Exhibit No.:	___________________
Issue:	Revenue Requirement
Witness:	James A. Leyko
Type of Exhibit:	Direct Testimony
Sponsoring Party:	City of Bolivar, Missouri
File Nos.:	WR-2024-0104 and SR-2024-0105
Date Testimony Prepared:	August 20, 2024

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Request of Liberty Utilities (Missouri Water) LLC d/b/a Liberty for Authority to Implement a General Rate Increase for Water and Wastewater Service Provided in its Missouri Service Areas	)))))))	**File No. WR-2024-0104** **File No. SR-2024-0105**

Direct Testimony and Schedules of

James A. Leyko

On behalf of

City of Bolivar, Missouri

PUBLIC VERSION

August 20, 2024

BRUBAKER & ASSOCIATES, INC.

Project 11676

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Request of Liberty Utilities (Missouri Water) LLC d/b/a Liberty for Authority to Implement a General Rate Increase for Water and Wastewater Service Provided in its Missouri Service Areas	**)**	**File No. WR-2024-0104** **File No. SR-2024-0105**

STATE OF MISSOURI	**)**	
	)	**SS**
COUNTY OF ST. LOUIS	**)**	

Affidavit of James A. Leyko

James A. Leyko, being first duly sworn, on his oath states:

1. My name is James A. Leyko. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the City of Bolivar, Missouri in this proceeding on its behalf.

2. Attached hereto and made a part hereof for all purposes are my direct testimony and schedules which were prepared in written form for introduction into evidence in Missouri Public Service Commission File Nos. WR-2024-0104 and SR-2024-0105.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

James A. Leyko

Subscribed and sworn to before me this 20th day of August, 2024.

SALLY D. WILHELMS
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Aug. 5, 2028
Commission # 20078050

Sally D Wilhelms

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
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<u>Direct Testimony of James A. Leyko</u>

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OF THE STATE OF MISSOURI

In the Matter of the Request of Liberty Utilities (Missouri Water) LLC d/b/a Liberty for Authority to Implement a General Rate Increase for Water and Wastewater Service Provided in its Missouri Service Areas	**File No. WR-2024-0104** **File No. SR-2024-0105**

Direct Testimony of James A. Leyko

I. INTRODUCTION AND SUMMARY

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James A. Leyko. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q WHAT IS YOUR OCCUPATION?

A I am a Consultant in the field of public utility regulation with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am testifying on behalf of the City of Bolivar ("Bolivar"), Missouri. Bolivar has a franchise agreement with Liberty Utilities (Missouri Water) LLC d/b/a Liberty ("Liberty"), and Liberty provides water and wastewater services to all residential, commercial and industrial customers within the city limits of Bolivar, as well as to Bolivar.

Q WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A My testimony will respond to Liberty's claimed revenue deficiency of $8,251,496. This amount comes from Liberty's July 1, 2024 Filing of Update Information ("July 1, 2024 Update") which updated data through April 30, 2024.

Q PLEASE SUMMARIZE YOUR ADJUSTMENTS TO LIBERTY'S REVENUE REQUIREMENT AS PRESENTED IN YOUR TESTIMONY.

A I recommend several adjustments to Liberty's claimed revenue deficiency. As outlined in Confidential Table JAL-1 below, I believe the Company's claimed revenue deficiency of $8,251,496 is overstated by at least $796,916. As shown below, Liberty has not justified an increase in its wastewater rates given the Company has not demonstrated a revenue deficiency.

CONFIDENTIAL TABLE JAL-1

Revenue Requirement Adjustments

Line	Description	Source (1)	Water (2)	Wastewater (3)	Total (4)
1	Claimed Revenue Deficiency	July 1, 2024 Update	$ 8,135,634	$ 115,861	$ 8,251,496
	Adjustments:				
2	1.) A&G Costs per Customer[1]	Schedule JAL-1	$ (351,470)	$ -	$ (351,470)
3	2.) Rate Case Expense	Schedule JAL-2	(108,266)	(29,421)	(137,687)
4	3.) Property Taxes	Schedule JAL-3	(82,488)	(8,254)	(90,742)
5	4.) Unfilled Positions	Schedule JAL-4	*** [redacted] ***	*** [redacted] ***	*** [redacted] ***
6	5.) Overtime Expense	Schedule JAL-4	*** [redacted] ***	*** [redacted] ***	*** [redacted] ***
7	6.) Acquisition Amortization	Schedule JAL-6	(37,217)	(112,198)	(149,416)
8	7.) Incentive Compensation	Schedule JAL-7	(7,747)	(632)	(8,379)
9	Total Adjustments		$ (643,420)	$ (153,496)	$ (796,916)
10	Revised Revenue Deficiency		$ 7,492,215	$ (37,635)	$ 7,454,580

Note:
[1] Excludes all or a portion of Leyko's Adjustment Nos. 2, 4, 5, 6, and 7.

My silence with regard to any position taken by Liberty in its direct testimony and filings in this proceeding does not indicate my endorsement of that position. I will address the issues in Confidential Table 1 in the remainder of my testimony.

II. ADMINISTRATIVE AND GENERAL (“A&G”) EXPENSES

Q DID LIBERTY PROVIDE A HIGH-LEVEL OVERVIEW OF THE DRIVERS OF THE REQUESTED INCREASE?

A Yes. Liberty witness Cindy S. Wilson provides a waterfall chart on page 4 of her direct testimony. The chart argues the Company’s costs have increased by $14.657 million compared to the cost used to set Liberty’s existing rates approved in Case Nos. WR-2018-0170, SR-2018-0171 and WR-2012-0300. This increase is offset by an increase in revenues of $6.592 million for a net increase (or revenue deficiency) of $8,065,267. Liberty’s revenue deficiency increased to $8,251,496 (87.76%) in its July 1, 2024 Update.

Per Ms. Wilson’s chart, the number one driver of Liberty’s revenue deficiency is the increase in A&G costs. Liberty’s water A&G costs decreased in its update and are now $3,034,868 in the adjusted test year[1] (compared to $3,474,770 in Liberty’s initial filing). This is a $2.1 million increase compared to the A&G costs in Case Nos. WR-2018-0170, SR-2018-0171 and WR-2012-0300.

Q GIVEN THESE COSTS ARE A MAJOR DRIVER OF LIBERTY’S CLAIMED REVENUE DEFICIENCY, IS THERE A WAY TO CHECK WHETHER LIBERTY’S A&G COSTS ARE REASONABLE?

A Yes. We can compare Liberty’s A&G costs to its number of customers over time. If A&G costs are increasing faster than the number of customers, then that increase must be justified.

[1] Liberty Schedule 6 (July 1, 2024 Update).

Q HAVE YOU PUT TOGETHER A COMPARISON OF LIBERTY'S A&G COSTS AND THE NUMBER OF CUSTOMERS?

A Yes. Table JAL-2, below, compares Liberty's A&G costs since 2020 to its number of customers each year. The table shows Liberty's A&G costs per customer for water were decreasing since 2021. However, these savings are not reflected in the test year because the A&G costs per customer in the test year are significantly higher.

TABLE JAL-2

A&G Costs per Customer

Line	Description	A&G Costs (1)	Customers (2)	Cost Per Customer (3)
1	2020	$ 1,047,919	7,415	$ 141.32
2	2021	1,857,015	7,448	249.33
3	2022	2,575,181	11,912	216.18
4	2023	2,512,263	12,451	201.77
5	Adjusted Test Year[1]	3,072,086	12,311	249.54
6	Average (2020 to 2023)			$ 202.15
7	2023 Plus Inflation[2]			$ 207.52

Sources:
Liberty Annual Report to the MO Commission, Pages W-1 and W-6.
[1] O'Neill Direct, Figure 3, Page 7, and Liberty's Schedule 5.
[2] Inflation is forecasted to be 2.85% in 2024. *Blue Chip Financial Forecasts*, August 1, 2024.

