providers.

19 (7) Unlike service providers in the general business community, Service  
20 Company fees do not include any profit markup. Only its actual cost of  
21 service is being recovered from MAWC ratepayers.

22 **Q. WHY DO YOU PERFORM A LOWER-OF-COST-OR-MARKET ANALYSIS?**

23 A. There are several ways by which to evaluate the pricing of affiliate transactions  
24 involving services provided by a nonregulated affiliate to a regulated utility. I

1 utilize the method recommended by National Association of Regulatory Utility  
2 Commissions (NARUC), which recommends pricing at the lower of cost or  
3 market, as described below:

4 *Generally, the price for services, products and the use of*  
5 *assets provided by a non-regulated affiliate to a regulated*  
6 *affiliate should be at the lower of fully allocated cost or prevailing*  
7 *market prices. Under appropriate circumstances, prices could be*  
8 *based on incremental cost, or other pricing mechanisms as*  
9 *determined by the regulator.*

10 "Guidelines for Cost Allocations," National Association of  
11 Regulatory Utility Commissioners.

12 **QUESTION 4, ARE MAWC'S 2023 COSTS OF SERVICE COMPANY'S**  
13 **CUSTOMER ACCOUNTS SERVICES COMPARABLE TO THOSE OF OTHER**  
14 **UTILITIES?**

15 **Q. IS THE COST OF THE SERVICE COMPANY'S CUSTOMER ACCOUNT**  
16 **SERVICES REASONABLE?**

17 A. Yes. Based on a comparison of the Service Company's customer account  
18 services expenses per customer to those of neighboring utilities, I determined  
19 that MAWC's expenses are reasonable.

20 **Q. PLEASE DESCRIBE YOUR METHODOLOGY.**

21 A. Customer account services involve the processes that occur from the time  
22 meter-read data is recorded in the customer information system through the  
23 printing and mailing of bills, concluding with the collection and processing of  
24 customer payments. Customer account services are accomplished by the  
25 following utility functions:

- 1 • Customer Service Operations – customer calls/contact, credit, order
- 2 taking/disposition, bill collection efforts and outage calls
- 3 • Customer Call IT – support of phone banks, voice recognition units, call
- 4 handling software applications and telecommunications
- 5 • Customer billing – bill printing, stuffing and mailing
- 6 • Remittance processing – processing customer payments received in the
- 7 mail
- 8 • Bill payment centers – processing customer payments at locations where
- 9 customers can pay their bills in person

10 I then compared those costs to those of neighboring utilities. Neighboring  
11 electric utility cost information comes from the FERC Form 1 that each utility  
12 subject to FERC regulation must file. FERC's chart of accounts is defined in  
13 Chapter 18, Part 101, of the Code of Federal Regulations. FERC accounts that  
14 contain expenses related to customer account services are Account 903  
15 Customer Accounts Expense – Records and Collection Expense and Account  
16 905 Customer Accounts Expense – Miscellaneous Customer Accounts  
17 Expense.

18 **Q. WHICH COMPANIES DID YOU USE FOR A COMPARISON GROUP?**

19 A. I examined the customer accounts costs of the following neighboring electric  
20 utilities.

Table 7

Utility	State	Utility	State
Ameren Missouri	Missouri	Evergy Kansas Central, Inc.	Kansas
Empire District Electric	Missouri, Kansas	Evergy Kansas South, Inc.	Kansas
Evergy Metro, Inc.	Missouri	Duke Energy Kentucky	Kentucky
Evergy Missouri West, Inc.	Missouri	Kentucky Power	Kentucky
Ameren Illinois	Illinois	Kentucky Utilities	Kentucky
Commonwealth Edison	Illinois	Louisville Gas & Electric	Kentucky
MidAmerica Energy	Illinois, Iowa	Entergy Arkansas	Arkansas
Black Hills Power	Iowa, Arkansas	Oklahoma Gas & Electric	Oklahoma, Arkansas
Interstate Power & Light	Iowa	Public Service of Oklahoma	Oklahoma
		Kingsport Power	Tennessee

1

2 **Q. WHAT DID YOUR ANALYSIS REVEAL?**

3 A. Here, too, my study reveals that the customer costs charged to MAWC by the  
 4 Service Company are quite reasonable. During 2023, the cost of customer  
 5 account services for MAWC customers was \$19.03 compared to the 2022  
 6 average of \$31.94 for neighboring utilities<sup>2</sup>. As shown in the graph below,  
 7 thirteen of the eighteen comparison group utilities have a higher cost than  
 8 MAWC.

---

<sup>2</sup> 2022 data costs are used for the comparison group because that was the latest data available at the time this testimony was being developed. The filing deadline for the FERC Form 1 is April 16 for the previous year's information.

Table 8

Customer Account Services  
Cost per Customer

Utility	Cost/Cust
Evergy Missouri West	\$64
Otter Tail Power	\$57
Madison Gas and Electric	\$51
Commonwealth Edison	\$47
Empire District Electric	\$46
Evergy Metro	\$45
ALLETE	\$33
<b>Group Average</b>	<b>\$32</b>
Superior Water Light & Power	\$29
Ameren Missouri	\$29
MidAmerican Energy	\$26
Black Hills Power	\$23
Ameren Illinois	\$23
Northern States Power (WI)	\$21
<b>MAWC</b>	<b>\$19</b>
Northern States Power (MN)	\$17
Wisconsin Electric Power	\$17
Wisconsin Public Service	\$16
Interstate Power and Light	\$16
Wisconsin Power and Light	\$11

Source: Company information; FERC Form 1;  
Baryenbruch & Company, LLC, analysis

1

2

**QUESTION 5, ARE THE SERVICES MAWC RECEIVES FROM THE SERVICE  
COMPANY NECESSARY?**

3

4

**Q. WHAT CONCLUSIONS DID YOU DRAW REGARDING WHETHER THE  
SERVICES MAWC RECEIVES FROM THE SERVICE COMPANY ARE  
NECESSARY?**

6

7

**A.** I was able to draw the following conclusions:

8

(1) The services that the Service Company provides are necessary and are required for a water and wastewater utility. These services are customarily provided by other service companies to their affiliate utility companies.

9

10

11

12

(2) There is no redundancy or overlap in the services provided by the Service Company to MAWC. A detailed analysis of all the functional work

13

1 activities required to deliver service to customers showed just one of the  
2 entities—Service Company or MAWC—with primary responsibility.

3 **QUESTION 6, ARE THE GOVERNANCE PRACTICES APPLIED TO TOTAL**  
4 **SERVICE COMPANY EXPENSES AND CHARGES TO MAWC**  
5 **APPROPRIATE?**

6 **Q. WHAT ARE GOVERNANCE PRACTICES?**

7 A. Governance practices are internal controls designed to provide assurance that  
8 objectives are being achieved relating to operations, reporting and compliance.  
9 Among other things, this is achieved through control activities, which are  
10 defined as follows:

11 *Control activities are the actions established through policies*  
12 *and procedures that help ensure that management's*  
13 *directives to mitigate risks to the achievement of objectives*  
14 *are carried out. Control activities are performed at all levels*  
15 *of the entity, at various stages within business processes, and*  
16 *over the technology environment.*

17 Source: "Internal Control – Integrated Framework, Executive  
18 Summary," Committee of Sponsoring Organizations of the  
19 Treadway Commission.

20 Control activities include authorizations, approvals,  
21 verifications and business performance reviews.

22 **Q. WHAT GOVERNANCE PRACTICES ARE APPLIED TO SERVICE**  
23 **COMPANY SERVICES AND CHARGES?**



1 A. Control activities that are applied to Service Company charges to MAWC  
2 include the following:

- 3 • Chief Operating Officer Oversight
- 4 • Operating Company Board Oversight
- 5 • MAWC President's Oversight
- 6 • CFO Operations and Supporting Staff
- 7 • Service Company Budget Review/Approval
- 8 • Major Project Review and Approval
- 9 • Capital Program Management (CPM)
- 10 • Accounting and Financial Reporting Processes
- 11 • Operating Company Budget Variance Analysis
- 12 • Service Company Budget Variance Analysis (PLB-2, pgs. 40-42)

13 These are the type of control activities that I expected to be in place when I  
14 helped manage the implementation of Sarbanes-Oxley 404 for Duke Energy. In  
15 my opinion, they are effective practices that help ensure that Service Company  
16 charges to MAWC are necessary and reasonable.

17 **Q. WHAT IS YOUR OVERALL CONCLUSION REGARDING THE SERVICES**  
18 **PROVIDED BY SERVICE COMPANY TO MAWC AND THE COST OF**  
19 **THOSE SERVICES?**

20 A. The Service Company's services are essential to MAWC's ability to deliver water  
21 service to its customers. These services are customarily provided by other utility  
22 service companies to their operating utility affiliates. For each cost comparison  
23 I performed, the Service Company's 2023 charges were shown to be  
24 reasonable.

