

Exhibit No. 215

Exhibit No.:	_____
Issue(s):	Affiliate Transactions
Witness/Type of Exhibit:	Schaben/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	WR-2022-0303

REBUTTAL TESTIMONY

OF

ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2022-0303

** _____ **
Denotes Confidential Information that has been redacted

January 18, 2023

PUBLIC

TABLE OF CONTENTS

Testimony	Page
Introduction	1
American Water Resources Company	2
Information Technology/Enterprise Capital Projects	5

REBUTTAL TESTIMONY
OF
ANGELA SCHABEN
MISSOURI AMERICAN WATER COMPANY, INC.
CASE NO. WR-2022-0303

1 **INTRODUCTION**

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

3 A. Angela Schaben, Utility Regulatory Auditor, Office of the Public Counsel (“OPC” or “Public
4 Counsel”), P.O. Box 2230, Jefferson City, Missouri 65102.

5 **Q. Are you the same Angela Schaben who filed direct testimony for the OPC in this case?**

6 A. Yes.

7 **Q. What is the purpose of your testimony?**

8 A. The purpose of my testimony is to respond to the accounting schedules filed in this case by
9 the Staff of the Public Service Commission (“Staff”). In particular, I am responding to the
10 revenue requirement calculated in the accounting schedules that fails to make necessary
11 disallowances related to (1) Missouri American Water Company, Inc.’s (“MAWC”) capital
12 information technology projects and (2) American Water Resources Company, Inc.’s
13 (“AWRC”) continued relationship with American Water Works Company, Inc. (“AWWC”) and
14 access to Missouri ratepayer information.

15 **Q. Please summarize your recommendations as presented in the subsequent testimony.**

16 A. I am recommending the following updates to the revenue requirement proposed by Staff:

- 17 1. The revenue requirement in this case should be reduced in order to
18 acknowledge the value of Missouri ratepayer data included in the sale of
19 AWRC.

1 2. A disallowance related to MAWC’s proposed information technology capital
2 projects.

3 **AMERICAN WATER RESOURCES COMPANY**

4 **Q. What is AWRC?**

5 A. AWRC offers homeowner protection contracts pertaining to service lines across 43 states and
6 Washington, D.C¹.

7 **Q. What is AWRC’s relationship to AWWC?**

8 A. As stated in my direct testimony, AWRC was an affiliate of AWWC before it was sold to funds
9 advised by APAX Partners on December 9, 2021.

10 **Q. Is there an ongoing relationship between AWRC and AWWC?**

11 A. As stated in my direct testimony, the companies agreed to revenue sharing agreements partially
12 based on past and future customer data. Additionally, “American Water’s core regulated
13 business strengthened as cash proceeds from the transaction will be redeployed into the
14 regulated water and wastewater businesses in near- and long-term”² One example of the
15 on-going business relationship between AWWC and AWRC is the Secured Seller Note
16 Agreement between American Water Enterprises, LLC and other parties involved in the
17 AWRC sale (Schedule ADS-R-1). In this secured seller note agreement, American Water
18 Enterprises is listed as the lender and several other entities are listed, to include the borrower
19 and subsidiary guarantors. American Water Enterprises, LLC is a subsidiary of AWWC.

¹ [Home Service Line Warranties | American Water Resources \(awrusa.com\)](https://www.sec.gov/Archives/edgar/data/1410636/000119312521312453/d226943dex991.htm)

² <https://www.sec.gov/Archives/edgar/data/1410636/000119312521312453/d226943dex991.htm>

1 The President of AWRC, Eric Palm is the signatory for all six parties representing the
2 buyer³.

3 **Q. Based on the January 10, 2022⁴ privacy policy, prior to the December 9, 2021 sale date,**
4 **as a subsidiary of AWWC, AWRC could have obtained access to customer information**
5 **resulting from mergers and acquisitions and perhaps meter usage. Is it reasonable to**
6 **assume that this information would be included in the sale of AWRC?**

7 A. Yes. Assuming AWRC had access to this information prior to the sale, one could also assume
8 that AWRC retained at least that information to which it was privy as an AWWC affiliate.