The test year number of customers is taken from Liberty witness Thomas O'Neill's Figure 3 on page 7 of his direct testimony. His figure includes the number of residential, commercial, and industrial customers. 12,311 customers compared to $3,072,086 of water A&G costs (taken from Ms. Wilson's schedules) equals a cost per customer of approximately $250. In contrast, Liberty's 2023 annual report to the

Missouri Commission reports 12,451 customers[2] and $2,512,263 of water A&G costs.[3] This equals an A&G cost per customer of approximately $202 in 2023 (this is also nearly equal to the four-year average A&G cost per customer). Liberty's proposed test year represents a 24% increase over Liberty's 2023 results and the four-year average. This is a significant increase compared to Liberty's results in 2023 and should be rejected.

I recommend the Commission limit Liberty's A&G test year costs until this increase over 2023 can be justified.

Q ARE YOU RECOMMENDING THE COMMISSION LIMIT LIBERTY'S A&G COSTS IN THE TEST YEAR TO THE PER CUSTOMER RATE FROM 2023?

A No. I recommend estimating the Company's water A&G costs using the 2023 water A&G costs per customer after an inflation adjustment. Inflation is forecasted to be 2.85% in 2024.[4] While I believe an adjustment to the Company's 2023 A&G per customer is appropriate to account for cost increases, Liberty's proposed 24% increase is excessive so I recommend limiting this increase to the forecasted rate of inflation. Therefore, my recommended adjustment uses a rate of $207.52 per customer, as shown in Table JAL-2, line 7. This equals the per customer rate in 2023 escalated by one year of inflation at 2.85%.

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[2] Liberty Utilities (Missouri Water) LLC d/b/a Liberty Water and/or Sewer Annual to the Missouri Public Service Commission, January 1 - December 31, 2023. Page W-1. Includes residential, commercial, and industrial customers but excludes Public Authority and Fire Protection Customers since these customers are not in O'Neill's Figure 3. The Public Authority and Fire Protection number of customers appears nearly static year to year.

[3] Liberty Utilities (Missouri Water) LLC d/b/a Liberty Water and/or Sewer Annual to the Missouri Public Service Commission, January 1 - December 31, 2023. Page W-6.

[4] *Blue Chip Financial Forecasts*, August 1, 2024.

Q WHAT IS THE IMPACT OF LIMITING LIBERTY'S A&G COST PER CUSTOMER IN THE TEST YEAR?

A My proposed adjustment would lower Liberty's water A&G test year costs from $3,072,086 as shown in the July 1, 2024 Update to $2,554,810, or a decrease of $517,276.

Q ARE YOU RECOMMENDING A $517,276 ADJUSTMENT TO LIBERTY'S WATER REVENUE REQUIREMENT?

A Yes. That said, while I recommend the Commission approve at least a $517,276 adjustment to Liberty's water A&G costs in the test year, I recommend other adjustments elsewhere in my testimony that also lower A&G costs. My total adjustment is shown in Schedule JAL-1 and my net adjustment is shown in Table JAL-1. Removing the impact of my other adjustments on water A&G results in my recommended cap to Liberty's water A&G test year costs lowering the Company's claimed revenue deficiency by $351,470.

Q ARE YOU RECOMMENDING A SIMILAR ADJUSTMENT TO LIBERTY'S WASTEWATER A&G COSTS?

A No. An adjustment to Liberty's wastewater A&G is not necessary because the Company does not have a wastewater revenue deficiency.

III. RATE CASE EXPENSE

Q PLEASE SUMMARIZE LIBERTY'S PROPOSAL REGARDING ITS RATE CASE EXPENSE FOR THIS CASE.

A Ms. Wilson states the Company anticipates it will incur approximately $1,013,125 of rate case expense.[5] In Liberty's July 1, 2024 Update the total amount of anticipated rate case expense increased to $1,032,654.[6]

Liberty proposes to amortize the total rate case expense over three years. Ms. Wilson argues the Company believes that it will not file its next rate case for at least three years.[7] She supports an increase to the Company's amortization expense as Expense Adjustment 5. The adjustment increases Liberty's annual expenses by $344,218 for the recovery of rate case expense per the July 1, 2024 Update.

Q DO YOU HAVE ANY CONCERNS WITH LIBERTY'S PROPOSAL?

A Yes. Rate case expense for this case should be recovered over the time period rates approved in this proceeding will likely be in effect. I believe Liberty and I agree on this point. However, while Liberty asserts that rates approved in this proceeding will be in effect for about three years, a look at the Company's rate case history suggests rates will be in effect longer than Liberty's proposed recovery period. The Company filed its last rate case in Case Nos. WR-2018-0170 and SR-2018-0171 and the effective date of the Final Order in that case was November 3, 2018, or nearly six years ago. In that case the Commission approved a five-year recovery period for rate case expense.

> The Commission concludes that the company should be allowed to recover in rates prudently incurred rate case expense through September 11, 2018. Rate case expenses are to be amortized over a five year period with any over or under recovery to be placed in a

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[5] Wilson Direct at 25.
[6] Filing of Update Information, EXP ADJ 05 Workpapers, Rate Case Expenses tab.
[7] Wilson Direct at 25.

regulatory asset or regulatory liability account to be considered in Liberty Utilities' next rate case.[8]

Given the length of time since the Company's last rate case and the Commission Order in that case, I believe Liberty should recover its rate case expense in this case over five years.

Q PLEASE EXPLAIN YOUR ADJUSTMENT.

A My adjustment is developed in Schedule JAL-2. I calculate the revenue impact, using data from Liberty's July 1, 2024 Update, of extending the recovery period of rate case expense from the Company's proposal of three years to the five years the Commission approved in the Company's last rate case. This adjustment lowers Liberty's claimed revenue deficiency by $137,687, or $108,266 for water and $29,421 for wastewater. My adjustment uses the same allocation of rate case expense as the Company, or 78.63% allocated to water and 21.37% allocated to wastewater.

IV. PROPERTY TAXES

Q DOES LIBERTY MAKE ANY ADJUSTMENTS RELATED TO PROPERTY TAXES IN THIS CASE?

A Yes. Ms. Wilson makes two property tax related adjustments. First, she annualizes the amount of property tax expense expected to be incurred for the Company's pro forma plant balances in this case. This is her Expense Adjustment 10. Next, Ms. Wilson, as part of Rate Base Adjustment 7 and Expense Adjustment 3, includes in cost of service the Property Tax Regulatory Asset.

[8] Case No. WR-2018-0170 Report and Order, October 24, 2018, page 32.

Q CAN YOU DESCRIBE THE PROPERTY TAX REGULATORY ASSET?

A Yes. Senate Bill 754 and the Revised Statutes of Missouri, Chapter 393.400 created the need for the regulatory asset. The statute reads:

> Electrical corporations, gas corporations, sewer corporations, and water corporations shall defer to a regulatory asset or liability account any difference in state or local property tax expenses actually incurred, and those on which the revenue requirement used to set rates in the corporation's most recently completed general rate proceeding was based. The regulatory asset or liability account balances shall be included in the revenue requirement used to set rates through an amortization over a reasonable period of time in such corporation's subsequent general rate proceedings. The commission shall also adjust the rate base used to establish the revenue requirement of such corporation to reflect the unamortized regulatory asset or liability account balances in such general rate proceedings. Such expenditures deferred under the provisions of this section are subject to commission prudence review in the next general rate proceeding after deferral.[9]

The regulatory asset tracks the difference between the property taxes included in Liberty's rates and its actual property taxes. In each rate case, the property taxes in rates will be reset and any amounts in the regulatory asset (or liability) will be collected from customers or refunded to customers depending on whether the property taxes in rates were above or below the utility's actual property taxes.