1 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

2 A. Yes.

# Patrick Baryenbruch's Previous Affiliate Transactions and Rate Case Engagements

Client	State	Year	Purpose	Rate Case Witness?	Client	State	Year	Purpose	Rate Case Witness?
1 Connecticut American Water	Connecticut	1999	Rate Case	Yes	23 Columbia Gas of Virginia	Virginia	2003	Compliance	No
2 Illinois American Water	Illinois	2007	Rate Case	Yes		Virginia	2004	Compliance	No
	Illinois	2021	Rate Case	Yes		Virginia	2005	Rate Case	Yes
3 Indiana American Water	Indiana	2017	Rate Case	Yes		Virginia	2006	Compliance	No
	Indiana	2022	Rate Case	Yes		Virginia	2007	Compliance	No
4 Iowa American Water	Iowa	2020	Rate Case	Yes		Virginia	2008	Compliance	No
5 Kentucky American Water	Kentucky	2003	Rate Case	Yes		Virginia	2009	Rate Case	Yes
	Kentucky	2006	Rate Case	Yes		Virginia	2010	Compliance	No
	Kentucky	2008	Rate Case	Yes		Virginia	2011	Compliance	No
	Kentucky	2009	Rate Case	Yes		Virginia	2012	Compliance	No
	Kentucky	2018	Rate Case	Yes		Virginia	2013	Rate Case	Yes
	Kentucky	2022	Rate Case	Yes		Virginia	2014	Compliance	No
6 Massachusetts American Water	Massachusetts	2000	Rate Case	Yes		Virginia	2015	Rate Case	Yes
7 Missouri American Water	Missouri	2002	Rate Case	Yes		Virginia	2016	Compliance	No
	Missouri	2008	Rate Case	Yes		Virginia	2017	Rate Case	Yes
	Missouri	2014	Rate Case	Yes		Virginia	2018	Compliance	No
	Missouri	2016	Rate Case	Yes		Virginia	2019	Compliance	No
	Missouri	2019	Rate Case	Yes		Virginia	2020	Compliance	No
8 New Jersey American Water	New Jersey	2005	Rate Case	Yes		Virginia	2021	Rate Case	Yes
	New Jersey	2007	Rate Case	Yes		Virginia	2022	Compliance	No
	New Jersey	2009	Rate Case	Yes	24 Columbia Gas of Pennsylvania	Pennsylvania	2015	Internal Info	No
	New Jersey	2010	Rate Case	Yes		Pennsylvania	2020	Rate Case	Yes
	New Jersey	2014	Rate Case	Yes	25 Dominion Energy, Inc.	Virginia	2008	Rate Case	Yes
	New Jersey	2017	Rate Case	Yes		Virginia	2009	Compliance	No
	New Jersey	2019	Rate Case	Yes		Virginia	2010	Compliance	No
9 New Mexico American Water	New Mexico	2007	Rate Case	Yes		Virginia	2011	Compliance	No
10 New York American Water	New York	2006	Rate Case	Yes		Virginia	2012	Compliance	No
	New York	2010	Rate Case	Yes		Virginia	2014	Compliance	No
	New York	2013	Rate Case	Yes		Virginia	2017	Compliance	No
	New York	2015	Rate Case	Yes		Virginia	2019	Compliance	No
11 Ohio American Water	Ohio	2006	Rate Case	Yes	26 Duke Energy	North Carolina	2006	Compliance	No
	Ohio	2010	Rate Case	Yes	27 Elizabethtown Gas (Southern Co)	New Jersey	2008	Rate Case	Yes
12 Pennsylvania American Water	Pennsylvania	2008	Compliance	No	28 Electric Transmission Texas	Texas	2016	Rate Case	Yes
	Pennsylvania	2011	Compliance	No		Texas	2020	Rate Case	Yes
	Pennsylvania	2014	Compliance	No		Texas	2022	Rate Case	Yes
	Pennsylvania	2017	Compliance	No	29 General Water Works of Rio Rancho	New Mexico	1993	Rate Case	Yes
	Pennsylvania	2020	Compliance	No	30 General Water Works of Virginia	Virginia	1992	Rate Case	Yes
13 Tennessee American Water	Tennessee	2006	Rate Case	Yes	31 Po River Water and Sewer	Virginia	1993	Rate Case	Yes
	Tennessee	2010	Rate Case	Yes		Virginia	2007	Rate Case	Yes
14 Virginia American Water	Virginia	1996	Rate Case	Yes		Virginia	2008	Rate Case	Yes
	Virginia	1999	Rate Case	Yes	32 Progress Energy	North Carolina	2001	Internal Info	No
	Virginia	2000	Rate Case	Yes	33 Roanoke Gas	Virginia	2006	Compliance	No
	Virginia	2001	Rate Case	Yes	34 Southern California Edison	California	2002	Compliance	No
	Virginia	2003	Rate Case	Yes		California	2003	Compliance	No
	Virginia	2007	Rate Case	Yes		California	2004	Compliance	No
	Virginia	2009	Rate Case	Yes		California	2005	Compliance	No
	Virginia	2011	Rate Case	Yes	35 AEP Texas	Texas	2018	Rate Case	Yes
	Virginia	2014	Rate Case	Yes	36 Appalachian Power	Virginia	2021	Rate Case	Yes
	Virginia	2018	Rate Case	Yes	37 Southwestern Electric Power	Texas	2016	Rate Case	Yes
	Virginia	2021	Rate Case	Yes		Texas	2020	Rate Case	Yes
15 West Virginia American Water	West Virginia	2002	Rate Case	Yes	38 Kentucky Utilities	Virginia	2020	Rate Case	Yes
	West Virginia	2006	Rate Case	Yes	39 Virginia Natural Gas (Southern Co)	Virginia	2004	Compliance	No
	West Virginia	2007	Rate Case	Yes		Virginia	2005	Rate Case	Yes
	West Virginia	2009	Rate Case	Yes		Virginia	2010	Rate Case	Yes
	West Virginia	2012	Rate Case	Yes	40 United Water of Pennsylvania	Pennsylvania	2004	Rate Case	Yes
	West Virginia	2014	Rate Case	Yes	41 Corix Infrastructure/Water Services Corp.	Enterprise	2018	Internal Info	No
	West Virginia	2017	Rate Case	Yes		Enterprise	2019	Internal Info	No
	West Virginia	2020	Rate Case	Yes		Enterprise	2021	Internal Info	No
	West Virginia	2022	Rate Case	Yes	42 Community Utilities of Indiana	Indiana	2020	Rate Case	No
16 Atlanta Gas Light (Southern Co)	Georgia	2009	Rate Case	Yes	43 Massanutten Public Service Company	Virginia	2006	Rate Case	Yes
17 Atmos Energy Corporation	Virginia	2004	Compliance	No		Virginia	2008	Rate Case	Yes
18 Columbia Gas of Kentucky	Kentucky	2015	Rate Case	Yes		Virginia	2013	Rate Case	Yes
19 Columbia Gas of Maryland	Maryland	2015	Rate Case	Yes		Virginia	2019	Rate Case	Yes
20 Columbia Gas of Massachusetts	Massachusetts	2004	Rate Case	Yes	44 Water Service Corporation Kentucky	Kentucky	2010	Rate Case	Yes
	Massachusetts	2006	Internal Info	No		Kentucky	2012	Rate Case	Yes
	Massachusetts	2011	Internal Info	No		Kentucky	2019	Rate Case	Yes
	Massachusetts	2012	Internal Info	No		Kentucky	2021	Rate Case	Yes
	Massachusetts	2014	Internal Info	No	45 Corix Utilities Oklahoma	Oklahoma	2019	Compliance	Yes
	Massachusetts	2017	Internal Info	No	46 Great Basin Water Company	Nevada	2019	Rate Case	Yes
21 Northern Indiana Public Service	Indiana	2015	Internal Info	No		Nevada	2021	Rate Case	Yes
	Indiana	2016	Rate Case	Yes				Total Studies	144
	Indiana	2020	Rate Case	Yes				Number of Rate Cases	101
	Indiana	2021	Rate Case	Yes				Number of Utility Clients	46
22 Liberty Utilities New York Water	New York	2022	Rate Case	Yes				Number of States	21

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**Market-to-Cost Comparison of Service Company Charges to  
Missouri American Water Company**

**12 Months Ended December 31, 2023**

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July 1, 2024

**Missouri American Water Company  
Market-to-Cost Comparison of Service Company Charges  
12 Months Ended December 31, 2023**

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### **Purpose of This Study**

This market-to-cost comparison of the 12 months ended December 31, 2023, of American Water Works Service Company, Inc. (Service Company) charges to Missouri American Water Company (MAWC) was undertaken to answer six questions concerning the services provided by the Service Company to MAWC:

1. Are the services provided by the Service Company similar to those provided by service companies of other utility holding companies?
2. Are the Service Company's charges to MAWC during 2023 reasonable?
3. Was MAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during 2023?
4. Are 2023 costs of the Service Company's customer account services comparable to those of other utilities?
5. Are the services MAWC receives from the Service Company necessary?
6. Are the governance practices applied to Service Company charges appropriate?

### **Study Results**

Concerning question 1, the following conclusion was reached:

- The Service Company's 2023 cost per MAWC customer is reasonable compared to costs per customer for electric and combination electric/gas service companies. During 2023, MAWC was charged \$72 per customer for A&G related services provided by the Service Company. This compares to an average of \$129 per customer for service companies reporting to the Federal Energy Regulatory Commission (FERC). Twenty of the 22 utility service companies that filed a FERC Form 60 for 2022 had higher per-customer A&G costs than MAWC's charges from the Service Company.

Concerning question 2, the following conclusions were reached from this study:

- MAWC was charged the lower of cost or market for managerial and professional services during 2023.
- On average, the hourly rates for outside service providers are 59% higher than the Service Company's hourly rates. Consequently, the Company obtains services from Service Company at considerably below the market prices for such services.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by MAWC without careful supervision on the part of MAWC. If these services were contracted entirely to outside providers, MAWC would have to add at least two positions to manage activities of outside firms. These positions would be required to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been outsourced during 2023, MAWC and its customers would have incurred approximately \$16.6 million in additional expenses. This amount includes the higher cost

## I – Introduction

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of outside providers and the cost of two new MAWC positions needed to direct the outsourced work.

- This Study's hourly rate comparison understates the cost advantages that accrue to MAWC from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company exempt personnel, on the other hand, charge a maximum of eight hours per day even when they work more hours. If all overtime hours of Service Company personnel were factored into the hourly rate calculation, the Service Company would have had an even greater annual dollar advantage than the \$16.6 million cited above.
- It would be difficult for MAWC to find local service providers with the same specialized water and wastewater industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time and bring a wealth of experience serving operating water and wastewater companies. This specialization and experience brings with it a unique knowledge of water and wastewater utility operations and regulation that may not be available from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being charged to MAWC.

Concerning question 4, the following conclusion was reached:

- The cost of the Service Company's customer account services is reasonable. Such costs are below the average of the proxy group of comparable regulated utilities of the size and scope of the Service Company and MAWC. During 2023, the cost of customer account services for MAWC customers was \$19.03, compared to the 2022 average of \$31.94 for comparable utilities. In fact, thirteen of the eighteen comparison group utilities have a higher cost than MAWC.

Concerning question 5, the following conclusions were drawn:

- The services that the Service Company provides are necessary and are required for water and wastewater utilities. These services are customarily provided by service companies of other utility holding companies.
- Furthermore, there is no redundancy or overlap in the services provided by the Service Company to MAWC. For all the services provided (Schedule 15), there was only one entity primarily responsible for the service. A detailed analysis of all the functional work activities required to deliver service to customers showed just one of the entities—Service Company or MAWC—with primary responsibility.

Concerning question 6, the following conclusion was drawn:

- The control activities applied to Service Company services provided to MAWC and the associated charges are the type that help ensure both services and charges are necessary and reasonable.

## II – Background

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### Overview of American Water Works Service Company

American Water's Service Company exists to provide certain shared services to American Water subsidiaries. It follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies can realize the following benefits for customers:

- **Purchasing Economies** – Common expenses (e.g., insurance, chemicals, piping) can be procured on a much larger scale, thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates enterprise-wide purchasing programs through its procurement and contract administration functions.
- **Operating Economies of Scale** – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, American Water's Service Company can maintain one principal water testing laboratory for the entire organization. This is much more cost-efficient than each operating utility funding its own testing arrangements.
- **Continuity of Service** – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to manage staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it were necessary to hire outside to fill the vacancy.
- **Maintenance of Enterprise-Wide Standards** – Personnel in American Water's Service Company establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to align operating utility operations because the Service Company supports their implementation.
- **Improved Support and Guidance** – American Water's Service Company provides another dimension of management and financial support and guidance that supplements local operating utility management. The Service Company facilitates standard planning and reporting, which helps ensure that operating utilities meet the requirements of their customers in a cost-effective manner.
- **Retention of Personnel** – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

American Water follows the model for other utility service companies in another important regard: Its services are provided to affiliate operating utilities, like MAWC, at cost. American Water's Service Company is not a profit-making entity. It assigns only its actual expenses to the American Water subsidiaries it services.



## II – Background

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The Service Company provides services to American Water operating companies from the following locations:

- One Water Street – Service Company employees at One Water Street provide corporate governance and service functions, including executive management, finance, accounting, audit, tax, regulatory, external affairs, engineering, supply chain, legal, human resources and benefits services. One Water Street also includes American Water's main Information Technology (IT) Services center for employees, which provides software delivery and enhancements. It also provides local on-site support and an IT Service Desk for remote assistance. Further, One Water Street supports critical systems such as supervisory control and data acquisition (SCADA) as well as emerging technologies such as geographic information systems and mobility. It provides technical expertise in project governance and release management while ensuring compliance with all governmental regulations.
- Central Lab – The national trace substance laboratory is located in Belleville, Illinois, and performs testing for all American Water operating companies.
- Customer Relations and Customer Service – Provide customer relations, field resource coordination services, customer communication, and billing and collection services from various locations.
- Information Technology Services Center – The IT Services Center supports the technology infrastructure required to run business applications and communications systems for American Water's operating companies. It is also responsible for enterprise IT security.
- Regional Support Services – Operating companies are provided with certain support services that are delivered more effectively on a regional basis because individual operating company workloads are not sufficient to warrant maintaining their own full-time staff for these activities. These services require closer proximity to operating companies and therefore are located near the operating companies to which the employees provide service.