9 **Q. If the sale of AWRC is continuing to provide AWWC revenue to “improve regulated**
10 **water and wastewater businesses,” should a portion of that revenue be used to offset**
11 **MAWC ratepayer bills?**

12 A. Yes. MAWC is a subsidiary of AWWC and Missouri customer data was likely collected by
13 AWWC and/or American Water Works Service Company, Inc. (“the Service Company”), as
14 a result of ongoing operations, to include mergers and acquisitions. Despite MAWC’s
15 insistence regarding its independence from AWWC, it appears greatly dependent upon
16 AWWC and the services provided by the Service Company⁵. For instance, I have not seen
17 documentation in Staff discovery showing that MAWC plays an active role in negotiating third
18 party vendor contracts or service costs. The affiliate transactions occurring between MAWC,
19 AWWC, and the Service Company do not appear to be at arm’s length and it is reasonable to
20 conclude that the sharing of data between companies works the same way⁶.

³ Schedule ADS-R-1, page 102 of 105

⁴ Schedule ADS-R-2

⁵ Mr. Patrick Baryenbruch Direct Testimony, File No. WR-2022-0303, Market to Cost Comparison of Service Company Charges to Missouri American Water Company

⁶ Rebuttal Testimony of Mr. Robert E. Schallenberg, File No. WR-2020-0344 page 2 lines 1 through page 4 line 6. Also attached as schedule ADS-R-3

1 **Q. Has the AWRC privacy policy been updated since your direct testimony?**

2 A. Yes. The AWRC privacy policy was updated on December 23, 2022. Attached to my
3 testimony as Schedule ADS-R-2 is the January 10, 2022 privacy policy to which I refer.

4 **Q. What have you noticed about the updated privacy policy?**

5 A. The updated privacy policy is much shorter, and more generic, than the January 10, 2022
6 version. The customer privacy website link under the “Contact Us” section of the updated
7 privacy policy (Schedule ADS-R-4, page 5 of 6) is an email link rather than a link leading
8 to the customer privacy website.

9 **Q. Are you proposing a disallowance?**

10 A. Yes. The revenue requirement in this case should reflect the sale of Missouri ratepayer data
11 resulting from the following:

12 (1) If Missouri ratepayer data acquired by AWRC, as a subsidiary of AWWC, over
13 the course of regular business operations was included in the sale of AWRC, and

14 (2) If a portion of the proceeds of the AWRC sale is reportedly redeployed into
15 regulated water and wastewater businesses, resulting from the Missouri ratepayer data
16 asset acquired over the course of regular business operations as a subsidiary of AWWC,
17 and included in the AWRC sale.

18 **Q. What is your recommendation to the Commission?**

19 A. To the extent that AWWC is receiving revenue from AWRC resulting from its sale, Missouri
20 customers should be granted a pro rata share of that revenue to acknowledge that an asset—in
21 the form of Missouri customer data—was transferred in the sale of AWRC. Based on a

1 comparison of MAWC financials provided in response to Staff Data Request 0034⁷ and the
2 American Water Works Company Income Statement (Schedule ADS-R-6), approximately 9%
3 of AWWC's 2021 revenues were derived from MAWC. Therefore, the revenue requested in
4 this case should be reduced by an amount equal to 9% of the revenues AWWC receives from
5 AWRC to acknowledge the value of Missouri ratepayer data included in the AWRC sale.

6 **INFORMATION TECHNOLOGY/ENTERPRISE CAPITAL PROJECTS**

7 **Q. What are Generally Accepted Accounting Principles ("GAAP")?**

8 A. Generally Accepted Accounting Principles ("GAAP") refer to a common set of accounting
9 rules, standards, and procedures issued by the Financial Accounting Standards Board
10 ("FASB").⁸

11 **Q. Are there GAAP standards for software related expenditures?**

12 A. Yes. ASC 350-40⁹ offers guidance to determine if computer software costs can be
13 capitalized¹⁰. ASC 350-40 and the subsections within provide clarification on capitalization
14 of costs for both internal use software and cloud computing arrangements.¹¹

15 **Q. Do different degrees of capitalization exist dependent upon whether the software is 16 internal use or procured through a cloud computing arrangement?**

17 A. Yes. Per updated GAAP guidelines, internal use software is subject to different capitalization
18 standards than cloud computing software¹².