In this case, per the July 1, 2024 Update, Liberty has a regulatory asset of $680,564. Liberty proposes a three-year amortization period. This increases amortization expense by $226,855.

Q DO YOU HAVE ANY CONCERNS WITH LIBERTY'S PROPOSAL?

A Yes. My understanding of Chapter 393.400 is that in each rate case Liberty will seek to recover or refund the accumulated difference in property taxes as these differences will be deferred to the regulatory asset/liability between rate cases and in each rate

[9] https://revisor.mo.gov/main/OneSection.aspx?section=393.400#:~:text=393.400.,%E2%80%94%20rate%20base%20adjustment%2C%20when.

case the amount of property taxes included in rates will be updated. Therefore, I recommend Liberty's existing property tax regulatory asset be recovered over the time period rates approved in this proceeding will likely be in effect. To be clear, I believe this is also Liberty's proposal as it has proposed a three-year recovery period, just as it proposed for rate case expense.

However, I have the same concerns with a three-year amortization period for the property tax regulatory asset as I do for rate case expense. If the recovery of property taxes is set for three years that means if rates stay in effect longer than three years then Liberty will over-recover these costs. Customers will not be made whole until the regulatory asset and amortization expense are updated in the next rate case.

Q WHAT DO YOU RECOMMEND?

A My adjustment is included as Schedule JAL-3. Given the time period between rate cases is more likely to be five years rather than three years (based on past rate case filings and the Commission Order in the prior rate case) I recommend a five-year recovery period for these costs. This adjustment lowers Liberty's amortization expense and claimed revenue deficiency by $90,742.

V. LABOR EXPENSES

Q PLEASE BRIEFLY SUMMARIZE HOW LIBERTY DEVELOPED ITS TEST YEAR PAYROLL AND BENEFITS.

A Ms. Wilson supports Expense Adjustments 7 and 8 which normalize the Company's payroll, payroll taxes, overtime, and employee benefits for the expected amounts at the end of the update period. Liberty is proposing to update the test year through April 30, 2024 (the update period).[10] Ms. Wilson walks through the assumptions and adjustments she makes on pages 26 to 28 of her direct testimony. Based on the July 1, 2024 Update, Adjustment 7 increased Liberty's test year expenses by $456,215 for water and $22,686 for wastewater to account for increases in payroll, payroll taxes, and overtime. This results in a total test year expense of $2,144,953.

The $478,901 increase for water and wastewater includes a 4.0% merit increase in 2023, a 3.5% merit increase in 2024, annualized overtime based on a historical average, and an adjustment to add in the costs associated with open positions.[11]

For Expense Adjustment 8 (employee benefits), Liberty increased the 401k benefit to match the new number of positions and payroll data calculated in Expense Adjustment 7.[12] Per the July 1, 2024 Update, Adjustment 8 increased Liberty's test year expenses by $45,254, or $44,875 for water and $379 for wastewater.

Q DO YOU HAVE ANY CONCERNS WITH HOW LIBERTY CALCULATED THESE EXPENSES?

A Yes. I believe Liberty overstates these expenses due to its assumptions around unfilled positions and overtime expense. I will address each issue below.

[10] Wilson Direct at 6.
[11] *Id*. at 26.
[12] *Id*. at 27.

V.A. Unfilled Positions

Q PLEASE EXPLAIN YOUR CONCERNS WITH LIBERTY INCLUDING THE COST OF UNFILLED POSITIONS IN ITS REVENUE REQUIREMENT.

A The cost of unfilled positions is not known and measurable and should not be included in the development of Liberty's test year labor expense. Liberty will not incur costs associated with the additional positions unless and until those positions are actually filled. Therefore, a test year that includes additional positions that have not yet been hired and with an unknown hire date will allow Liberty to over-recover its actual labor expense. In order to incur the test year labor expense Liberty will need to not only fill the additional positions (which will require finding qualified employees) but also offset the impact of any positions that become vacant as employees retire or leave the Company. If Liberty increases its test year labor costs for only positions it expects to hire during the update period without accounting for employee attrition then the Company is overstating its labor expense.

Q WHY DOES LIBERTY PROPOSE TO INCLUDE THE COST OF CURRENTLY VACANT POSITIONS IN ITS TEST YEAR COST OF SERVICE?

A Ms. Wilson states the Company intends to fill these positions before the end of the update period.

> In addition to annualizing the base salaries and overtime, the Company also included in its revenue requirement calculation payroll related to open positions which the Company anticipates it will fill by the end of the update period.[13]

She makes a similar argument when discussing employee benefits.

[13] *Id*. at 26.

> We obtained the annual amounts incurred for each employee at the test year end and included estimated amounts for any open positions that the Company anticipates it will fill by the end of the update period.[14]

Q DID THE COMPANY FILL ALL OF THE OPEN POSITIONS?

A No. Liberty's payroll and benefits workpapers for the July 1, 2024 Update were provided as *EXP ADJ 7 - Payroll Expense Annualization CONFIDENTIAL - Water&Sewer_Update.xlsx* and *EXP ADJ 8 - Employee Benefits Annualization CONFIDENTIAL - Water&Sewer_Update.xlsx*. Regarding unfilled positions, the update shows ***[redacted]*** I recommend the Commission exclude any costs associated with unfilled positions that were not hired by the end of the update period. As noted above, Liberty included the costs for the unfilled positions because it believed they would be hired. Any positions not hired should be excluded as a not known and measurable cost.

Q PLEASE DESCRIBE YOUR ADJUSTMENT TO REMOVE ALL COSTS ASSOCIATED WITH UNFILLED POSITIONS.

A My adjustment is developed in Confidential Schedule JAL-4. I removed the costs of the unfilled positions from the Company's workpapers. My adjustment ***[redacted]***

[14] *Id*. at 27.

V.B. Overtime Expense

Q PLEASE EXPLAIN YOUR CONCERNS WITH LIBERTY'S CALCULATION OF OVERTIME EXPENSE.

A I am concerned that Liberty is overstating its test year level of overtime expense. Ms. Wilson describes the Company's overtime expense adjustment in her direct testimony.

> The Company also included in its adjustment a portion of annualized payroll related to overtime. This annualized overtime was determined by using an overtime percentage computed for non-union and union employees based on a two-year average of overtime hour actually incurred and the pay rate as of December 31, 2022. This rate was then applied to the Company's pro forma base payroll amount as previously described.[15]

Workpapers supporting the July 1, 2024 Update's calculation of overtime were provided as *EXP ADJ 7 - Payroll Expense Annualization CONFIDENTIAL - Water&Sewer_Update.xlsx*. ***[redacted]*** This increase in costs has not been justified. Therefore, I recommend an adjustment to Liberty's calculation of normalized overtime expense.

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[15] Wilson Direct at 26.

Q PLEASE EXPLAIN YOUR ADJUSTMENT TO LIBERTY'S CALCULATION OF NORMALIZED OVERTIME EXPENSE.

A My adjustment is developed in Confidential Schedule JAL-4. ***[redacted]***

VI. ACQUISITION AMORTIZATION

Q PLEASE EXPLAIN LIBERTY'S ACQUISITION AMORTIZATION ADJUSTMENT.

A Liberty includes the regulatory asset related to the acquisition of Bolivar water and wastewater assets that was approved in WA-2020-0397 as part of Expense Adjustment 3. Ms. Wilson describes the adjustment and cites the Commission Order in her direct testimony. She also explains the Company's proposed 10 year recovery period.