### Service Company Accounting

The Service Company maintains an accounting ledger for recording transactions (e.g., labor, expenses, overhead, capital and other assets, liabilities and equity) in a Service Company ledger separate from affiliates' ledgers. Monthly financial statements are prepared that summarize month-to-date and year-to-date costs, budgets and prior year, with variances and explanations, by category and function. Accounting categories by transaction type are described below:

- Service Company Labor: The Service Company utilizes a system that tracks time and attendance. Employees electronically enter hours worked (including vacation, sick, family leave, etc.) and accounting information (e.g., business unit; formula; pay type) and electronically submit the timesheet for approval. Submitted timesheets are electronically routed to authorized approvers. Time sheets require approval (of hours and accounting information such as formulas, etc.) by an authorized timesheet approver in the employee's home business unit.
- Service Company Expenses: Expenditures (i.e., standard invoices, purchase orders, electronic disbursements, miscellaneous invoices, recurring invoices, recurring vouchers, and procurement cards) and journal entries require a preparer to enter accounting coding

## II – Background

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details (e.g., cost center, cost element and Work Breakdown Structure (WBS)) and a reviewer to approve the information in accordance with the corporate Delegation of Authority Policy. Expenditures are processed electronically and are automatically routed to the employee's supervisor for approval. Costs are posted many times daily, in detail, in the business unit selected. Journal entries are submitted as prepared to the appropriate reviewer and posted as approved.

- **Service Company Assets:** Service Company assets are procured directly by the Service Company or through a capital leasing arrangement with Laurel Oak Properties (LOP). The Service Company capitalizes these LOP leases as Non-Utility Plant assets in accordance with generally accepted accounting principles. Generally speaking, Service Company assets (including hardware, servers, laptops, desktops, servers, storage racks, furniture, laboratory and test equipment, security cameras, monitors and leasehold improvements) are acquired through LOP via a capital lease. LOP, on behalf of the Service Company, will acquire the necessary materials and services to build the assets that are needed for the Service Company to meet its business needs. One Water Street (OWS), which owns the Camden headquarters, is providing furniture, fixtures and office-related equipment for the first 7 years of the lease with the Service Company.
- **Service Company Overhead:** Costs for support personnel (e.g., administrative assistants, mailroom clerks), rents, facility expenses, pension, medical insurance, taxes, general office supplies and other similar expenses are recorded in the ledger of the cost center responsible for incurring the charge. Overhead expenditures are posted using the labor and expense processes noted above and are recorded, in detail, in the ledger of the cost center responsible for the charge, using an overhead WBS.

### **Service Company Billing and Clearing**

The Service Company has developed a billing system that charges directly or allocates costs for services provided to Affiliates. Service Company billing is processed monthly and includes all Service Company costs charged to Affiliates using the WBS element selected for each transaction.

- **WBS element:** Every Service Company transaction (vouchers, journal entries, payroll batch, etc.) requires a WBS element within the account coding string. Each WBS element is configured in SAP with the following: Affiliate(s) to be charged, percent of charge to be billed to each Affiliate (total must equal 100%), receiving object (e.g., Affiliate's cost center) for O&M costs or an Affiliate's WBS element for capital expenditures (CAPEX). WBS elements are configured in SAP with an end date (month/year) to prevent transactions from using an expired WBS during data input.
- **Affiliate Billing Process:** Service Company billing is a two-step process that first calculates allocations of transactions for all non-overhead WBS elements. The second step calculates overhead transaction allocations using the ratio of direct labor (Cost Element 5012000) allocations to Affiliates from the first step above multiplied by the pool of overhead expenses by physical location.
- **Bill Clearing Process:** Service Company billings are cleared through American Water Capital Corp., (an affiliate) monthly via an intercompany journal entry to GL Account 23120000 (Notes Payable – Associated Companies) posted on the last day of the month. Payments are estimated for each Affiliate using the prior month actual billing (current month estimate) with adjustment for prior month actual to estimate (previous month funding) true-up.

### III – Service Company Cost Comparison Approach

#### Service Company Charges

During 2023, the Service Company billed MAWC a total of approximately \$57.5 million, as shown in the table below. These charges were subjected to a market-to-cost comparison.

	2023
Management Fees - O&M	\$ 40,261,906
Management Fees - Capital	\$ 17,237,892
Total AWWSC Charges	\$ 57,499,798

For purposes of comparing these charges to certain outside benchmarks, Service Company services were placed into three categories:

- Managerial and Professional Services – Includes such services as management, accounting, legal, human resources, engineering, and information technology.
- Customer Account Services – Includes customer-related services, such as call handling, credit, billing, collection, and payment processing.
- Field Resource Coordination Services – Includes tracking and dispatching service orders for field representatives and distribution crews to carry out.

Total 2023 Service Company dollar and hour charges break down as follows:

	2023	
	Amount	Hours
Management and Professional Services	\$ 45,844,234	180,262
Customer Account Services	\$ 9,725,385	87,169
Field Resource Coordination Services	\$ 1,930,178	23,964
Total Service Company Charges	\$57,499,798	291,394

#### Service Company Cost Comparison Approach

This study’s first question—whether the Service Company’s services are similar to those of other utility service companies—was determined using information from the Federal Energy Regulatory Commission (FERC) Form 60 – Annual Report of Service Companies.

The second question—whether the Service Company A&G charges during 2023 were reasonable—was determined by comparing MAWC’s A&G-related Service Company charges per regulated retail customer to the same charges using information from the Form 60.

The third question—how the Service Company charges during 2023, compared to market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to MAWC during 2023. Outside providers’ billing rates came from surveys or other information from professionals who could perform the services now provided by the Service Company.

The fourth question—whether the Service Company’s 2023 customer account services charges were comparable to other utilities—was addressed by comparing MAWC’s customer account services expenses to those of investor-owned electric utilities. This utility comparison group was selected because the cost of outside providers of customer account services is proprietary and not

### III – Service Company Cost Comparison Approach

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publicly available. Comparison to electric utilities is appropriate because all utilities, regardless of service type, must perform customer account services activities, including updating customer records for meter reads, printing and mailing bills, and collecting and processing customer payments. Electric utility costs are available from the FERC Form 1; thus, there is appropriate data transparency and consistency. The selection of electric utilities from Missouri and neighboring states provides a sufficiently sized comparison group.

The fifth question—the necessity of Service Company services—was investigated by defining the services provided to MAWC and determining if these services would be required if MAWC were not part of the American Water organization.

The sixth question – whether governance practices applied to Service Company charges are appropriate - was evaluated by determining if they are in line with control activities envisioned by the Committee of Sponsoring Organizations' (COSO) Internal Control Integrated Framework. Here too, interviews were conducted with knowledgeable Company staff to fully understand control activities.

## IV – Question 1 – Similarity of Service Company Services

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Utility service companies deliver a range of services to their regulated utility affiliates. Some may support their regulated utility affiliate’s operations-related functions (e.g., transmission, distribution). In contrast, utility service companies all provide CS/A&G services to their affiliates. This is the case because considerable economies of scale derive from centralizing the management of corporate CS/A&G services such as finance, human resources and information technology. Because CS/A&G-related services are delivered by all utility service companies, this study uses CS/A&G charges per customer as the metric by which to test the reasonableness of affiliate charges.

### Services Provided by the Service Company

The Service Company provides a wide array of services that are described in Exhibit 1 (pages 9-11).

### Services Provided by Other Service Companies

Service companies owned by the following 22 utility holding companies filed a Form 60 with the FERC for 2022:

AES Corporation	Eversource Energy
Algonquin Power & Utilities Corporation	Exelon Corporation
Alliant Energy Corporation	FirstEnergy Corporation
Ameren Corporation	National Grid PLC
American Electric Power Corporation	NiSource Inc.
Avangrid, Inc.	PPL Corporation
Black Hills Corporation	PNM Resources, Inc.
CenterPoint Energy, Inc.	Southern Company
Dominion Energy, Inc.	Unitil Corporation
Duke Energy Corporation	WEC Energy Group, Inc.
Entergy Corporation	Xcel Energy Inc.

Source: FERC Form 60

The 2022 Form 60 contains information on the services each offers affiliates. This information was analyzed and compared to the Service Company’s services. Exhibit 2 (page 12) shows that the Service Company’s A&G services are similar to those provided by other utility service companies.

Missouri-American Water Company  
Description of Service Company Services

<p><b>Internal Audit</b> – Internal Audit provides services to assist management in evaluating and improving the effectiveness of governance, control, and risk management processes of American Water. Internal Audit also assists management and the Board of Directors in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, advice, and information concerning the activities that they audit and by promoting effective controls and sound business practices. Internal Audit's objectivity is sustained by its independence from management. The authority and responsibilities of Internal Audit are established by the Audit, Finance and Risk Committee of the Board of Directors. Service Company's Internal Audit activities are the responsibility of the Vice President, Internal Audit who reports functionally to the Chairperson of the Audit, Finance and Risk Committee and administratively to the Chief Financial Officer.</p>
<p><b>Business Development</b> - Provides coordination, tools, training, and support to affiliates by assisting in identifying opportunities that facilitate orderly and continued growth as well as other appropriate business opportunities that can benefit the affiliates and their customers through creation of synergies and economies of scale. Business Development engages in competitor and water market trend research, direct pursuit of strategic growth opportunities, development, and communication of company growth strategy.</p>
<p><b>Customer Service</b> - Provides customer service for public utility customers. Services include customer call processing, service order processing, billing services, correspondence processing, customer relations, field resource coordination, operations support, process and test all tariff changes in SAP, oversight of major accounts program, customer insights, and customer data, and credit and collections.</p>
<p><b>External Affairs, Communications and Public Policy</b> - Serves as a center of expertise providing affiliates with strategy, tools, and templates to provide effective and consistent communications and education for customers, employees, and other key stakeholders. Provides assistance on regulatory and federal/state public policy issues. Additionally, provides resources and tactical direction in media relations, social media, educational campaigns, emergency events, community events, public forums, customer communications, research, environmental, social and governance (ESG), and employee communications and engagement.</p>
<p><b>Accounting &amp; Finance</b> – Provides affiliates with analysis and decision support, including guidance and coordination activities in areas such as: accounting, treasury, financial planning and analysis, external reporting, risk management, accounts payable and purchase card services, fixed asset processing, cash management, income tax, payroll (payroll related services includes payroll processing, compliance reporting, payroll system maintenance, and employee payroll data maintenance), and assistance in the preparation of financial statements, SEC and other regulatory filings. Also included are Corporate, General and Property tax professionals who analyze and prepare the associated tax, regulatory and compliance filings in these areas.</p>
<p><b>Human Resources (HR)</b> - Provides affiliates' employees with strategy, support, guidance, coordination of all employee-related actions and planning, including recruiting, on/off boarding employee relations, total rewards, learning and organizational development, and inclusion, diversity and equity. This includes involvement in negotiations for new contracts with bargaining units, due diligence and integration support related to mergers and acquisitions, succession planning, employee development, employee experience, performance management, compliance, reporting, and HR project management, and development and implementation of policies and practices affecting affiliates' employees. In addition, HR provides employees access to HR information through self-service tools and manages all employee data. HR builds a positive employee experience and cultivates an effective and impactful culture of inclusion and diversity through communication, engagement, employee well-being, training and workforce and succession planning.</p>

