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Sponsoring Party: Public Counsel
Case No.: WR-2024-0320

DIRECT/REBUTTAL TESTIMONY
OF
ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

FILE NO. WR-2024-0320

December 6, 2024

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DIRECT TESTIMONY
OF
ANGELA SCHABEN
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2024-0320

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. What are your qualifications and experience?**

6 A. Please refer to the Schedule ADS-D-1 attached hereto.

7 **Q. Have you testified previously before the Missouri Public Service Commission?**

8 A. Yes.

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

10 A. My testimony discusses the incentive compensation metrics followed by Missouri American
11 Water Company’s (“MAWC”), proper treatment of tank maintenance expenses, and various
12 support service functions occurring at the parent company, American Water Works Company
13 Inc. (“AWC” or “American Water”), level which are then allocated to affiliates such as
14 MAWC.

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

16 A. I recommend removing MAWC’s incentive compensation expenses from revenue
17 requirement. Additionally, I recommend the continuance of treating tank maintenance as an
18 operating expense and removing service company costs associated with business development,
19 external affairs and public policy, and investor relations.

1 **Incentive or Performance Based Compensation**

2 **Q. How does MAWC provide compensation for its employees?**

3 A. According to the testimony of MAWC witness Ms. Jody Carlson, MAWC employees
4 receive both a base level of compensation as well as an opportunity for a performance-based
5 portion of compensation. The performance or incentive compensation is broken up into two
6 parts. The Annual Performance Plan (“APP”) is an annual cash payment to which all full-
7 time employees are eligible. The Long-Term Performance Plan (“LTPP”) is stock based
8 and limited to certain employees.¹

9 **Q. What metrics are used to determine these two different incentive compensation**
10 **programs?**

11 A. The APP mainly prioritizes financial success relating to earning per share (“EPS”), which
12 makes up 50% of its weight. The remaining 50% is broken down as 15% customer
13 satisfaction, 15% safety, 15% environmental regulatory compliance, and 5% DEI initiatives.
14 The LTPP is effectively 100% based on financial success using a combination of
15 compounded earnings per share (“EPS”) growth, relative total shareholder return (“TSR”),
16 and return on equity (“ROE”) over a three-year performance period.

17 **Q. MAWC witness Ms. Carlson opines that customers benefit from incentive**
18 **compensation plan goals because they promote operational performance through cost**
19 **control and operating efficiencies. Do you agree?**

20 A. No. MAWC has not shown that its incentive compensation plans have contributed to, or
21 driven, operational efficiencies. Instead, Ms. Carlson just assumes that EPS growth must be
22 driven by controlling costs or capturing efficiencies and would therefore result in long-term
23 benefits for customers. This is not the case.

¹ Direct Testimony of Carlson, page 38.

1 **Q. What is AWC’s targeted EPS growth rate?**

2 A. AWC’s 2025 EPS guidance indicates an 8% EPS growth.

3 **Q. What is a primary driver of AWC’s EPS growth?**

4 A. Based on AWC’s 2024 third quarter earnings and 2025 outlook call, a primary driver of
5 EPS growth is an 8-9% rate base growth through regulated customer additions and rate base
6 investment.²



7
8 In other words, the Company’s EPS is being driven primarily by increases in its business
9 operations, and not by controlling costs or capturing efficiencies.

² American Water Company 2024 Third Quarter Earnings & 2025 Outlook Conference Call presentation pg. 3 (pg. 6 internal), available at https://s26.q4cdn.com/750150140/files/doc_financials/2024/q3/Q3-2024-Earnings-Presentation-Final-10-30-24.pdf.

1 **Q. Who benefits most from EPS growth?**

2 A. AWC shareholders are the primary beneficiaries of EPS growth since higher EPS correlates
3 with higher AWC share prices.

4 **Q. Should ratepayers be on the hook to pay for a program that primarily benefits**
5 **shareholders?**

6 A. No. Ratepayers should not have to help compensate MAWC's employees to meet goals
7 that clearly and directly benefit shareholders while only meeting minimum service
8 obligations.