> Acquisition amortization expense is related to the Bolivar acquisition. The Commission approved the acquisition of Bolivar water and wastewater assets by Liberty in December 20212. In the order, the Commission stated:
>
> > The Commission authorizes Liberty to establish a regulatory asset in the amount of $3,981,385 ($1,612,758 for water and $2,368,627 for sewer). Rate recovery of this regulatory asset will be determined in Liberty's next general rate case.
>
> Liberty proposed a ten-year amortization period, to minimize the impact on the customers. This amortization period results in an adjustment of $398,139.[16]

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[16] Wilson Direct at 24.

The $398,139 adjustment is the same in the July 1, 2024 Update and breaks down as a $161,276 increase in amortization expense for water and a $236,863 increase for wastewater. Expense Adjustment 3 (for all components) increases Liberty's amortization expense by $644,170, or $386,673 for water and $257,498 for wastewater.

Q DID LIBERTY EXPLAIN ITS PROPOSAL TO RECOVER THIS ACQUISITION REGULATORY ASSET OVER TEN YEARS?

A Not entirely. I investigated the Company's proposal in discovery. When asked whether the Company considered a different recovery period Liberty responded:

> Yes, Liberty considered both a shorter and a longer amortization period. However, due to the sizeable nature of the regulatory assets, the Company did not feel that a shorter amortization period was appropriate.
>
> The Company chose to propose an amortization period of 10 years to balance the interest of customers with recovery of the costs associated with the regulatory asset in a timely manner.[17]

The choice for ten years is not well supported in my opinion.

Q IS THERE A BETTER WAY TO ESTABLISH A RECOVERY PERIOD FOR THE REGULATORY ASSET APPROVED IN WA-2020-0397?

A Yes. I recommend the recovery period be tied to the average remaining life of the Bolivar assets. This appears to be approximately 13 years for the water assets and 19 years for the wastewater assets. This value was derived using Liberty witness Dane A. Watson's depreciation study. Per Direct Schedule DAW-2, the water assets have an unrecovered balance of $5,888,604 and an annual accrual of $439,790 (or a remaining life of 13.39 years) and the sewer assets have an unrecovered balance of

[17] Liberty response to City of Bolivar Data Request BOL-32, provided in Schedule JAL-5.

$8,643,118 and an annual accrual of $446,492 (or a remaining life of 19.36 years). I recommend Liberty use 13 years and 19 years for water and wastewater, respectively, as the amortization periods in its Expense Adjustment 3.

Q PLEASE DESCRIBE YOUR ADJUSTMENT.

A My adjustment is included as Schedule JAL-6. My adjustment, which increases the recovery period for water assets from 10 years to 13 years and wastewater assets from 10 years to 19 years, lowers Liberty's claimed revenue deficiency by $149,416, or $37,217 for water and $112,198 for wastewater.

Q WAS BOLIVAR A PARTY IN WA-2020-0397 WHERE THIS REGULATORY ASSET WAS APPROVED?

A No.

VII. INCENTIVE COMPENSATION

Q DOES LIBERTY PROPOSE TO RECOVER ITS INCENTIVE COMPENSATION COSTS FROM CUSTOMERS?

A Yes. Liberty provided the amount of incentive compensation included in cost of service in response to City of Bolivar Data Request - BOL-25 (provided in Schedule JAL-5). Liberty does not adjust its incentive compensation in Ms. Wilson's schedules. Therefore, it is my understanding that the Company proposes to include in rates 100% of the incentive compensation it paid out in 2022.

Q DO YOU BELIEVE IT IS REASONABLE FOR A UTILITY TO INCLUDE ITS INCENTIVE COMPENSATION IN RATES?

A Yes, but only if the incentive awards are based on goals or metrics that directly benefit customers, such as improved customer satisfaction or improved employee safety. As I discuss below, only a portion of Liberty's incentive compensation meets this requirement because a portion of Liberty's incentive compensation is tied to the financial performance of Algonquin. Incentive compensation tied to financial goals does not directly benefit customers because these awards are primarily designed to align the interest of employees with shareholders and not customers. Therefore, these costs should be paid for by shareholders and I recommend the Commission disallow recovery of these costs.

Q DID LIBERTY PROVIDE SUPPORTING DOCUMENTATION FOR ITS PAYMENT OF INCENTIVE COMPENSATION IN 2022?

A In part. Liberty provided an overview of its Short Term Incentive Plan ("STIP") in response to Missouri Public Service Commission Data Request – 0037 (provided in Schedule JAL-5) but the document does not provide specific details about the goals or metrics tracked under the plan. I will note that the STIP overview highlights that one of the plan's goals is to align employee and shareholder interests.

> The purpose of the STIP is to align compensation with corporate targets and results, and thereby promote behaviors which benefit the interests of the Company, its shareholders, and customers and to reward personal achievements which are linked directly to overall corporate performance.[18]

[18] Response to Missouri Public Service Commission Data Request – 0037, Attachment DR 0037 1a (provided in Schedule JAL-5).

Any targets that benefit shareholders and do not directly benefit customers should be removed from Liberty's revenue requirement in this case.

Liberty also provided its 2022 Corporate Scorecard Results as part of its response to City of Bolivar Data Request - BOL-25. However, this scorecard appears to be tied to calendar year 2022 (the document refers to itself as a 2023 Management Information Circular) and my assumption is the incentive compensation paid out in 2022 (and therefore in Liberty's revenue requirement in this case) would be based on the prior year's results. Regardless, the 2022 scorecard is useful because it highlights one of the issues with including incentive compensation costs tied to financial metrics in rates.

The scorecard shows the financial results were below the minimum threshold in two metrics (which I understand to mean no incentive compensation was awarded on those metrics) and above the minimum but below the target threshold in one metric. As a result, the financial goals included in Liberty's incentive compensation plan were about 5% of the payout in the 2022 scorecard, or 4.3 points out of a total scorecard result of 83.1 points.

This highlights one reason why incentive compensation costs associated with financial goals should be excluded from cost of service, it is not known whether or not a utility will achieve the incentivized financial goals while rates are in effect. This means, in addition to excluding financial-based incentive compensation costs from rates because they are designed to primarily benefit the interests of shareholders, there is also reason to exclude them on the basis of developing just and reasonable rates. If incentive compensation programs tied to financial performance are included in cost of service, Liberty's customers will bear these incentive expenses regardless of whether the financial incentive results are actually achieved or result in any measurable customer benefits.

In contrast, if incentive compensation tied to the financial performance of a utility is excluded from cost of service, then shareholders would bear these costs only in the event that the improved financial results rewarded under the incentive compensation plan is achieved. If the incentive targets are achieved, then the utility's earnings and dividend-paying ability will be enhanced. In this instance, shareholders can pay for the incentive compensation costs out of the higher earnings created by the employees achieving the incentive financial goals. If the goals are not achieved, shareholders will not incur the incentive compensation costs. In this scenario, both the shareholders and employees benefit from the incentive.

Q WHAT DO YOU RECOMMEND?

A My adjustment is included as Schedule JAL-7. I recommend the Commission exclude incentive compensation costs tied to financial goals from Liberty's revenue requirement. The 2022 Central Scorecard December Update (provided in Schedule JAL-5) shows that goals tied to "growth" are 19% of the plan. Therefore, I recommend a disallowance of 19% of the incentive compensation costs included in Liberty's test year.[19] The "growth" metric in the 2022 Corporate Scorecard was tied to financial goals such as earnings per share. Liberty has not shown how incentivizing a higher earnings per share directly benefits customers and I recommend all costs under this label be rejected.