Missouri-American Water Company  
Description of Service Company Services

<p><b>Information Technology (IT)</b> – Provides information technology systems and support for affiliates. IT provides local onsite support as well as the IT Service Desk for remote assistance for all employees using company issued computers in the performance of their day-to-day activities. IT supports mission-critical systems such as SCADA, as well as emerging technologies such as GIS and Mobility. IT Operations provides the network, storage, and servers to enable communication systems (telephone/smart phone/mobile devices) for all American Water affiliate employees. Additionally, IT ensures effective project governance and release management while ensuring compliance with all policies and regulations.</p>
<p><b>Environmental Compliance</b> - Provides expertise and centralized coordination of the environmental program to ensure compliance with all water quality and environmental regulations, supports development of audit-ready operations, interfaces with regulators at the national level, and provides cross-functional communications and resources to facilitate end-to-end process efficiency. Provides guidance in maintaining and establishing new AW environmental policies, practices, and procedures.</p>
<p><b>Central Laboratory</b> - Employs chemists, lab technicians, analysts, and support employees to perform water quality testing and research. The lab, which is Environmental Protection Agency Service Company Cost Accounting Manual 28 (“EPA”) and state certified, uses state of the art water testing equipment to test source water and finished water from all affiliates.</p>
<p><b>Investor Relations</b> – Responsible for preparation and distribution of company and industry information that is periodically released to current or potential holders of financial securities of American Water.</p>
<p><b>Financial Planning &amp; Analysis (FP&amp;A)</b> - Consists of support areas to the affiliates related to FP&amp;A activities: 1) State Finance Teams: Finance resources embedded in the affiliates, providing state leadership and operations a wide range of financial analysis and decision support, including accounting, finance, budgeting, and planning; as well as collaborating and supporting key functions within the state. Examples include: (Capital teams, Rates teams, BD teams) 2) BIRS Group which is comprised of several support areas: a. Revenue Analytics Team which is responsible for Regulated Revenues (budgeting, analysis, rate case support) b. Service Company Team which is responsible for FP&amp;A support to Service Company Functions c. Corporate team which is responsible for consolidated FP&amp;A activities.</p>
<p><b>Legal</b> - Provides legal guidance and support for American Water and affiliates, including on governance, ethics and compliance matters, rate and regulatory matters, real estate, contract and commercial, litigation, intellectual property, labor, and employment, environmental, acquisitions and divestitures, and any other matters that require support.</p>
<p><b>Regulatory Services</b> – Provides affiliates with assistance, support and guidance in the preparation and litigation of regulatory proceedings, implementation of rates, and compliance filings associated with regulatory rulings. Stays apprised of economic and regulatory developments and conditions that may affect regulated water utilities and provides analysis, support and guidance related thereto; performs rates and regulatory policy analysis; provides support, guidance, and coordination of process improvements to support continuous improvement of rates and regulatory processes and services, as well as data compilation and reporting, data and revenue analysis, and training.</p>
<p><b>Engineering</b> - Provides affiliates with support, guidance and coordination of Asset Planning, Design Service, Construction Service, and Capital Program Management.</p>
<p><b>Enterprise Security</b> - Supports and enhances business operations through the management of risks which derive from physical and cyber security and business continuity-related vulnerabilities. The group develops facility focused solutions, within an established corporate framework of standardized technologies, methodologies, integrators, programs, policies, and practices. The group operates and manages an Integrated Operation Center and monitors security alarms enterprise-wide and supports the business in the response to emergencies and events.</p>

Missouri-American Water Company  
Description of Service Company Services

<p><b>Health and Safety</b> - Provides strategy development; technical support; enterprise safety program design, development and implementation; safety, health and training practice development; Service Company Cost Accounting Manual 29 incident investigations with corrective action recommendations; monitoring of regulatory compliance requirements; and industry best practices for occupational health and safety.</p>
<p><b>Facilities</b> – Provides facility management services for owned and leased buildings. This includes administering facility and space planning and utilization, developing and administering capital and expense budgets for facilities, negotiating and administering leases, completing large scale fit outs of office space, housekeeping, utilities, receptionist, mail distribution, reprographics, and related functions in addition to providing direction and capital program management to other Service Company locations. Facilities are also responsible for procuring and overseeing maintenance such as landscaping, snow removal, electrical, HVAC, and other building repairs, as well as building upgrades and building related capital costs.</p>
<p><b>Operational Excellence</b> - Provides affiliates with support and guidance with the development of operating procedures to ensure regulatory compliance and to promote the efficient operation of public utility companies. Enterprise support &amp; guidance over Production Asset &amp; Work Management, T&amp;D Asset &amp; Work Management, Field Operations (FSR) Work Management and Operational Support, Metering Operations and Operational Business Performance Reporting.</p>
<p><b>Supply Chain</b> - Provides affiliates with support, guidance and coordination of procurement, supplier management, supplier diversity and development, inventory management and asset disposition; and manages certain vendor relationships for affiliates. Supply chain services include traditional procurement activities, such as sourcing and contracting, as well as assisting the affiliates in analyzing and implementing cost reduction opportunities and managing supply chain related risk components.</p>

Source: American Water Works Service Company, Inc. Cost Allocation Manual (July 2023)



**Missouri-American Water Company  
Comparison of Services Provided by Service Companies**

A&G Service Categories	AWWSC	AEP	AES	Algonquin	Alliant	Ameren	Avangrid	Black Hills	Dominion	Duke	Entergy	Eversource	Exelon	FirstEnergy	National Grid	NISource	PPL	Southern Co	Unitil	WEC	Xcel
Executive/Management	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Corporate Planning & Budgeting	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X			X
Legal	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X
Corporate/External Affairs	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Human Resources	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Financial Services																					
Finance	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Accounting	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Taxes	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Investor Relations	X	X	X	X	X	X	X	X	X	X	X	X	X				X	X		X	X
Corporate Risk Management	X	X	X	X	X	X	X	X	X			X		X	X	X	X		X		X
Audit Services	X	X	X	X	X	X	X	X	X			X		X	X	X	X			X	X
Rates and Regulatory Affairs	X	X	X		X		X	X	X	X			X	X	X	X	X	X	X	X	X
Customer Service	X	X	X		X			X	X	X	X	X	X	X	X	X	X		X	X	X
Information Technology	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Environment and Safety	X	X	X	X	X	X	X	X	X	X	X			X	X	X	X	X		X	X
Supply Chain	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X
Other (A)	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X	X
<b>Total Services</b>	<b>17</b>	<b>17</b>	<b>16</b>	<b>15</b>	<b>17</b>	<b>15</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>17</b>	<b>15</b>	<b>16</b>	<b>14</b>	<b>17</b>	<b>16</b>	<b>16</b>	<b>17</b>	<b>13</b>	<b>11</b>	<b>15</b>	<b>17</b>

Note A: includes services such as transportation/fleet, aviation, real estate, facilities and rights of way.

Source: FERC Form 60 (2022); company information; Baryenbruch & Company, LLC, analysis

## V – Question 2 – Reasonableness of Service Company Charges

### MAWC’s Service Company A&G Cost per Customer

During 2023, MAWC was charged \$72 per customer by the Service Company for A&G-related services. The calculation of this amount, shown in the table below, starts with total Service Company charges and adjusts for capital and non-A&G function (e.g., engineering, operations and water quality) charges. These adjustments are necessary to develop a per-customer cost that can be compared to the cost of the utility service company comparison group.

	2023
Total Service Company charges	\$ 57,499,798
Less: Capital charges	\$(17,237,892)
Less: Non-A&G charges	
Engineering	\$ (691,622)
Operations	\$ (3,003,670)
Water Quality	\$ (269,370)
Net A&G Service Company Charges	\$ 36,297,245
MAWC Customer Count	507,285
MAWC A&G SC Charges per Customer	\$ 72

### Comparison Group Cost Per Customer

Every centralized service company in a holding company system subject to regulation by the FERC must file a Form 60 in accordance with Section 1270 of the Public Utility Holding Company Act of 2005, Section 390 of the Federal Power Act, and 18 Code of Federal Regulations paragraph 366.23. The Form 60 is designed to collect financial information from service companies within a holding company structure.

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity’s FERC Form 60. Information from Form 60 Schedule Account 457 – Analysis of Billing – Associate Companies was also used to isolate and eliminate charges to non-regulated affiliates from the cost pool used to calculate A&G expenses per regulated service customer.

For 2022, a Form 60 was filed by service companies associated with 22 utility holding companies. These service companies support utilities that provide regulated electric and, in some cases, gas service to retail customers.

## V – Question 2 – Reasonableness of Service Company Charges

FERC Form 60 shows service company charges to affiliates by FERC account. The table below shows a list of FERC A&G accounts and designates which correspond to services the Service Company provides to MAWC. Amounts in the designated FERC accounts are included in the calculation of service company A&G expenses per regulated customer.

FERC Account	Included In Cost Calculation
901 - Supervision	X
902 - Meter reading expenses	
903 - Customer records and collection expenses	X
904 - Uncollectible accounts	
905 - Miscellaneous customer accounts expenses	X
907 - Supervision	
908 - Customer assistance expenses	
909 - Informational And Instructional Advertising Expenses	
910 - Miscellaneous Customer Service And Informational Exp	X
911 - Supervision	
912 - Demonstrating and Selling Expenses	
913 - Advertising Expenses	
916 - Miscellaneous Sales Expenses	
920 - Administrative and General Salaries	X
921 - Office Supplies and Expenses	X
923 - Outside Services Employed	X
924 - Property Insurance	X
925 - Injuries and Damages	
926 - Employee Pensions and Benefits	X
928 - Regulatory Commission Expenses	
930.1 - General Advertising Expenses	
930.2 - Miscellaneous General Expenses	X
931 - Rents	X
935 - Maintenance of Structures and Equipment	X

The A&G expenses per regulated utility customer for the 22 utility companies whose service companies filed a Form 60 for 2022 are calculated in Schedule 3 (page 15).

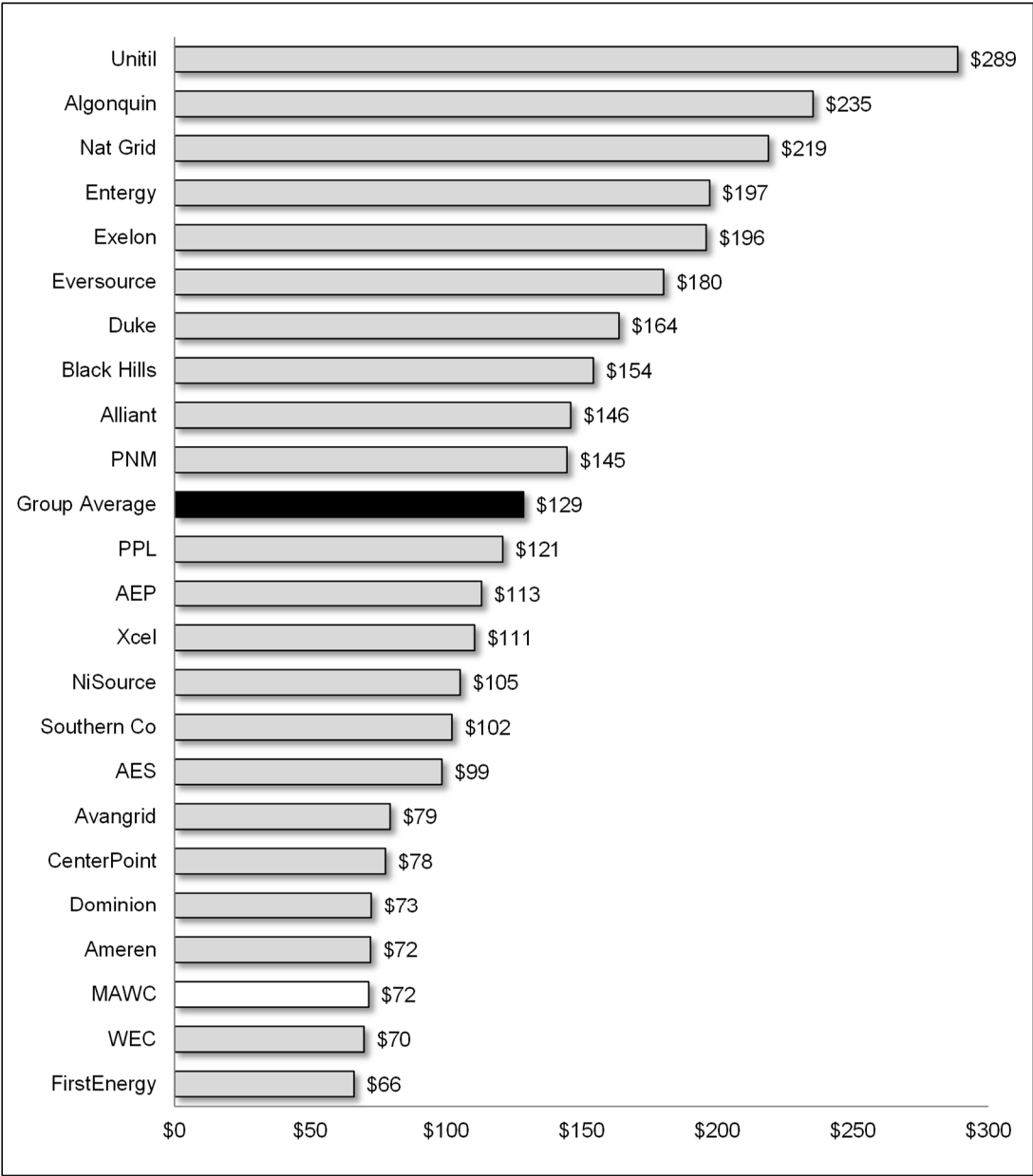
Schedule 4 (page 16) shows MAWC's 2023 Service Company cost per customer of \$72 to be lower than the average of \$129 per customer for the comparison group service companies. Twenty of the 22 comparison group companies had higher per-customer A&G costs than MAWC's charges from the Service Company. Based on this result, it is possible to conclude that the Service Company's charges to MAWC are reasonable.