⁷ Schedule ADS-R-5

⁸ <https://asc.fasb.org/Home>

⁹ ASC stands for Accounting Standards Codification; also see Schedule ADS-R-7

¹⁰ <https://asc.fasb.org/1943274/2147482658>

¹¹ Joanne Flood, M. C. (2022). *Practitioner's Guide to GAAP 2022; Interpretation of Generally Accepted Accounting Principles*. Hoboken: John Wiley & Sons, Inc., pages 397-409

¹² <https://asc.fasb.org/1943274/2147482633>; <https://asc.fasb.org/1943274/2147482609>; See Schedule ADS-R-8

1 **Q. Have you found any evidence in the record of this case that delineates differences**
2 **between internal use software versus cloud software in MAWC’s proposed capital**
3 **software projects?**

4 A. No. I have not found any evidence of this delineation

5 **Q. What documents would you expect to see in order to adequately determine the proper**
6 **level of software capitalization?**

7 A. Based on ASC 350-40-55-3 implementation guidance provided by FASB¹³, I would expect
8 to see the vendor contracts between the Service Company product vendors that adequately
9 outline the expected costs of the software projects by the varying stages of software
10 development, to include:

11 (a) Preliminary Project Stage

12 (b) Application Development Stage

13 (c) Post Implementation / Operations Stage

14 Equally important are the service contracts between the Service Company and MAWC
15 detailing MAWC’s share of the capital expenditures because the Service Company provides
16 Information Technology services across AWWC and its subsidiaries. Depending on how
17 software costs fall into the categories above determines the capitalization rate. Additionally,
18 capitalization rules differ between internal use software and cloud computing software.

19 **Q. Is there any additional information you would expect to find?**

20 A. I expected to find more information to signify that MAWC’s affiliate transactions,
21 especially related to technology investments, are conducted in an arm’s length manner.

¹³ <https://asc.fasb.org/1943274/2147482538>

1 However, I did not find documentation related to MAWC specific purchase orders, budgets,
2 competitive bidding, third party vendor interaction, etc. This type of information was
3 readily available in Evergy's general rate case, Case Numbers ER-2022-0129 and ER-2022-
4 0130, in response to one of Staff's customary data requests. I am requesting this information
5 via data requests.

6 **Q. Why would you search for and expect documentation from MAWC that as least shows**
7 **some independence related to technology?**

8 A. Based on Company witness Richard C. Svindland, I was expecting to see documentation
9 showing independent operations from AWWC and its other affiliates.¹⁴

10 **Q. How does the Service Company charge MAWC for software related Capital expenses?**

11 A. MAWC is essentially pre-billed by the Service Company for estimated Services that have not
12 yet occurred¹⁵. According to the MAWC 2021 Cost Allocation Manual submitted to the
13 Commission on March 15, 2022¹⁶, billing of services transpires as follows:

14 As soon as practicable after the last day of each month, Service Company shall
15 render a bill to Water Company for all amounts due from Water Company for
16 services and expenses for such month plus an amount equal to the estimated cost of
17 such services and expenses for the current month, all computed pursuant to Articles
18 II and III. Such bill shall be in sufficient detail to show separately the charge for
19 each class of service rendered. All amounts so billed shall reflect the credit for
20 payments made on the estimated portion of the prior bill and shall be paid by Water
21 Company within a reasonable time after receipt of the bill therefore.¹⁷

¹⁴ Svindland Page 13 lines 20-23 through page 14 lines 1-10.

¹⁵ Missouri American Water 2021 CAM, page 12 of 54; *mawc 2021 cam.pdf*

¹⁶ BAFT-2022-0627; See Schedule ADS-R-9

¹⁷ BAFT-2022-0627, Appendix A – Service Company Agreement, pages 37 - 38 of 54.

1 This method of billing affects cash working capital lead lag, as OPC witness Cassidy Weathers
2 explains in her rebuttal testimony.