[19] Liberty response to City of Bolivar Data Request BOL-25, provided in Schedule JAL-5.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

Qualifications of James A. Leyko

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James A. Leyko. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q PLEASE STATE YOUR OCCUPATION.

A I am a Consultant in the field of public utility regulation with the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I received a Bachelor of Arts Degree in History from Tulane University in 2007. I attended Saint Louis University and received a Master of Business Administration Degree in 2011. I joined BAI and served in the analyst department until 2012. Prior to rejoining BAI as a Consultant in 2018, I worked as a Regulatory Economist for the Maryland Public Service Commission and as the Regulatory Affairs Manager for the Efficiency Maine Trust.

I have written testimony and appeared as an expert witness before the Illinois Commerce Commission, the Maine Public Utilities Commission, the Maryland Public Service Commission, and the Oklahoma Corporation Commission, and have supported filings for several regulated utility matters as a Consultant for BAI. These assignments included revenue requirement issues such as incentive compensation and vegetation management, income taxes, the impact of the Tax Cuts and Jobs Act of 2017, and resource planning.

BAI was formed in April 1995. BAI and its predecessor firm have participated in more than 700 regulatory proceedings in 40 states and Canada.

BAI provides consulting services in the economic, technical, accounting, and financial aspects of public utility rates and in the acquisition of utility and energy services through RFPs and negotiations, in both regulated and unregulated markets. Our clients include large industrial and institutional customers, state regulatory agencies, and some utilities. We also prepare special studies and reports, forecasts, surveys and siting studies, and present seminars on utility-related issues.

In general, we are engaged in energy and regulatory consulting, economic analysis and contract negotiation. In addition to our main office in St. Louis, the firm also has branch offices in Corpus Christi, Texas; Louisville, Kentucky and Phoenix, Arizona.

504368

Liberty Utilities-Missouri Water Co.

A&G Costs Per Customer Adjustment
Adjustment No. 1

Line	Description	Amount (1)
	Company Proposed	
1	Total Water A&G Expense[1]	$ 3,072,086
2	Number of Customers[2]	12,311
3	A&G Cost per Customer (Line 1 / Line 2)	$ 249.54
	Adjusted	
4	A&G Cost per Customer[3]	$ 207.52
5	Number of Customers[2]	12,311
6	Adjusted Water A&G Expense (Line 4 * Line 5)	$ 2,554,810
	Difference (Revenue Requirement Impact)	
7	Water A&G Expense (Line 6 - Line 1)	$ (517,276)

Sources:
[1] Schedule 5, Liberty's July 1, 2024 Update.
[2] O'Neill Direct, Figure 3, Page 7.
[3] Leyko Direct Testimony, Table JAL-2.

Liberty Utilities-Missouri Water Co.

Rate Case Expense Amortization Adjustment
Adjustment No. 2

Line	Description	Water (1)	Wastewater (2)	Total (3)
	Company Proposed			
1	Total Rate Case Expense	$ 811,996	$ 220,657	$ 1,032,654
2	Amortization Period (Years)	3	3	3
3	Annual Rate Case Expense	$ 270,665	$ 73,552	$ 344,218
	Adjusted			
4	Total Rate Case Expense	$ 811,996	$ 220,657	$ 1,032,654
5	Amortization Period (Years)	5	5	5
6	Annual Amortization Expense	$ 162,399	$ 44,131	$ 206,531
	Difference (Revenue Requirement Impact)			
7	Annual Amortization Expense	$ (108,266)	$ (29,421)	$ (137,687)

Source:
EXP ADJ 05 Workpapers, WP 6.1 and Rate Case Expenses tabs.

Liberty Utilities-Missouri Water Co.

Property Taxes Regulatory Asset Amortization Adjustment
Adjustment No. 3

Line	Description	Water (1)	Wastewater (2)	Total (3)
	Company Proposed			
1	Property Taxes Regulatory Asset	$ 618,659	$ 61,905	$ 680,564
2	Amortization Period (Years)	3	3	3
3	Annual Amortization Expense	$ 206,220	$ 20,635	$ 226,855
	Adjusted			
4	Property Taxes Regulatory Asset	$ 618,659	$ 61,905	$ 680,564
5	Amortization Period (Years)	5	5	5
6	Annual Amortization Expense	$ 123,732	$ 12,381	$ 136,113
	Difference (Revenue Requirement Impact)			
7	Annual Amortization Expense	$ (82,488)	$ (8,254)	$ (90,742)

Source:
RB ADJ 7, EXP ADJ 3 Workpapers.

Liberty Utilities-Missouri Water Co.

<u>Labor Expenses Adjustments</u>
Adjustment Nos. 4 & 5

Line	Description		Water (1)	Wastewater (2)	Total (3)		Source (4)
	Company Proposed						
	Unfilled Positions						
1	Payroll	***	[redacted]			***	EXP ADJ 7 WP, 'Summary - Payroll' tab
2	Payroll Taxes	***				***	EXP ADJ 7 WP, 'Summary - Payroll Taxes' tab
3	Benefits	***				***	EXP ADJ 8 WP, 'Summary' tab
4	Unfilled Positions Total	***				***	Sum Lines 1-3
	O&M Labor (with Company Proposed Overtime)						
5	Payroll	***	[redacted]			***	EXP ADJ 7 WP, 'Summary - Payroll' tab
6	Payroll Taxes	***				***	EXP ADJ 7 WP, 'Summary - Payroll Taxes' tab
7	Total O&M Labor	***				***	Sum Lines 5 & 6
	Adjusted						
	Unfilled Positions						
8	Payroll		$ -	$ -	$ -		EXP ADJ 7 WP, 'Summary - Payroll' tab
9	Payroll Taxes		-	-	-		EXP ADJ 7 WP, 'Summary - Payroll Taxes' tab
10	Benefits		-	-	-		EXP ADJ 8 WP, 'Summary' tab
11	Unfilled Positions Total		$ -	$ -	$ -		Sum Lines 8-10
12	**Difference**	***	[redacted]			***	**Line 11 - Line 4**
	O&M Labor (with Overtime Adjustment)						
13	Payroll	***	[redacted]			***	EXP ADJ 7 WP, Change to 'Overtime Rates' tab
14	Payroll Taxes	***				***	EXP ADJ 7 WP, Change to 'Overtime Rates' tab
15	Total O&M Labor	***				***	Sum Lines 13 & 14
16	**Difference**	***				***	**Line 15 - Line 7**

File Nos. WR-2024-0104 / SR-2024-0105
Liberty Utilities (Missouri Water) LLC Data Responses
Referenced in the Direct Testimony
of Bolivar Witness James A. Leyko

Liberty's Responses to Data Requests: **Page**

Data Request Received: 2024-06-26 Response Date: 2024-07-16
Request No. BOL-25 Witness/Respondent: Punam Maini
Submitted by: Peggy Whipple, peggy@healylawoffices.com

REQUEST:

Please refer to the Company's response to Staff Request 37. Please answer the following questions:

a. Please indicate the amount of incentive compensation included in the revenue requirement of each water and sewer system on a jurisdictional basis, broken down by entity allocating and the related incentive plan, that when totaled is included in the Company's Direct Schedule CSW-1.

b. Please refer to Attachment DR 0037_1a (2023 Guidelines for the Short Term Incentive Plan ("STIP")) which read, "The STIP award is based on three components each split by a weighting which varies by position level" and notes the three components are Parent Scorecard, Division Scorecard, and Personal Objects. For the Parent and Division components, please provide each scorecard objective, a description of each objective, and each objective's weighting in determining STIP awards within its component.