**Missouri-American Water Company**  
Calculation of 2022 Service Company A&G Expenses Per Customer

Utility Company	2022 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	\$633,631,593	5,600,000	\$ 113
AES	\$104,062,557	1,056,000	\$ 99
Algonquin	\$282,397,645	1,200,000	\$ 235
Alliant	\$207,364,390	1,420,000	\$ 146
Ameren	\$238,462,661	3,300,000	\$ 72
Avangrid	\$262,152,291	3,300,000	\$ 79
Black Hills	\$197,599,354	1,280,000	\$ 154
CenterPoint	\$528,629,625	6,800,000	\$ 78
Dominion	\$507,688,924	7,000,000	\$ 73
Duke	\$1,611,979,511	9,840,000	\$ 164
Entergy	\$632,023,344	3,204,000	\$ 197
Eversource	\$721,020,599	4,000,000	\$ 180
Exelon	\$1,960,011,901	10,000,000	\$ 196
FirstEnergy	\$396,898,656	6,000,000	\$ 66
Nat Grid	\$1,532,213,935	7,000,000	\$ 219
NiSource	\$378,141,896	3,593,000	\$ 105
PNM	\$117,182,934	810,000	\$ 145
PPL	\$423,061,953	3,498,000	\$ 121
Southern Co	\$897,411,486	8,775,000	\$ 102
Unitil	\$55,708,515	193,000	\$ 289
WEC	\$322,743,099	4,622,000	\$ 70
Xcel	\$652,463,461	5,900,000	\$ 111
<b>Total/Average</b>	<b>\$12,662,850,330</b>	<b>98,391,000</b>	<b>\$ 129</b>

Source: FERC Form 60; Baryenbruch & Company, LLC, analysis

**Missouri-American Water Company  
Comparison of Service Company A&G Charges Per Customer**



Source: Company information; 2022 FERC Form 60; Baryenbruch & Company, LLC, analysis

## V – Question 3 – Provision of Services as Compared to Market

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### Methodology

The value of services comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services, it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial, rates and regulatory services
- IT Professionals – information technology services
- Professional Engineers – engineering, operations and water quality services.

The Service Company's hourly rates were calculated for each of the five outside service provider categories based on the dollars and hours charged to MAWC during 2023. Hourly billing rates for outside service providers were developed using third-party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged to MAWC during 2023, its hourly rates are overstated because some Service Company personnel charge a maximum of 8 hours per day even when they work more. Outside service providers generally bill for every hour worked. If all overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the market comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

### Service Company Hourly Rates

Schedule 5 (page 19) details the assignment of 2023 management and professional Service Company charges by outsider provider category. Schedule 6 (page 20) shows the same assignment for Service Company management and professional hours charged to MAWC during 2023.

Adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following non-labor Service Company charges for 2023:

- Contract Services – These charges to MAWC include expenses associated with the use of outside professional firms to perform certain enterprise-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been outsourced already.
- IT Infrastructure Expenses – Included in 2023 Service Company charges to MAWC are leases, maintenance fees and depreciation related to American Water's enterprise computing and network infrastructure and business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the cost of personnel necessary to operate the data center.

## V – Question 3 – Provision of Services as Compared to Market

- Travel Expenses – In general, client-related travel expenses incurred by outside service providers are not recovered through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- Ancillary Expenses – These are corporate expenses such current and deferred income tax expense, line-of-credit fees and board expenses. These are not directly related to the provision of services by Service Company personnel and have been excluded.

Schedule 7 (page 21) shows how contract services, IT infrastructure, travel expenses and other Service Company charges are assigned to the four outside provider categories.

Based on the assignment of expenses and hours shown in Schedules 5 and 6 and the excludable items shown in Schedule 7, the Service Company's equivalent costs per hour for 2023 are calculated below.

	12 Months Ended December 31, 2023					
	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Total
Total management, professional & technical services charges	\$ 3,184,770	\$ 10,484,376	\$ 8,796,252	\$ 21,084,151	\$ 2,294,685	\$ 45,844,234
Less: Exclusions						
Contract services	\$ 185,745	\$ 1,067,304	\$ 828,544	\$ 10,279,459	\$ 69,136	\$ 12,430,188
IT infrastructure expenses	\$ -	\$ 1,077,991	\$ 206	\$ 4,479,561	\$ 83	\$ 5,557,840
Travel expenses	\$ 266,201	\$ (114,305)	\$ 130,629	\$ 78,077	\$ 137,239	\$ 497,840
Ancillary expenses	\$ 20,154	\$ 115,693	\$ 86,498	\$ 88,701	\$ 85,468	\$ 396,515
Total Exclusions	\$ 472,100	\$ 2,146,683	\$ 1,045,877	\$ 14,925,798	\$ 291,926	\$ 18,882,384
Net Service-Related Charges (A)	\$ 2,712,670	\$ 8,337,693	\$ 7,750,374	\$ 6,158,354	\$ 2,002,759	\$ 26,961,851
Total Hours (B)	11,196	38,822	66,548	48,361	15,334	180,262
<b>Average Hourly Rate (A / B)</b>	<b>\$ 242</b>	<b>\$ 215</b>	<b>\$ 116</b>	<b>\$ 127</b>	<b>\$ 131</b>	

Missouri-American Water Company  
2023 Service Company Charges by Location and Function

		2023 Service Company Charges					
Group	Function	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Total
Belleville Lab	Water Quality	\$ -	\$ -	\$ -	\$ -	\$ 270,301	\$ 270,301
Customer Service	Human Resources	\$ -	\$ 969	\$ -	\$ -	\$ -	\$ 969
Corporate	Accounting	\$ -	\$ -	\$ 3,522,866	\$ -	\$ -	\$ 3,522,866
	Administration	\$ 799,559	\$ 3,914,931	\$ -	\$ -	\$ -	\$ 4,714,490
	Audit	\$ -	\$ -	\$ 660,209	\$ -	\$ -	\$ 660,209
	Business Development	\$ -	\$ 431,490	\$ -	\$ -	\$ -	\$ 431,490
	Communications	\$ -	\$ 869,500	\$ -	\$ -	\$ -	\$ 869,500
	Engineering	\$ -	\$ -	\$ -	\$ -	\$ 1,929,363	\$ 1,929,363
	External Affairs	\$ -	\$ 3,050	\$ -	\$ -	\$ -	\$ 3,050
	Finance	\$ -	\$ 43,459	\$ 2,526,256	\$ -	\$ -	\$ 2,569,715
	Human Resources	\$ -	\$ 3,382,098	\$ -	\$ -	\$ -	\$ 3,382,098
	Information Technology	\$ -	\$ -	\$ -	\$ 257,221	\$ -	\$ 257,221
	Legal	\$ 1,572,245	\$ -	\$ -	\$ -	\$ -	\$ 1,572,245
	Operations	\$ -	\$ 1,458,482	\$ -	\$ -	\$ -	\$ 1,458,482
	Supply Chain	\$ -	\$ -	\$ 1,365,478	\$ -	\$ -	\$ 1,365,478
	Regional Offices	Administration	\$ -	\$ 122,376	\$ -	\$ -	\$ -
Business Development		\$ -	\$ 3,608	\$ -	\$ -	\$ -	\$ 3,608
Engineering		\$ -	\$ -	\$ -	\$ -	\$ 95,022	\$ 95,022
External Affairs		\$ -	\$ 115,138	\$ -	\$ -	\$ -	\$ 115,138
Finance		\$ -	\$ -	\$ 575,970	\$ -	\$ -	\$ 575,970
Human Resources		\$ -	\$ 98	\$ -	\$ -	\$ -	\$ 98
Legal		\$ 812,965	\$ -	\$ -	\$ -	\$ -	\$ 812,965
Operations		\$ -	\$ 139,176	\$ -	\$ -	\$ -	\$ 139,176
Rates & Regulatory	\$ -	\$ -	\$ 145,474	\$ -	\$ -	\$ 145,474	
Information Technology	Information Technology	\$ -	\$ -	\$ -	\$ 20,826,930	\$ -	\$ 20,826,930
<b>Total Dollars Charged</b>		<b>\$ 3,184,770</b>	<b>\$ 10,484,376</b>	<b>\$ 8,796,252</b>	<b>\$ 21,084,151</b>	<b>\$ 2,294,685</b>	<b>\$ 45,844,234</b>



Missouri-American Water Company  
2023 Service Company Hours by Location and Function

		2023 Service Company Hours					
Group	Function	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Total
Belleville Lab	Water Quality	-	-	-	-	1,496	1,496
Customer Service	Human Resources	-	-	-	-	-	-
Corporate	Accounting	-	-	30,225	-	-	30,225
	Administration	2,036	2,633	-	-	-	4,669
	Audit	-	-	2,828	-	-	2,828
	Business Development	-	2,140	-	-	-	2,140
	Communications	-	4,465	-	-	-	4,465
	Engineering	-	-	-	-	13,838	13,838
	External Affairs	-	-	-	-	-	-
	Finance	-	473	13,338	-	-	13,810
	Human Resources	-	22,881	-	-	-	22,881
	Information Technology	-	-	-	2,275	-	2,275
	Legal	4,026	-	-	-	-	4,026
	Operations	-	5,201	-	-	-	5,201
	Supply Chain	-	-	14,361	-	-	14,361
	Regional Offices	Administration	-	2	-	-	-
Business Development		-	-	-	-	-	-
Engineering		-	-	-	-	-	-
External Affairs		-	17	-	-	-	17
Finance		-	-	4,420	-	-	4,420
Human Resources		-	-	-	-	-	-
Legal		5,134	-	-	-	-	5,134
Operations		-	1,011	-	-	-	1,011
Rates & Regulatory	-	-	1,376	-	-	1,376	
Information Technology	Information Technology	-	-	-	46,086	-	46,086
<b>Total Hours Charged</b>		<b>11,196</b>	<b>38,822</b>	<b>66,548</b>	<b>48,361</b>	<b>15,334</b>	<b>180,262</b>