3 **Q. How does MAWC procure its software?**

4 A. Information Technology is a Service Company cost center. Based on currently available
5 information to which I have access, it appears the Service Company procures enterprise¹⁸ level
6 software and bills MAWC for the software and support¹⁹. There is no evidence to suggest that
7 MAWC has the ability to negotiate a fair price from third party vendors²⁰. If MAWC lacks
8 the ability to negotiate on its own behalf, then it is dependent upon the Service Company to
9 determine how much MAWC is responsible for paying for these services and expenses²¹. This
10 practice diminishes MAWCs claim of independence.

11 **Q. How are the Service Company's assets procured?**

12 A. According to MAWC's response to Staff DR 0018, "Service Company assets are procured
13 directly by Service Company or through a capital leasing arrangement with LOP."

14 **Q. What is LOP?**

15 A. LOP is an acronym for Laurel Oak Properties Corp. which is a capital leasing company that
16 procures equipment for the Service Company and leases those assets to the Service Company
17 through capital leases. Per Company witness Mr. Patrick Baryenbruch, regarding Service
18 Company assets:

19 Service Company Assets: Service Company assets are procured directly by Service
20 Company or through a capital leasing arrangement with Laurel Oak Properties

¹⁸ Enterprise software is generally procured for organizational use rather than individual use. One example is Microsoft Office Products.

¹⁹ Based on Company response to OPC DR 1109.

²⁰ Rebuttal Testimony of Mr. Robert E. Schallenberg, File No. WR-2020-0344 page 2 lines 1 through page 4 line 6. Also attached as schedule ADS-R-3

²¹ BAFT-2022-0627; See Schedule ADS-R-9

1 (LOP). Service Company capitalizes these LOP leases as Non-Utility Plant assets in
2 accordance with generally accepted accounting principles. Generally speaking,
3 Service Company assets (including hardware, servers, laptops, desktops, servers,
4 storage racks, furniture, laboratory and test equipment, security cameras, monitors
5 and leasehold improvements) are acquired through LOP via a capital lease. LOP, on
6 behalf of the Service Company, will acquire the necessary materials and services to
7 build the assets that are needed for the Service Company to meet its business needs.
8 One Water Street (OWS), which owns the Camden headquarters, is providing
9 furniture, fixtures and office-related equipment for the first seven years of the lease
10 with the Service Company.²²

11 **Q. What is the total amount that MAWC requested for capital software projects?**

12 A. Please see table 1 below which breaks out the total MAWC is requesting for capital software
13 projects, broken out by whether the software was approaching the end of useful life²³:

²² Mr. Patrick Baryenbruch Direct Testimony, File No. WR-2022-0303, Market to Cost Comparison of Service Company Charges to Missouri American Water Company, page 7 of 39.

²³ Summary of Company response to OPC Data Request 1102

** _____

1

**

2

Q. Of the ** _____ ** MAWC requested for capital software projects, how much was requested for upgrades resulting from existing software reaching the end of its useful life?

3

4

A. Only ** _____ ** of the ** _____ ** is the result of upgrading/enhancing existing software reaching the end of its useful life.

5

6

Q. Of the ** _____ ** requested for capital software projects, how much was requested for new technology?

7

8

A. Over half of the ** _____ **, was requested for “new technology resulting in more effective operations”. Specifically, ** _____ ** was requested for this purpose.

9

10

1 **Q. When deciding on whether or not proposed projects are worth investment funds, is it**
2 **common practice for corporate entities to conduct return on investment analysis to**
3 **ensure that funds are directed to projects expected to achieve the best return on**
4 **investment?**

5 A. Yes. Publicly owned corporations answer to shareholders and, for the most part, endeavor to
6 pursue activities that maximize value for shareholders.

7 **Q. What is Return on Investment (“ROI”)?**

8 A. According to Investopedia, ROI is a key measurement useful in a variety of situations, to
9 include whether to invest in a new business venture or new project.²⁴ Key performance
10 indicators (“KPIs”) could also provide ROIs supporting IT initiatives.²⁵

11 **Q. What are KPIs?**

12 A. KPIs guide effective decision making and are frequently utilized to measure strategic impact²⁶
13 of organizational performance.²⁷

14 **Q. Do the same rules apply to regulated utility companies?**

15 A. Regulated public utility companies also answer to shareholders. The difference between
16 regulated public utility companies and other public corporations is that regulated utilities have
17 the ability to recover expenses from ratepayers.