9 **Q. Are there Commission decisions in other states that regulate American Water**
10 **affiliates relating to incentive compensation?**

11 A. Yes. In the Illinois American Water ("IAWC") rate case Docket P2022-0210 ("22-0210"),
12 the Illinois Commerce Commission ("ICC") found:

13 [I]ncentive compensation programs related to financial goals primarily benefit
14 shareholders and those costs should not be recovered by the utility from
15 ratepayers.³

16 The ICC goes on to say:

17 IAWC argues that its performance pay programs provide customer benefits
18 through reduced expenses and greater efficiencies. However, IAWC has not
19 shown that these customer benefits were caused by the performance metrics
20 related to financial goals rather than the Company's operational goals.⁴

³ Illinois Commerce Commission Order in Docket 22-0210 regarding IAWC, page 34.

⁴ *Id.*

1 **Q. There are other factors included in the APP metric such as customer satisfaction.**
2 **Are MAWC customers satisfied with the quality and the affordability of services**
3 **received from MAWC?**

4 A. Based on a majority of the customer comments in this case, I would say no. There are
5 comments attributing poor customer service to diminished customer satisfaction. However,
6 in several cases, diminished customer satisfaction is related to affordability, or lack thereof.
7 MAWC's initial filing proposed a rate increase of 34.4%. Even though this case is
8 proceeding utilizing a hybrid test year over a future test year, MAWC's proposed rate
9 increase is still substantial. The Company is asking for customers to pay premium rates for
10 a necessary service that's quickly approaching the unaffordable and does not always meet
11 customer expectations or satisfaction. I have gathered these select quotes from the public
12 comments that have been filed in this case to exemplify the concerns that MAWC customers
13 have stated in regard to MAWC's quality of service and the rates charged for that service:

14 "Mr. Richard Svindland became president of MAWC in 2021. He petitioned
15 the PSC for a 24% rate increase in 2021. Then in 2023 for a 26% rate
16 increase, and now in 2024 he brings his third request of a 34% rate increase
17 in three years for 2025. This is painful for our family for three reasons: 1)
18 It will have a significant impact on our family budget, 2) we have no choice
19 in pursuing other water options -- MAWC is a monopoly, 3) we have no
20 voice with the MAWC. You are our voice!" **P202501030**

21 "I regret the day that Mo. American Water purchased Eureka's Water
22 system. Since then, my water billing has spiked to over all my other utilities
23 combined. Their last billing for me, an 5 year old widower, was for \$96.52
24 saying I used 106 gallons daily. Impossible. They need to reduce their
25 outrageous billing NOT ask for an increase." **P202501018**

26 "I am on a fixed income and have been for 12 years. These rate increases
27 are unsustainable for so many of us on fixed incomes. The rates were

1 increased just last year. My water bill is nearly double what it was just a few
2 years ago. Please reconsider this and live within your means like we have
3 to.” **P202500989**

4 “I am against this increase. The local hearings are in faraway places and on
5 Zoom it's not fair for those w/o internet access or ways to get to the in
6 person. I don't know why they don't have public votes about increases. The
7 public should know what's going on. Bills keep going up every year. They
8 are very high. I don't know what the increases are paying for. Sewer is billed
9 by how much water is used and that's not fair either. It's a deceptive way of
10 doing things. Sewer district has problems all the time. They are always out
11 here blowing out the lines. The commission used to listen to us but now
12 they don't.” **P202500985**

13 “While many comments highlight the profits and other numbers Missouri-
14 American Water already makes as evidence that this requested rate hike is
15 unnecessary, I won't bother, as the exact details and numbers are surely well
16 known and better understood by the Commission. What I do find worthy of
17 comment is the misleading way the rate increase is being explained in the
18 notice received. The 34.4% increase mentioned is being levied not through
19 the actual water usage rate, but through the monthly service charge. Amid
20 the cost of living crisis it is absurd to use the service charge to increase
21 revenue.” **P202500982**