**Missouri-American Water Company**  
2023 Service Company Charges Excludable from the Hourly Rate Calculation

Group	Exclusions From Hourly Rate Calculation				
	Contract Services	Enterprise IT Expenses	Travel Expenses	Ancillary Expenses	Total
Accounting	\$ 421,059	\$ 147		\$ 29,375	\$ 450,582
Administration	\$ 430,023	\$ 1,077,991	\$ (168,377)	\$ 53,775	\$ 1,393,412
Audit	\$ 166,571		\$ 26,169	\$ 4,279	\$ 197,019
Business Development	\$ 15,338		\$ 16,288	\$ 9,286	\$ 40,912
Communications	\$ 102,384			\$ 9,023	\$ 111,406
Engineering	\$ 45,737	\$ 83	\$ 22,158	\$ 49,644	\$ 117,622
External Affairs	\$ 344			\$ 2,377	\$ 2,720
Finance	\$ 216,540		\$ 104,460	\$ 30,972	\$ 351,972
Human Resources	\$ 519,216		\$ 37,784	\$ 41,232	\$ 598,232
Information Technology	\$ 10,279,459	\$ 4,479,561	\$ 78,077	\$ 88,701	\$ 14,925,798
Legal	\$ 185,745		\$ 266,201	\$ 20,154	\$ 472,100
Operations	\$ 38,101		\$ 41,976	\$ 35,000	\$ 115,077
Rates & Regulatory	\$ 101	\$ 58		\$ 372	\$ 531
Supply Chain	\$ 24,274			\$ 21,501	\$ 45,774
Water Quality	\$ (14,702)		\$ 73,104	\$ 824	\$ 59,227
<b>Total</b>	<b>\$ 12,430,188</b>	<b>\$ 5,557,840</b>	<b>\$ 497,840</b>	<b>\$ 396,515</b>	<b>\$ 18,882,384</b>

Outside Service Provider Category
Certified Public Accountant
Management Consultant
Certified Public Accountant
Management Consultant
Management Consultant
Professional Engineer
Management Consultant
Certified Public Accountant
Management Consultant
IT Professional
Attorney
Professional Engineer
Certified Public Accountant
Certified Public Accountant
Professional Engineer

Recap By Outside Provider	Exclusions From Hourly Rate Calculation				
	Contract Services	Enterprise IT Expenses	Travel Expenses	Ancillary Expenses	Total
Attorney	\$ 185,745	\$ -	\$ 266,201	\$ 20,154	\$ 472,100
Management Consultant	\$ 1,067,304	\$ 1,077,991	\$ (114,305)	\$ 115,693	\$ 2,146,683
Certified Public Accountant	\$ 828,544	\$ 206	\$ 130,629	\$ 86,498	\$ 1,045,877
IT Professional	\$ 10,279,459	\$ 4,479,561	\$ 78,077	\$ 88,701	\$ 14,925,798
Professional Engineer	\$ 69,136	\$ 83	\$ 137,239	\$ 85,468	\$ 291,926
<b>Total</b>	<b>\$ 12,430,188</b>	<b>\$ 5,557,840</b>	<b>\$ 497,840</b>	<b>\$ 396,515</b>	<b>\$ 18,882,384</b>

## V – Question 3 – Provision of Services Compared to Market

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### Outside Service Provider Hourly Rates

The next step in the market comparison was to obtain the average billing rates for outside service providers. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among US certified public accounting firms, only more experienced staff are predominantly CPAs (see table below). Some Service Company employees also have professional licenses. Thus, it is valid to compare the Service Company's hourly rates to those of the outside professional service providers included in this study.

Position	US Average
Partners/Owners	98%
Directors (11+ years experience)	87%
Managers (6-10 years experience)	79%
Sr Associates (4-5 years experience)	50%
Associates (1-3 years experience)	22%
New Professionals	10%

Source: AICPA's National PCPS/TSCPA Management of an Accounting Practice Survey (2010)

### Attorneys

An estimate of Missouri attorney billing rates is developed from actual rates compiled by Clio, a practice management service provider to law firms. The 2023 average rate of relevant practice areas is calculated in Schedule 8 (page 24).

### Management Consultants

The cost per hour for management consultants was developed from a survey performed by Rodenhauer & Company, LLC, a research company that monitors the consulting industry. The survey includes rates that were in effect during 2022 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Schedule 9 (page 25), was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey covered hourly rates in effect during 2022. The calculated average rate is escalated to June 30, 2023—the midpoint of 2023.

### Certified Public Accountants

The average hourly rate for Missouri certified public accountants was developed from a 2023 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years. The national average hourly rate was calculated for a range of accountant positions and adjusted for cost-of-living differences with St Louis, Missouri, as shown in Schedule 10 (page 26). Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2022. The calculated average rate is escalated to June 30, 2023—the midpoint of 2023.

## V – Question 3 – Provision of Services Compared to Market

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### **Information Technology Professionals**

The average hourly rate for information technology contractors and consultants during 2023 was developed from two sources: The Service Company's IT contractor rates and a survey performed by Rodenhauer & Company, LLC, for IT consultants. As shown in Schedule 11 (page 27), that data was compiled and a weighted average was calculated based on a percent of time that is typically applied to an IT consulting assignment, based on Baryenbruch & Company, LLC's, experience.

### **Professional Engineers**

MAWC and the Service Company provided hourly rate information for outside engineering firms that provided their rate schedules. As presented in Schedule 12 (page 28), an average rate was developed for each engineering position level. Then, using the Service Company's percentage mix by engineering position, a weighted average cost per hour was calculated.

**Missouri-American Water Company**  
**Billing Rates for Attorneys**

Average Billing Rates - Missouri (2023)

Practice Area	Average Hourly Rate (A)	
	Lawyer	Non-Lawyer
Administrative	\$ 291	
Appellate	\$ 339	
Bankruptcy	\$ 350	
Business	\$ 299	
Civil Litigation	\$ 275	
Collections	\$ 319	
Commercial/Sale of Goods	\$ 327	
Construction	\$ 282	
Contracts	\$ 296	
Corporate	\$ 317	
Employment/Labor	\$ 262	
Insurance	\$ 231	
Intellectual Property	\$ 313	
Real Estate	\$ 292	
Tax	\$ 329	
Worker's Compensation	\$ 257	
Average Hourly Rate	\$ 299	\$ 131

Lawyer/Non-Lawyer SC Hours	Lawyer	Non-Lawyer	Total
2023 Service Company Hours	11,196	2,807	14,003
Percent of Hours	80.0%	20.0%	100.0%
Weighted Average			
Percent x Hourly Rate	\$ 239	\$ 26	\$ 265

Note A: Source is Themis Solutions Inc. (Clio)  
<https://www.clio.com/resources/legal-trends/compare-lawyer-rates/>

**Missouri-American Water Company  
Billing Rates for Management Consultants**

Survey billing rates in effect in 2022						
A. Calculation of Average Hourly Billing Rate by Consultant Position						
	Average Hourly Rates (A)					
	Analyst Consultant	Associate	Sr. Assoc/ Manager	Principal	Partner	
Average	\$ 247	\$ 299	\$ 366	\$ 553	\$ 688	
B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement						
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	\$ 247	\$ 299	\$ 366	\$ 553	\$ 688	
Percent of Consulting Assignment	30%	30%	25%	10%	5%	Weighted Average
	\$ 74	\$ 90	\$ 91	\$ 55	\$ 34	\$ 345
<u>Escalation to Midpoint of 2023 (June 30, 2023)</u>						
						CPI at December 31, 2022
						296.8
						CPI at June 30, 2023
						305.1
						Inflation/Escalation (Note B)
						2.8%
Average Hourly Billing Rate For Management Consultants as of June 30, 2023						\$ 355

Note A: Source is Rodenhauer & Company LLC; Baryenbruch & Company, LLC, analysis

Note B: Source is U.S. Bureau of Labor Statistics (<https://data.bls.gov/cgi-bin/surveymost>)

**Missouri-American Water Company  
Billing Rates for Certified Public Accountants**

A. Calculation of Average Hourly Billing Rate by Public Accounting Position  
Survey billing rates were those in effect in 2022

		Average Hourly Billing Rate (A)				
		Staff Accountant	Senior Accountant	Manager	Partner	
Average Hourly Billing Rate by CPA Firm Position		\$ 119	\$ 158	\$ 233	\$ 331	
Percent of Accounting Assignment		30%	30%	20%	20%	Weighted Average
		\$ 36	\$ 47	\$ 47	\$ 66	\$ 196
		National Average Hourly Billing Rate (above)				\$ 196
		Cost of Living Adjustment				
		COL Index for St. Louis, Missouri (B)				96.5
		Average COL Index				100.0
		Adjustment Percentage				96.5%
		Cost of Living Adjusted 2022 Hourly Rate				\$ 189
		<u>Escalation to Midpoint of 2023 (June 30, 2023)</u>				
		CPI at December 31, 2022				296.8
		CPI at June 30, 2023				301.8
		Inflation/Escalation (C)				1.7%
		Average Hourly Billing Rate For CPAs as of June 30, 2023				\$ 192

Note A: Source is AICPA's 2023 National PCPS/TSCPA Management of an Accounting Practice Survey  
 Note B: Source is Cost of Living Index, Source Council for Community and Economic Research  
 Note C: Source is U.S. Bureau of Labor Statistics (<https://data.bls.gov/cgi-bin/surveymost>)

**Missouri-American Water Company  
Billing Rates for Information Technology Professionals**

A. Calculation of Average Hourly Billing Rate by Information Technology Position  
Survey billing rates were those in effect during 2023

		Average Hourly Billing Rate (A)				
		Contractor Positions		Consultant Positions		
		Contractor	Senior Contractor	Associate	Manager	Partner
Average Hourly Billing Rate by IT Position Category		\$ 100	\$ 144	\$ 274	\$ 351	\$ 418
Percent of IT Assignment		25%	25%	25%	15%	10%
		\$ 25	\$ 36	\$ 69	\$ 53	\$ 42
						\$ 224
Average Hourly Billing Rate For IT Professionals During 2023						\$ 224

Note A: Source is American Water Works Service Company, Rodenhauser & Company and Baryenbruch & Company, LLC



**Missouri-American Water Company  
Billing Rates for Engineers**

A. Calculation of Average Hourly Rate by Engineer Position during 2023 (A)

Name of Firm	Average Hourly Billing Rates			
	Technician	Engineer	Project Manager	Officer
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer
Firm #1	\$108	\$151	\$199	\$261
Firm #2	\$90		\$170	\$300
Firm #3	\$98	\$117	\$165	\$210
Firm #4	\$99	\$123	\$171	\$200

B. Calculation of Overall Average Engineering Hourly Billing Rate

	Technician	Engineer	Project Manager	Officer	Weighted Average
	Senior Technician	Design Engineer Project Engineer	Sr. Mgr. Engineer	Principal Engineer	
Average Hourly Billing Rate (From Above)	\$99	\$130	\$176	\$243	
Typical Percent of Time on an Engineering Assignment	13%	31%	46%	10%	
	\$13	\$40	\$80	\$25	\$159

Note A: Source is American Water Service Company information.

V – Question 3 – Provision of Services Compared to Market

**Service Company versus Outside Provider Cost Comparison**

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	2023		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 242	\$ 265	\$ (23)
Management Consultant	\$ 215	\$ 355	\$ (140)
Certified Public Accountant	\$ 116	\$ 192	\$ (76)
IT Professional	\$ 127	\$ 224	\$ (97)
Professional Engineer	\$ 131	\$ 159	\$ (28)

Based on these cost-per-hour differentials and the number of managerial and professional services hours billed to MAWC during 2023, outside service providers would have cost \$15,861,858 more than the Service Company (see table below). Thus, on average, outside providers' hourly rates are 59% higher than those of the Service Company (\$15,861,858 / \$26,961,851).

Service Provider	2023		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (23)	11,196	\$ (258,338)
Management Consultant	\$ (140)	38,822	\$ (5,416,968)
Certified Public Accountant	\$ (76)	66,548	\$ (5,088,574)
IT Professional	\$ (97)	48,361	\$ (4,674,514)
Professional Engineer	\$ (28)	15,334	\$ (423,465)
Service Company Less Than Outside Providers			\$ (15,861,858)

It bears repeating the cost differential associated with using outside providers is even greater than calculated above because exempt Service Company personnel do not charge more than eight hours per day even when they work more. Outside providers generally charge clients for all hours worked. Thus, MAWC would have been charged by outside providers for overtime worked by Service Company personnel who are not paid for that time.