RESPONSE:

a. Please refer to the attachment labeled "DR BOL-25 Workbook.xlsx" for incentive compensation included in the cost of service.

b. Please find attached "2022 Corporate Scorecard Results.pdf" and "2022 Balance Scorecard-Central – December Update.xlsx"

MO Water
Incentive Compensation
2022

2022	8640*	8149	8656	Total
Bonus Accrual	16,135	2,049	26,477	44,661

*Note: 8640 is allocated to jurisdictions using the 4-factor allocation factors.

		4-Factor*	8640 16,135	8149	8656	Total
Water						
8118	8118-2-0100-69-5044-9260	3.19%	515			515
8120	8120-2-0100-69-5044-9260	0.71%	115			115
8122	8122-2-0100-69-5044-9260	1.40%	226			226
8149	8149-2-0100-69-5044-9260	6.25%	1,008	2,049		3,057
8152	8152-2-0100-69-5044-9260	3.58%	578			578
8641	8641-2-0100-69-5044-9260	0.61%	98			98
8642	8642-2-0100-69-5044-9260	0.37%	60			60
8643	8643-2-0100-69-5044-9260	0.74%	119			119
8644	8644-2-0100-69-5044-9260	0.89%	144			144
8645	8645-2-0100-69-5044-9260	3.08%	497			497
8646	8646-2-0100-69-5044-9260	0.42%	68			68
8647	8647-2-0100-69-5044-9260	0.89%	144			144
8649	8649-2-0100-69-5044-9260	32.16%	5,189			5,189
8650	8650-2-0100-69-5044-9260	0.58%	94			94
8652	8652-2-0100-69-5044-9260	0.37%	60			60
8653	8653-2-0100-69-5044-9260	0.52%	84			84
8656	8656-2-0100-69-5044-9260	20.14%	3,250		26,477	29,726
Sewer						
8120	8120-2-0200-69-5044-9260	0.46%	74			74
8122	8122-2-0200-69-5044-9260	1.14%	184			184
8152	8152-2-0200-69-5044-9260	1.40%	226			226
8646	8646-2-0200-69-5044-9260	0.26%	42			42
8648	8648-2-0200-69-5044-9260	0.74%	119			119
8651	8651-2-0200-69-5044-9260	1.19%	192			192
8656	8656-2-0200-69-5044-9260	15.44%	2,491			2,491
Total			15,575	2,049	26,477	44,101

*Note: Four-factor allocation excludes allocation to Fox River, IL.

Service Area		Incentive
Water		Compensation
8118	Holiday Hills	$ 515
8120	Timber Creek	115
8122	Ozark Mountain	226
8149	Noel	3,057
8152	KMB	578
8641	Midland	98
8642	Bilyeu Ridge	60
8643	Moore Bend	119
8644	Riverfork	144
8645	Taney County	497
8646	Valley Wood	68
8647	Franklin County	144
8649	Empire Water	5,189
8650	Lakeland Heights	94
8652	Whispering Hills	60
8653	Oakbrier	84
8656	Bolivar	29,726
Sewer		
8120	Timber Creek	74
8122	Ozark Mountain	184
8152	KMB	226
8646	Valley Wood	42
8648	Saver's Farm	119
8651	RD Sewer	192
8656	Bolivar	2,491

Corporate Scorecard results

The following sets out the 2022 Corporate Scorecard objectives and performance results achieved relative to those objectives. Targets and results noted in the discussion below are established and measured based on a C$ to US$ exchange rate of C$1.30 / US$1.00, the 2022 budget rate. Accordingly, reported performance may vary from results in the financial statements of the Corporation for 2022 due to difference in exchange rates used.

The overall 2022 Corporate Scorecard result was 83.1 points out of a target of 100 and a maximum of 200. In the Growth with a Strong Balance Sheet category, the Corporation achieved a score of 16.8 points out of a target of 40 and a maximum of 80. The result was driven primarily by below threshold performance on the earnings per share growth and FFO/debt ratio metrics. The score in the Sustainability category was 16.0 points out of a target of 20 and a maximum of 40. The Corporation achieved the maximum score for the implementation of cybersecurity risk management initiatives but missed the target for new renewable energy projects and women in leadership roles. In the Operational Excellence category, the Corporation achieved a score of 62.8 points out of a target of 40 and a maximum of 80. The maximum points were awarded for the Corporation's safety performance and implementation of the Customer First program.

Growth with strong balance sheet

16.8 pts. (max. 80 pts.)

Maximize operating efficiency and reduce cost of capital through prudent investment

Meet adjusted net earnings per share[1] (EPS) target
4.3 pts.– 93.2%

2022 actual – $0.69

Minimum	Target	Maximum
$0.67	$0.74	$0.81

Meet EPS growth target
0.0 pts.– 0.0%

2022 actual –0.0%

Minimum	Target	Maximum
0.0%	3.0%	7.0%

Funds from operations / debt ratio
0.0 pts.– 0.0%

2022 actual – below minimum

Minimum	Target	Maximum
14.0%	14.5%	15.0%

Growth sub-total: 4.3 pts.

Sustainability

16.0 pts. (max. 40 pts.)

Environmental

400MW of new Board-approved renewable projects in 2022
4.6 pts. – 46.0%

2022 actual – 346 MW

Minimum	Target	Maximum
Cumulative new renewables projects approved by Board in 2022 is less than 300 MW	400 MW	500 MW

Social

Exceed 32.5% women in leadership roles
3.1 pts.– 62.0%

2022 actual – 31.5%

Minimum	Target	Maximum
30.0%	32.5%	35.0%

Governance

Build a robust compliance framework
3.3 pts. – 132%

2022 actual – 9 initiatives

Minimum	Target	Maximum
Less than 5 initiatives implemented	8 initiatives	11 initiatives

Cybersecurity risk management program
5.0 pts. – 200%

2022 actual – 26 initiatives

Minimum	Target	Maximum
Results are less than 7 initiatives implemented	15 initiatives	26 initiatives

Sustainability sub-total: 16.0 pts.

Operational excellence

62.8 pts. (max. 80 pts.)

Provide customers with reliable service

SAIFI rate (frequency of electrical outages)

2.2 pts – 88%

2022 actual – 1.13

Minimum
Worse performance than worst of last 3 years – 1.39

Target
3% improvement on best of last 3 years – 1.10

Maximum
Top-quartile industry average – 0.80

Gas leak response time

4.1 pts. – 164%

2022 actual – 23.68 min.

Minimum
Results worse than 75% the regulatory targeted maximum response time i.e., 45 min.

Target
30 min.

Maximum
20 min.

Unplanned water disruption

3.5 pts. – 140%

2022 actual – 0.53

Minimum
Results are worse than worst Regulated performance in last 3 years i.e., 0.93

Target
0.80

Maximum
0.12

Renewables: (OPI) Operational Performance Index

4.3 pts. – 172%

2022 actual – 96.5 %

Minimum
Results are 3% worse than target i.e., 92%

Target
95%

Maximum
97%

Conduct operations safely and consistently with ESG principles

OHSA Recordable Incident Rate

30 pts. – 200%

2022 actual – 0.53 pts.

Minimum – 0 pts.
Below U.S. industry average incident rate – 1.27

Target – 15 pts.
Top-quartile U.S. industry average incident rate – 0.96

Maximum – 30 pts.
Top-decile U.S. industry average incident rate – 0.59

Meet our Customers' Expectations

Drive improved customer satisfaction as measured by J.D. Power

3.7 pts. – 49.3%

2022 actual – 699

Minimum
675

Target
724

Maximum
740

Customer First program delays

15 pts. – 200%

2022 actual – 0 weeks of slippage

Minimum
More than 16 weeks of combined slippage between Release 1 actual go-live and planned Release 2 go-live

Target
8 weeks of combined slippage

Maximum
No slippage

Operational excellence sub-total: 62.8 pts.