22 “I am 91 yrs old and on a fixed income. MAWC has received an increase
23 already this year. Everything is going up and reaching a point I can't afford.
24 Medicare is going up, inflation, goods & services are up 20%. I may have
25 to sell my house and go live in a hovel. I am upset and very frustrated. Do
26 not approve this increase!” **P202500980**

1 “How many more rate cases are we going to have to endure? They just had
2 a rate increase. MAWC is by far my highest utility and they want even
3 more? How long are they going to be allowed to continue to increase rates?
4 They can just ask for more money anytime?” **P202500973**

5 “The flat fee, monthly increase from \$10 - \$21 is extreme and unreasonable.
6 Any increase allowing the Water Company a fair profit should be based on
7 water usage. Secondly, it appears the proposed increase in the flat and
8 water rates increases their margin/profit higher than the previous, approved
9 rate increase. Lastly, the proposal is prejudice against St. Louis County and
10 small volume users. Each water district managed by American Water
11 should be self supported.” **P202500972**

12 "As I remember about five years ago, the water bill was billed quarterly.
13 The total cost was around \$90 for three months. Then, we allowed the water
14 company to bill monthly. Now the cost is about \$90 per month, which is
15 over 300% increase in just couple of years. The water cost is about the same
16 as electricity and gas. Where does the money go? It is just unbelievable. We
17 need to audit how the company spend all the money in recent years. My
18 opinion is absolutely NO NO NO to increase the price again." **P202500970**

19 “Reference Case No. WR-2024-0320, the petitioning of a 34% rate increase
20 for water service is an unacceptable burden on the general public.
21 According to the undated letter received, MoPSC is part of this increase
22 because they “...issued an Order shortening the time by which system
23 improvements must be completed to be considered for inclusion in this
24 case.” This is another name for “expedite fee” which MoPSC is attempting
25 to justify that the general public must pay! If MoPSC believes this must
26 occur, their commission should cover that fee and delete it from this rate

1 discussion. Otherwise, something is very wrong here with this estimate.”

2 **P202500969**

3 For those of us on a fixed income, how can you THINK the elderly can
4 afford the possibility of a \$27/ month billing increase, let alone any increase
5 at all? Don't do this. **P202500968**

6 "I would like to say that I am very much against the proposed rate hike. It
7 is extremely unfair that people like me who are living alone and on a fixed
8 income and also try to do the right thing by conserving their water use
9 should be the ones to bear the biggest burden of the proposed rate increases.
10 The proper people to pay for the excess expenditures are the investors.”

11 **P202500967**

12 "I write to you today as a resident of St. Louis County so I may express to
13 you how ludicrous the proposed water rate increase is. The increase in not
14 just rate per 1000 gallons, but the flat fee increasing by such a huge
15 percentage is unacceptable. Our water utility is a monopoly and we have no
16 alternative for our most important utility. We have just had a rate increase
17 a year ago. When will this end? As someone who does not water his lawn,
18 is careful to only do a full load of dishes/laundry etc. It appears that me, a
19 lower class, single income, single father will bear the majority of this
20 weight. Investments in our water infrastructure were not something I cared
21 about or was asked about.” **P202500961**

22 “To the Missouri Public Service Commission, I strongly oppose the
23 proposed increase in water rates by the Missouri American Water
24 Company. As a resident of Eureka, my water bill is my highest utility
25 expense, averaging over \$200 a month. This significant cost places a heavy
26 financial burden on my household, and any further increase would worsen
27 this strain. Water is a fundamental necessity, and its affordability is crucial.