If MAWC were to use outside service providers rather than the Service Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform approximately 180,200 hours of work (approximately 100 full-time equivalents at 1,800 "billable" hours per FTE per year) would add a significant workload to the existing MAWC management team. Thus, it would be necessary for MAWC to add at least four positions to supervise the outside firms and ensure they deliver quality and timely services. The individuals who would fill these positions would need a good understanding of each profession being managed. These persons must also have management experience and the authority necessary to provide credibility with the outside firms. As calculated in the table below, the new positions would add \$700,000 per year to MAWC's personnel expenses.

## V – Question 3 – Provision of Services Compared to Market

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### Cost of Adding Four Professional Positions To MAWC's Staff

	<u>Total</u>
New Positions' Salary	\$ 125,000
Benefits (at 25%)	\$ 31,250
Office Expenses (15%)	\$ 18,750
Total Cost per Position	\$ 175,000
Number of Positions Required	4
Total Cost of Added MAWC Staff	\$ 700,000

Thus, the total effect on MAWC customers of contracting all services now provided by Service Company would be an increase in their costs of \$16,561,858 (\$15,861,858 + \$700,000). Based on the results of this comparison, the Service Company charged MAWC significantly lower costs than the Company would have been charged had it sourced such services from the competitive market during 2023.

## VI - Question 4 - Reasonableness of Customer Account Services Costs

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### Background

Customer account services involve the processes that occur from the time meter-read data is recorded in the customer information system through the printing and mailing of bills, concluding with the collection and processing of customer payments. Customer account services are accomplished by the following utility functions:

- Customer Call Handling Operations – customer calls/contact, credit, order taking/disposition, bill collection efforts and outage calls
- Customer Call Handling Maintenance – support of phone banks, voice recognition units, call software applications and telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – processing customer payments at locations where customers can pay their bills in person

Comparable electric utility cost information comes from the FERC Form 1 that each utility subject to FERC regulation must file. FERC’s chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain expenses related to customer account services are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Schedule 13 (page 32) provides FERC’s definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overhead charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer’s portion of FICA)

### Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 reports show amounts for accounts 903 and 905.

Utility	State	Utility	State
Ameren Missouri	Missouri	Evergy Kansas Central, Inc.	Kansas
Empire District Electric	Missouri, Kansas	Evergy Kansas South, Inc.	Kansas
Evergy Metro, Inc.	Missouri	Duke Energy Kentucky	Kentucky
Evergy Missouri West, Inc.	Missouri	Kentucky Power	Kentucky
Ameren Illinois	Illinois	Kentucky Utilities	Kentucky
Commonwealth Edison	Illinois	Louisville Gas & Electric	Kentucky
MidAmerica Energy	Illinois, Iowa	Entergy Arkansas	Arkansas
Black Hills Power	Iowa, Arkansas	Oklahoma Gas & Electric	Oklahoma, Arkansas
Interstate Power & Light	Iowa	Public Service of Oklahoma	Oklahoma
		Kingsport Power	Tennessee

**Missouri-American Water Company**  
**FERC Account Descriptions**

**903 – Customer Records and Collection Expenses**

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**905 – Miscellaneous Customer Accounts Expenses**

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

## VI - Question 4 - Reasonableness of Customer Account Services Costs

### MAWC's Cost per Customer

As calculated below, MAWC's customer account services expense per customer was \$19.03 for 2023. The cost pool used to calculate this average includes charges for Service Company services (e.g., call handling, billing, payment processing) and postage and forms expenses, which are incurred directly by MAWC. It is necessary to adjust the Service Company's charges because electric utilities experience an average of 1.25 calls per customer compared to American Water's 0.76 calls per customer during 2023. Thus, the Service Company's expenses had to be increased, for comparison purposes, to reflect its costs if it had had 1.25 calls per customer.

Missouri American Water Company, Inc.		2023 Service Co Charges	Adjustment Fewer Calls For Water Cos. (A)	Adjusted
	Service Company	\$ 8,337,202	\$ 396,582	\$ 8,733,785
	Call processing, order processing, credit, bill collection, forms, postage			
	Customer payment processing			\$ 377,302 (B)
MAWC	Customer advocacy			\$ 542,716
			Cost Pool Total	\$ 9,653,803
			Total Customers	507,285
	2023 Cost per Missouri American Customer			<u>\$ 19.03</u>
Note A: Adjustment for American Water's fewer calls per customer				
This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities				
	Call handling expenses	\$ 623,567		
	Electric utility industry's avg calls/customer	1.25		
	American Water's avg calls/customer	0.76		
	Percent different	64%	64%	
	Total Adjustment	\$ 396,582		
Note B: Estimated customer payment processing expenses				
	Number of customer bills	5,960,542		
	Bank charge per item	\$ 0.0633		
	Total estimated annual expense	\$ 377,302		

### Electric Utility Group Cost per Customer

Schedule 14 (page 34) shows the calculation of customer account expense per customer for 2022 for the electric utility comparison group. All of the underlying data was taken from the utilities' FERC Form 1.

**Missouri-American Water Company**  
**Comparison Group 2022 Customer Account Expense Per Customer**

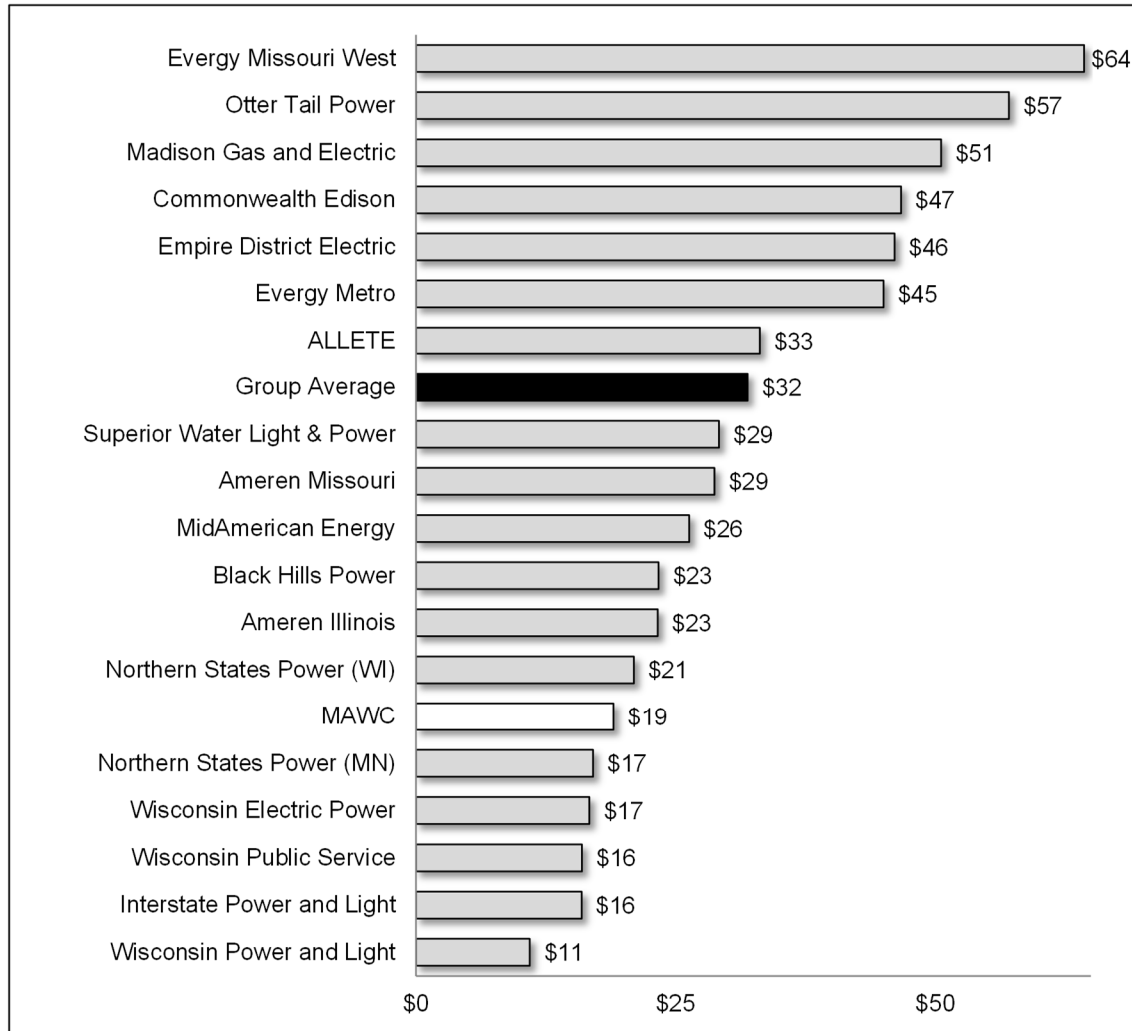
Comparison Group	Customer Accounts Services Cost Pool Employee Benefits				Total Customers	Customer Account Services Expenses per Customer
	Account 903 and 905	Employee		Total Cost Pool		
		Pension and Benefits	Payroll Taxes			
ALLETE, Inc.	\$ 4,678,073	\$ 37,153	\$ 266,833	\$ 4,982,059	150,464	\$ 33.11
Ameren Illinois Company	\$ 27,086,169	\$ 458,064	\$ 1,064,215	\$ 28,608,448	1,229,379	\$ 23.27
Ameren Missouri Company	\$ 33,448,764	\$ 982,218	\$ 1,528,483	\$ 35,959,466	1,250,553	\$ 28.75
Black Hills Power, Inc.	\$ 1,497,859	\$ 182,293	\$ 75,520	\$ 1,755,672	75,135	\$ 23.37
Commonwealth Edison Company	\$ 176,980,949	\$ 8,330,263	\$ 6,743,647	\$ 192,054,859	4,111,174	\$ 46.72
Empire District Electric Company	\$ 6,866,504	\$ 2,229,642	\$ 460,375	\$ 9,556,520	207,291	\$ 46.10
Evergy Metro, Inc.	\$ 20,355,892	\$ 4,801,213	\$ 743,787	\$ 25,900,892	575,301	\$ 45.02
Evergy Missouri West, Inc.	\$ 18,815,431	\$ 2,621,076	\$ 457,529	\$ 21,894,036	340,298	\$ 64.34
Interstate Power and Light Company	\$ 6,711,188	\$ 863,883	\$ 367,482	\$ 7,942,553	498,042	\$ 15.95
Madison Gas and Electric Company	\$ 7,906,873	\$ 54,790	\$ 300,600	\$ 8,262,262	163,413	\$ 50.56
MidAmerican Energy Company	\$ 19,614,716	\$ 754,255	\$ 1,020,022	\$ 21,388,993	813,017	\$ 26.31
Northern States Power Company (Minnesota)	\$ 24,381,133	\$ 1,149,088	\$ 701,115	\$ 26,231,336	1,538,707	\$ 17.05
Northern States Power Company (Wisconsin)	\$ 5,123,464	\$ 290,303	\$ 185,957	\$ 5,599,724	266,952	\$ 20.98
Otter Tail Power Company	\$ 7,248,933	\$ 62,961	\$ 378,250	\$ 7,690,143	134,701	\$ 57.09
Superior Water Light & Power Company	\$ 378,016	\$ 37,082	\$ 29,876	\$ 444,974	15,242	\$ 29.19
Wisconsin Electric Power Company	\$ 17,900,608	\$ 354,443	\$ 930,656	\$ 19,185,707	1,148,141	\$ 16.71
Wisconsin Power and Light Company	\$ 4,551,772	\$ 529,479	\$ 300,168	\$ 5,381,420	490,592	\$ 10.97
Wisconsin Public Service Corporation	\$ 6,827,262	\$ 113,652	\$ 402,053	\$ 7,342,967	458,948	\$ 16.00
<b>Total/Average</b>	<b>\$ 390,373,606</b>	<b>\$ 23,851,859</b>	<b>\$ 15,956,569</b>	<b>\$ 430,182,034</b>	<b>13,467,350</b>	<b>\$ 31.94</b>

Source: FERC Form 1; Baryenbruch & Company, LLC, analysis

## VI - Question 4 - Reasonableness of Customer Account Services Costs

### Summary of Results

As shown in the table below, MAWC's 2023 cost per customer is below the 2022 average cost of the utility comparison group. Thirteen of eighteen comparison utilities had a higher 2022 cost per customer than MAWC's 2023 cost. It can be concluded that MAWC's 2023 total customer account expenses are comparable to those of other utilities.