Sustainability:	**16.0 pts.**
Operational excellence:	**62.8 pts.**
Growth:	**4.3 pts.**
2022 Corporate Scorecard Total:	**83.1 pts**
2022 maximum available:	**200 pts.**

1. For further information on non-GAAP financial measures, please see "Caution concerning Non-GAAP financial measures" on page 6.

Section	Value Driver 2022	Target	Stretch	YE Forecast
Operational Excellence	Safety	**12.0**	**9.0**	**21.0**
	Reliability and Security	**12.0**	**10.0**	**16.7**
	Customer Experience	**12.0**	**9.0**	**1.9**
	Affordability	**20.0**	**40.0**	**2.5**
	Total	**56.0**	**68.0**	**42.0**
Growth	Infrastructure	**9.0**	**12.0**	**21.0**
	New Customers	**5.0**	**5.0**	**10.0**
	Acquisitions	**5.0**	**5.0**	**10.0**
	Total	**19.0**	**22.0**	**41.0**
Sustainability	Environment	**10.0**	**-**	**10.0**
	Employees	**10.0**	**10.0**	**15.0**
	Governance	**5.0**	**-**	**3.8**
	Total	**25.0**	**10.0**	**28.8**
TOTAL		**100.0**	**100.0**	**111.8**

Data Request Received: 2024-06-26 | Response Date: 2024-07-16
Request No. BOL-32 | Witness/Respondent: Cindy Wilson
Submitted by: Peggy Whipple, peggy@healylawoffices.com

REQUEST:

Please refer to page 24 of Ms. Wilson's Direct Testimony which reads, "Liberty proposed a ten-year amortization period, to minimize the impact on the customers." Did Liberty consider a shorter amortization period? Did Liberty consider a longer amortization period? Please describe the reason for using ten years over a shorter or longer time period.

RESPONSE:

Yes, Liberty considered both a shorter and a longer amortization period. However, due to the sizeable nature of the regulatory assets, the Company did not feel that a shorter amortization period was appropriate.

The Company chose to propose an amortization period of 10 years to balance the interest of customers with recovery of the costs associated with the regulatory asset in a timely manner.

Data Request Received: 2024-03-18
Response Date: 2024-04-08
Request No. 0037
Witness/Respondent: Punam Maini
Submitted by: Ashley Sarver, Ashley.Sarver@psc.mo.gov

REQUEST:

For the following information please provide the information for all employees who allocate (Direct or indirect) time/cost to Liberty Utilities (Missouri Water), LLC:

1. Please explain in detail what, if any, incentive compensation program and/or bonuses employees have actually received or may be eligible to receive.

2. Please provide the actual and accrued incentive compensation and/or bonus by month, by employee name, and by employee ID number, for the period of January 1, 2019 through December 31, 2023. Please include the allocation percentage to Liberty Utilities (Missouri Water), LLC.

3. Please list the employees by employee name, employee ID number, and job title that are eligible for overtime, a description of what types of overtime is possible and what pay rate is associated with each type of overtime (ex. time and a half, double time, etc.)

4. For overtime incurred during the period of January 1, 2019 through December 31, 2023, please provide separately by employee name, employee ID number, and by month, the number of overtime hours by overtime pay rate (time and half, double time, holiday pay etc. and, the dollar rate by each overtime type, and the dollars incurred by overtime type). Please include the allocation percentage to Liberty Utilities (Missouri Water), LLC. Please update this information to April 30, 2024 when the data becomes available.

RESPONSE: **Designated Attachments CONFIDENTIAL pursuant to 20 CSR 4240-2.135(2)(A)2**

1. Please see attached “DR 0037 1. a 2023 Guidelines for the Short Term Incentive Plan.pdf” and “DR 0037 1. b 2023 Guidelines for the Discretionary Shared Bonus Pool.pdf”.
2. Please see attached “DR 0037 2. Incentive Compensation 2019 to 2023_CONFIDENTIAL.xlsx” for actual bonus paid by month/year for the period of January 1, 2019 to December 31, 2023.

For locally accrued incentive compensation costs, please refer to the attached file "MPSC 0037 Midstates Water Bonus Accruals and Payouts 2019-2023.xlsx". All costs recorded to shared services company (8640) are allocated to the individual Midstates Water companies based on the local utility four factor.

For allocated incentive compensation and bonus expenses, please refer to the corporate cost allocation transaction details provided in response to DR MPSC 0021. The LTIP and bonus expenses are accrued for in GL accounts 500210 and 500220 and are trued up or down based on actuals at year end. These costs are allocated to the regulated entities based on the CAM allocation factors. Once the costs are allocated to Midstates Water, they are further allocated to the individual Midstates Water companies based on the local utility four factor.

3. Please see attached "DR 0037 3. Overtime Eligible Employees.xlsx" for list of employees by group eligible for overtime compensation.
    - Employees under Districts APUC, LU-LABS-CAN, and LU CAN – LU Head Office
        - Overtime between 40 and 44 hours in a week are paid at a rate of 1.0
        - Overtime after 44 hours in a week is paid a rate of 1.5
        - Employees who work on a statutory holiday in their province of employment receive overtime at a rate of 1.5
    - Employees under Districts Central Region, Liberty Corporate US, LU-LABS-US and LU – Missouri Water (Non-Union)
        - Overtime is paid at a rate of 1.5 for anything over 40 hours per week
    - Employees under District LU – Missouri Water (Union)
        - Overtime is paid at a rate of 1.5 for hours over 8 per day or 40 hours per week
        - Overtime is paid at a rate of 1.5 for scheduled hours worked on a holiday
        - Overtime is paid at a rate of 2.0 for unscheduled hours worked on a holiday
4. Please see attached "DR 0037 4. Overtime 2019 to 2023_CONFIDENTIAL.xlsx" for overtime paid by month and employee for the period of January 1, 2019 to December 31, 2023. The allocations to Missouri Water for these costs would be allocated in accordance with the CAM and further allocated to the rate jurisdictions via the local utility four factor. These allocation factors (CAM and four factor) are provided in response to MPSC 0021.

Guidelines for the Short Term Incentive Plan ("STIP") Document

Compensation Philosophy

The Company's compensation philosophy follows three underlying principles:

- To provide compensation that encourages and motivates performance
- To be competitive with other companies of similar size and scope in order to attract and retain talent
- To align the interests of our employees with the long-term interests of the Company and its shareholders and customers

Purpose and Introduction

The STIP is a discretionary short term incentive cash bonus plan that provides the potential for Eligible Employees to receive cash awards based on their contributions to the success of the Company, in years ("Plan Periods") when the Company meets or exceeds its objectives.

The purpose of the STIP is to align compensation with corporate targets and results, and thereby promote behaviours which benefit the interests of the Company, its shareholders, and customers and to reward personal achievements which are linked directly to overall corporate performance. Employees who are entitled to overtime are not eligible to participate in the Short Term Incentive Plan.

An Eligible Employee's contribution is determined by two factors: 1) the impact of that employee's role on business results and 2) that employee's achievement of personal performance objectives during the employee's active service with the Company.

The actual award received by an Eligible Employee will reflect 1) the employee's job scope and responsibilities and that employee's achievement during the Plan Period and 2) the Company's performance as indicated by the business' scorecard.

Eligibility

All employees of the Company who are employed in a leadership level position (grades 7 and above) on a regular full time or regular part time basis on or before September 30 of the Plan Period are eligible to participate in the STIP, with the exception of the following:

- Employees who are eligible for any other incentive plan of the Company (e.g., Shared Bonus Pool, Sales Incentive Programs or any other incentive/bonus arrangements which the Company may offer in lieu of the STIP);

- Individuals determined by the Company to be students, co-op students, interns, temporary, independent contractors, consultants or any other non-payroll workers; and
- Otherwise Eligible Employees who are no longer employed on the date of the payout of the STIP award.