²⁴ <https://www.investopedia.com/articles/basics/10/guide-to-calculating-roi.asp>

²⁵ <https://www.cio.com/article/220262/10-tips-for-selling-and-proving-its-roi.html>

²⁶ <https://www.microsoft.com/en-us/microsoft-365/business-insights-ideas/resources/what-are-kpis-and-how-to-use-them>

²⁷ <https://www.kpi.org/kpi-basics/>

1 **Q. Does MAWC fall into this category?**

2 A. MAWC is a subsidiary operating company of its parent, American Water Works Company,
3 Inc. (“AWWC”). Essentially, MAWC’s performance may potentially affect shareholder value
4 at the parent company level.

5 **Q. Does MAWC maintain Information Technology Key Performance Indicators (KPI) that**
6 **align its information technology goals with business objectives?**

7 A. No. According to MAWC’s response to OPC DR 1105, MAWC does not maintain KPIs
8 related to its information technology goals.

9 **Q. If MAWC does not maintain its own KPIs related to its information technology goals,**
10 **who does?**

11 A. According to MAWC, the Service Company IT Department maintains MAWC’s Information
12 Technology KPIs.

13 **Q. What are examples of the KPIs maintained by the Service Company?**

14 A. According to MAWC’s response to OPC Data Request 1105, a summary of such Information
15 Technology KPIs maintained by the Service Company IT Department on behalf of MAWC
16 include the following:

- 17 • Projects & Delivery
- 18 • Cyber Security
- 19 • IOC/Service Desk
- 20 • Infrastructure Availability
- 21 • Application Availability
- 22 • Infrastructure Incidents
- 23 • Financial
- 24 • Application Incidents
- 25 • People Compliance Vendors

1 **Q. Did MAWC conduct a return on investment calculation to justify its investment of**
2 ****_____** in capital software projects in order to determine the best return on**
3 **investment for both shareholders and ratepayers?**

4 A. When asked for the anticipated return on investment provided by the capital software project
5 upgrades and/or enhancement, MAWC responded that ****_____**
6 **_____****²⁸.

7 **Q. Was any detailed information provided in discovery that justified these new projects or**
8 **the capitalization of software expenses?**

9 A. Based on the Company's response to OPC DR 1102, I did not find sufficient information
10 explaining the reasoning behind why these new projects were so essential, as referenced in
11 Table 1 above.

12 **Q. What disallowance would you apply to Staff's accounting schedules based on MAWC's**
13 **lack of justification for capitalizing certain software investments?**

14 A. Until MAWC can show that the recording of ****_____**** in capital software upgrades
15 and/or enhancements meet GAAP rules, I recommend the Commission remove the entire
16 ****_____**** from the revenue requirement calculations. This amount could be placed in
17 a regulatory asset to be recognized in the next rate case only if MAWC shows that it prudently
18 incurred the costs and that they are within GAAP guidelines by MAWC. The Service
19 Company bills MAWC for information technology and software services and maintains
20 MAWC's information technology KPIs related to technology performance and projects. The
21 Service Company provides technology services to MAWC through the Information
22 Technology cost center. Since the Service Company is MAWC's affiliate, burden of proof lies
23 upon MAWC to provide the requisite information. Because the burden of proof lies with

²⁸ Company response to OPC DR 1102 (c) and (d)

1 MAWC to provide the necessary information, the Commission should remove the
2 **_____** requested for MAWC enterprise capital projects at this time.

3 **Q. Does this conclude your testimony?**

4 A. Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Missouri-)
American Water Company's Request for)
Authority to Implement General Rate Increase) Case No. WR-2022-0303
for Water and Sewer Service Provided in)
Missouri Service Areas)

AFFIDAVIT OF ANGELA SCHABEN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Angela Schaben, of lawful age and being first duly sworn, deposes and states:

1. My name is Angela Schaben. I am a Utility Regulatory Auditor for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Angela Schaben
Utility Regulatory Auditor

Subscribed and sworn to me this 18th day of January 2023.



TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121



Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.