Source: Company information; FERC Form 1; Baryenbruch & Company, LLC, analysis



## VII - Question 5 – Need for Service Company Services

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An assessment was performed to determine if the services provided to MAWC by the Service Company would be necessary if MAWC were not part of the American Water organization. The first step in this evaluation was to determine specifically what the Service Company does for MAWC. Based on discussions with Service Company personnel, the matrix in Schedule 15 (pages 37-39) was created showing which entity—MAWC or a Service Company location—is responsible for each of the functions MAWC requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a water and wastewater utility.

Upon review of Schedule 15, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and required for water and wastewater utilities and would be required even if MAWC were not part of the American Water organization. The services are customarily provided by service companies of the other utility holding companies.
- There is no redundancy or overlap in the services provided by the Service Company to MAWC. For all the services listed in Schedule 15, there was only one entity that was primarily responsible for the service.

**Missouri-American Water Company  
Designation of Responsibility for Water Utility Functions**

<b>P - Primarily Responsible</b> <b>S - Provides Support</b>	Performed By:			
	MAWC	American Water Service Company		
		Customer Call Center	Other Service Company	IT Service Centers
Water Company Function				
<b>Engineering and Construction Management</b>				
CPS Preparation	P		S	
Five-Year System Planning	P		S	
Engineering Standards & Policies Development			P	
Project Design				
Major Projects (e.g., new treatment plant)	P		S	
Special Projects	P		S	
Minor Projects (e.g., pipelines)	P			
Construction Project Management				
Major Projects	P		S	
Special Projects	P			
Minor Projects	P			
Hydraulics Review	P		S	
Developers Extensions	P			
Tank Painting	P			
<b>Water Quality and Purification</b>				
Water Quality Standards Development	P (1)		P (1)	S
Research Studies	S		P	S
Water Quality Program Implementation	P		S	S
Water Treatment Operations & Maintenance	P		S	
Compliance Sampling	P			S
Testing/Other Sampling	P			S
<b>Transmission and Distribution</b>				
Preventive Maintenance Program Development	P			
System Maintenance	P			
Leak Detection	P			
<b>Customer Service</b>				
Community Relations	P			
Customer Contact	S (1)	P (1)		
Call Processing		P (1)		
Service Order Processing	S	P		
Customer Credit		P		
Meter Reading	P			
Customer Bill Preparation				P (1)
Bill Collection	S (1)	P (1)	S (1)	
Customer Payment Processing	S (1)		P (1)	
Meter Standards Development	P		S	
Meter Testing, Maintenance & Replacement	P			

Note 1: MAWC responsible for State regulations, Central Services responsible for Federal regulations  
Note 2: MAWC provide in-person customer contact while Service Company call centers provide customer phone contact

**Missouri-American Water Company  
Designation of Responsibility for Water Utility Functions**

P - Primarily Responsible S - Provides Support	Performed By:				
	MAWC	American Water Service Company			
Water Company Function		Customer Call Center	Other Service Company	IT Service Centers	Central Lab
<b>Financial Management</b>					
Financial Planning	S		P		
Financings--Equity	S		P		
Financings--Long Term Debt & Preferred (Note A)	S		P		
Short Term Lines of Credit Arrangements(Note A)			P		
Investor Relations			P		
Insurance Program Administration	S		P		
Loss Control/Safety Program Administration	S		P		
Pension Fund Asset Management			P		
Cash Management/Disbursements			P		
<b>Internal Auditing</b>			P		
<b>Budgeting and Variance Reporting</b>					
Corporate Guidelines & Instructions			P		
Budget Preparation					
Revenue and O&M			P		
Depreciation and Interest Expense	S		P		
Budget Preparation--Service Company Charges	S	S	P	S	S
Capital Budget Preparation--Projects	P		P		
Capital Budget Preparation--Non-Project Work	P		P		
Prepare Monthly Budget Variance Report ("Budget/Plan Analysis")	S		P		
Prepare Capital Project Budget Status Report	P		S		
Year-End Projections	P		S		
<b>Accounting and Taxes</b>					
Accounts Payable Accounting	S		P		
Payroll Accounting	S		P		
Work Order Accounting	S		P		
Fixed Asset Accounting	S		P		
Journal Entry Preparations--Billing Corrections	S		P		
Journal Entry Preparation--All Others	S		P		
Financial Statement Preparation	S		P		
State Commission Reporting	S		P		
Income Taxes--State			P		
Income Taxes--Federal			P		
Property Taxes	S		P		
Gross Receipts (Town) Taxes	S		P		

Note A: Lines of credit are the responsibility of American Water Capital Corporation ("AWCC"). AWCC is also responsible for Corporate financings which may be distributed to the regulated subsidiaries. MAWC has the ability to issue LTD.

**Missouri-American Water Company**  
**Designation of Responsibility for Water Utility Functions**

<b>P - Primarily Responsible</b> <b>S - Provides Support</b>	Performed By:				
	MAWC	American Water Service Company			
Water Company Function		Customer Call Center	Other Service Company	IT Service Centers	Central Lab
<b>Rates</b>					
Rate Studies & Tariff Change Administration	S		P		
Rate Case Planning and Preparation	S		P		
Rate Case Administration	S		P		
Commission Inquiry Response	S		P		
<b>Legal</b>			P		
<b>Purchasing and Materials Management – National (pipe, chemicals, meters, etc.)</b>					
Specification Development	S		P		
Bid Solicitation	S		P		
Contract Administration	S		P		
<b>Purchasing and Materials Management – State (state supplier service agreements)</b>					
Specification Development	P		S		
Bid Solicitation	P				
Contract Administration	P				
Ordering	P				
Inventory Management	P				
<b>Human Resources Management</b>					
Benefit Program Development			P		
Benefits Program Administration			P		
Management Compensation Administration			P		
Wage & Salary Program Design			P		
Wage & Salary Administration			P		
Labor Negotiations--Wages	P		S		
Labor Negotiations--Benefits	P		S		
Labor Negotiations-- Work Rules	P		S		
Training Program Development			P		
Training--Course Delivery			P		
Affirmative Action/EEO--Plan Development			P		
Affirmative Action/EEO--Implementation			P		
<b>Information Technology Services</b>					
Service Company Data Centers					
System Operations & Maintenance				P	
Software Maintenance				P	
Network Administration				P	
Workstation Acquisition & Support	S			P	
Help Desk				P	

## VII - Question 6 – Appropriateness of Governance Practices

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### Definition of Governance Practices

Governance practices are internal controls designed to provide assurance that objectives are being achieved relating to operations, reporting and compliance. Among other things, this is achieved through control activities, which are defined as follows:

*Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment.*

Source: "Internal Control – Integrated Framework, Executive Summary," Committee of Sponsoring Organizations of the Treadway Commission

### Governance Practices Applied to Service Company Charges

There are several ways by which MAWC and the Service Company exercise control over Service Company services and charges. The most important of these are described below.

1. Chief Operating Officer Oversight - The Chief Operating Officer (COO) is on the Executive Leadership Team (ELT) of American Water. This position is responsible for the overall performance of each operating company in American Water. As part of the ELT, the COO participates in the major business decisions of American Water and has the ability to monitor Service Company performance quality and spending. The COO also addresses local concerns with each operating company president.
2. Operating Company Board Oversight – The MAWC board of directors is comprised of members of the MAWC management team and external business and community leaders. The MAWC board has quarterly scheduled meetings each year to review and discuss financial, operational and other matters.
3. Missouri American President Oversight – The MAWC President is responsible for the overall performance of MAWC, and, as such, monitors services and charges received from the Service Company. MAWC's President reports to the Deputy Chief Operating Officer who, in turn, reports to the Chief Operating Officer who has a significant voice in major business decisions that impact the Service Company's quality and cost of services.
4. CFO Operations and Supporting Staff (Finance team) - The Finance team is responsible for monitoring the overall financial performance of MAWC. This includes overseeing MAWC's financial reporting process, performing revenue and expense analysis, managing the annual budgeting process and monitoring internal control performance. Every month, the Finance team performs a detailed expense analysis that includes Service Company charges. Month-to-date actual and year-to-date actual performance is compared against budget and prior period actuals. The Finance team also reviews and investigates monthly Service Company charges based on the results of the team's analytical procedures in order to determine the appropriateness of the charges.
5. Service Company Budget Review/Approval – The Service Company Board of Directors (BOD) formally reviews and approves the budget for Service Company on an annual basis. The Service Company BOD consists of (a) the AW ELT and (b) key Executive Management representatives from the Service Company. The Service Company's overall budget is assigned to each operating company, and the operating company consolidates the Service Company charges with its own direct spending to arrive at a total operating company

## VII - Question 6 – Appropriateness of Governance Practices

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budget. This is presented to the operating company's board of directors (e.g., MAWC) for their approval.

6. Major Project Review and Approval – Before major Service Company non-capital projects are undertaken, they must be reviewed and approved by American Water's Executive Leadership Team which includes the Deputy and Chief Operating Officers. The Deputy Chief Operating Officer, with significant input from his direct reports, has the ability to impact all new initiatives and projects before they are authorized. Major non-capital projects and initiatives for the Service Company are approved through the business planning process. As part of the business planning process a technology roadmap of initiatives is developed from American Water's vision, strategy, operational objectives and key business programs. The alignment of these initiatives with enterprise goals is approved by the Executive Leadership Team and key business leaders from various operational and functional areas of American Water. The roadmap is updated annually to produce a rolling roadmap and investment plan.
7. Capital Program Management ("CPM") – CPM covers capital and asset planning and is employed throughout American Water, including Service Company. CPM provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CPM ensures that:
  - a. Capital expenditure plans are aligned with the strategic intent of the business
  - b. The impact of capital expenditures are fully reflected in operating expense plans
  - c. The impacts of these plans on state operating company budgets and operating results are understood
  - d. Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CPM process was designed to optimize the effectiveness of asset investment. The process is managed at two levels for all American Water companies, including all MAWC Operating Units. Monthly meetings of the CPM are held to review capital spending compared to plan, review new project requests and review updates or modifications to existing projects. The MAWC management team participates, as necessary, and provides the data used in the monthly review schedules.

8. Accounting and Financial Reporting – The Service Company follows the same accounting and financial reporting processes as American Water's regulated utilities. At month-end, the Service Company Finance team reviews all transactions and analyzes month to date variance to budget to ensure accuracy before the billing process takes place. Once completed, the Service Company bill is produced and shows the actuals that are directly charged or allocated to the states based on predetermined formulas. At this time, the operating companies may question expenses and spending for better understanding of results. MAWC's Finance team reviews the monthly Service Company bill for accuracy and reasonableness on a monthly basis. Any errors or overcharges are corrected on a subsequent billing.
9. Operating Company Budget Variance Analysis – Each month a Service Company Affiliate Billing Analysis Report is prepared and provided to operating companies. This report allows operating companies to monitor their Service Company budget-versus-actual charges for the month and year-to-date.

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10. Service Company Budget Variance Analysis - Each function within a Service Company is responsible for reviewing the budget-versus-actual charges for the month and year-to-date. On a monthly basis, Service Company actual results vs budget variances are reviewed with State Presidents as well as the ELT. Key variances by function are presented and discussed.

These are control activities that help ensure that Service Company charges to MAWC are necessary and reasonable.