For certainty, employees cease to be eligible Employees following resignation or termination of employment on the later of their last day of work and the end of the statutory notice period (if applicable). There will be no STIP accrued or paid in respect of any period of severance pay that is otherwise owed to an employee following termination of employment.

Payment will be made to retirees and the Estate of the deceased participants on a prorated basis.

The STIP award is based on three components each split by a weighting which varies by position level.

STIP Level	Parent Scorecard Weighting	Division Scorecard Weight	Personal Objectives Weight
Grades 7-9 (Sup/Mgr/Sr.Mgr)	40%	30%	30%
Grades 10-11 (Dir/Sr.Dir)	50%	25%	25%
Grades 12 & above (VP/Presidents/SVP)	60%	20%	20%

Scorecard Achievement

The Parent and Division scorecard objectives are set by the Executive team and reflect the Financial and Operational Objectives for APUC, Liberty Utilities, and Liberty Power business plans, respectively. Each scorecard has established performance targets for each objective. Each objective is allocated a weighting and together, the total allocation equals 100%. Note: in some cases, the total allocation for a category may be greater than 100%.

Personal Objectives Achievement

Personal Achievement percentage is based on the Eligible Employee's achievement of personal objectives. An Eligible Employee's Management Team will determine the Personal Achievement multiplier (%) for that employee for each Plan Period based on the employee's contributions and achievements during the Plan Period.

Calculation under the STIP will be based on the following formula:

> **STIP Factor** = (Parent Scorecard Weight x Scorecard Achievement) + (Division Scorecard Weight x Scorecard Achievement) + (Personal Objectives Weight x Personal Achievement)
>
> **STIP Payout $** = Bonus Target % x Eligible Annual Base Salary x Pro ration Factor x <u>STIP Factor</u>

Calculation Steps

1. Results are determined for each of the Parent/Divisional Scorecards, as required.
2. Individual performance results are reviewed and determined for Personal Achievement component.
3. The final STIP Factor percentage is calculated based on the weighted results of the Parent and Division Scorecard achievements and the Personal Objectives Achievements.
4. The final STIP Factor percentage is then multiplied by the employee's target bonus, Eligible Annual Base salary and prorated based on number of bonus eligible days.

Definitions

Plan Period: January 1 to December 31

Eligible Annual Base Salary: The base compensation paid to an Eligible Employee, excluding all other compensation such as but not limited to, bonuses, commissions, and allowances.

Target Bonus %: The percentage of Eligible Annual Base Salary that is used to compute the STIP award for each Eligible Employee.

Pro-ration Factor: # days actively employed in STIP eligible position ÷ # days in Plan Period

Additional Terms and Conditions

An employee will be considered to be actively employed for any calendar month in which the employee actually works at least one day

- Pro-rated awards may be made to Eligible Employees who transfer into or out of positions at the Company covered by other cash bonus plans; move from or to a job at the Company that is ineligible for the STIP; is on a Company approved leave of absence; is on "notice" of termination for part of the Plan Period; or retires or passes away during the Plan Period. There will be no pro-rated award for an Eligible Employee who is terminated for Cause or who resigns during the Plan Period.

Pro-rated STIP awards will be based on the number of days the Eligible Employee is actively employed in an STIP-eligible position divided by the number of days in the Plan Period. For certainty, employees cease to be Eligible Employees following resignation or termination of employment on the later of their last day of work and the end of the statutory notice period (if applicable). There will be no STIP accrued or paid in respect of any period of severance pay that is otherwise owed to an employee following termination of employment.

No portion of a STIP award is earned unless the Eligible Employee remains employed at the Company on the date of the payout of the STIP award.

Eligible employees must be in good standing in order to qualify for a STIP award. For certainty, an employee must have a minimum of a "Partially Achieved" performance rating to qualify for a STIP payment. No portion of a STIP award (corporate or personal components) will be paid if the employee has a "Not Achieved" performance rating in the plan year.

Any award under the STIP is subject to the discretion of the Eligible Employee's Management Team and Senior Management Team, the Compensation Committee and the Board of Directors. Specifically, an Eligible Employee's recommended STIP award is subject to review, modification and approval by the Senior Management Team.

The total STIP award for all eligible employees for a Plan Period is recommended by the Senior Management Team for approval by the Compensation Committee and the Board of Directors after the Plan Period.

STIP awards will be paid in a lump sum in the Plan Period following the Plan Period with respect to which the award is computed and will be subject to all applicable national, state/provincial, and/or local taxes. All appropriate taxes and other withholdings will be deducted from any such awards and payments as required by applicable law.

Interpretations and Amendments

This document, as amended from time to time, constitutes the Liberty Utilities Short Term Incentive Plan ("STIP"). In the event of any conflicts or inconsistencies between the provisions of the STIP and any other document or communication, written or oral, concerning the STIP, the provisions of this document, as amended from time to time, shall govern.

The Chief Human Resources Officer, subject to the approval of the Compensation Committee and the Board of Directors in certain cases shall interpret the provisions of the STIP, which shall be final and binding on the Company and all STIP participants.

Nothing in this document shall create an employment contract or other contract concerning the subject matter contained herein. There is no guarantee that any amount shall be paid under the STIP and any payment made hereunder (including the amount of such payment) shall be determined at the sole discretion of and not pursuant to any prior contract, agreement, or promise causing any individual to expect such payment on a regular basis.

The Company, in its sole and absolute discretion, reserves the right to terminate or amend the STIP at any time and in any manner without notice.

Liberty Utilities-Missouri Water Co.

Acquisition Regulatory Asset Amortization Adjustment
Adjustment No. 6

Line	Description	Water (1)	Wastewater (2)	Total (3)
	Company Proposed			
1	Acquisition Regulatory Asset	$ 1,612,758	$ 2,368,627	$ 3,981,385
2	Amortization Period (Years)	10	10	N/A
3	Annual Amortization Expense	$ 161,276	$ 236,863	$ 398,139
	Adjusted			
4	Acquisition Regulatory Asset	$ 1,612,758	$ 2,368,627	$ 3,981,385
5	Amortization Period (Years)[1]	13	19	N/A
6	Annual Amortization Expense	$ 124,058	$ 124,665	$ 248,723
	Difference (Revenue Requirement Impact)			
7	Annual Amortization Expense	$ (37,217)	$ (112,198)	$ (149,416)

Sources:
RB ADJ 7, EXP ADJ 3 Workpapers.
[1] Direct Schedule DAW-2.

Liberty Utilities-Missouri Water Co.

Incentive Compensation Adjustment
Adjustment No. 7

Line	Description	Water (1)	Wastewater (2)	Total (3)
	Company Proposed			
1	2022 Incentive Compensation	$ 40,772	$ 3,329	$ 44,101
2	Amount to Include	100%	100%	100%
3	2022 Test Year Incentive Compensation	$ 40,772	$ 3,329	$ 44,101
	Adjusted			
4	2022 Incentive Compensation	$ 40,772	$ 3,329	$ 44,101
5	Amount to Include[1]	81%	81%	81%
6	2022 Test Year Incentive Compensation	$ 33,025	$ 2,696	$ 35,722
	Difference (Revenue Requirement Impact)			
7	2022 Test Year Incentive Compensation	$ (7,747)	$ (632)	$ (8,379)

Sources:
City of Bolivar Data Request - BOL-25 (provided in Schedule JAL-5).
[1] Excludes the 19% of Incentive Compensation tied to Financial Goals.