1 An increase would disproportionately affect those with limited financial
2 resources, forcing difficult choices between paying for water and other
3 essential needs. I urge the Commission to reject the proposed rate increase
4 to ensure water remains affordable for all residents. Thank you for your
5 attention.” **P202500959**

6 "This is my formal complaint regarding Mo American Waters arbitrary
7 increase in rates. This targets seniors who are on fixed incomes. How is it
8 possible they can just decide they want to make more money to please their
9 investors at our expense. My wife and I are seniors and do our best to
10 conserve our water consumption. This is nothing more than highway
11 robbery. Please pressure them to retract any efforts at increasing rates on
12 seniors and those who don't consume the amount of water they will be
13 billing us for." **P202500958**

14 “Customer contacted and stated that people that use the least amount of
15 water are singles and seniors. They are doing everything they can to save
16 money while receiving social security. She tries to use gray water whenever
17 possible. They will now face penalties for reducing water consumption.”
18 **P202500956**

19 “No to this increase from Missouri American Water. Are you kidding me?
20 Now they want to raise rates because customers are using LESS water?
21 Perhaps they are doing that to save money. Now they are being penalized?”
22 **P202500951**

23 “As a customer of Missouri-American Water Company we feel the
24 requested rate increase of 35% (and possibly more) is extreme...and most
25 likely driven by company greed! With that said, they've had significant rate
26 increases over the past 10+ years that were intended to address
27 "infrastructure upgrades, reliability, etc.". This additional rate increase uses

1 the same terminology as every other increase...if it worked in the past, lets
2 roll it out and try it again. MoPSC should be evaluating this request very
3 carefully and in great detail and with much scrutiny. The burden of all these
4 "infrastructure upgrades, projects, etc." should be covered by the past rate
5 increases that have earned the water company millions in profits.”

6 **P202500950**

7 "Once again, a monopoly Utility asking for a rate increase. I am sure you
8 will give them some of an approval as always and then later they will ask
9 for another. So eventually they get it all just not at one. Why don't you ALL
10 stand up and deny them." **P202500945**

11 “I certainly hope the PSC denies MAWC increase request. The reason the
12 election went the way it did is because Americans are tired of the price
13 gouging from Companies. There is no reason MAWC would need this
14 amount of an increase. Americans can't afford it. It seems the PSC approves
15 everything these companies ask for.” **P202500944**

16 “Customer called and stated that he does not see how. The gas company
17 went up. The electricity went up. He's not sure how seniors and
18 fixed incomes can keep things going the way they are. He doesn't receive
19 that kind of raise. He has to be without something else in order to pay for
20 utilities. If this continues, he'll have to cut off everything.” **P202500943**

21 **Q. Are there additional customer comments in this case addressing MAWC's**
22 **affordability?**

23 **A.** Customer comment **P202501001** provided as Image 1 below provides a timeline of MAWC
24 rate cases over the past decade and the effects of these rate cases on overall affordability.

1

Image 1:
Consumer Comment P202501001

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Missouri Public Service Commission*

Since 2011, Missouri American Water Company (MAWC) has filed multiple rate increase requests to fund water and wastewater system improvements, with various adjustments approved by the Missouri Public Service Commission (MoPSC).

- **2013 Rate Increase:** MoPSC approved a significant increase to fund essential infrastructure improvements, such as pipeline replacements and plant upgrades.
- **2016 Rate Increase:** This rate hike covered approximately \$250 million in upgrades, focusing on system reliability and compliance with regulatory standards. This round included extensive pipeline replacements, new pumps, and treatment plant enhancements across Missouri.
- **2018 Rate Increase:** In May 2018, MoPSC approved an average 21% increase. This adjustment was designed to cover \$207 million in newly reflected infrastructure improvements and an additional \$48 million in previously approved Infrastructure System Replacement Surcharge (ISRS) investments. These updates included crucial upgrades to the state's water and sewer infrastructure.
- **2021:** MoPSC approved another rate adjustment, supporting \$620 million in system improvements. While this rate increase impacted wastewater customers, most water customers saw minimal bill changes.
- **2023:** Following a 2022 rate case filing, a settlement allowed MAWC to increase water bills by about \$5 to \$7 monthly for most residential customers. This increase funded \$770 million in improvements completed between 2021 and 2023.
- **2024 Request:** Most recently, MAWC filed a new rate request in July 2024, proposing a 34.4% increase. This request seeks funding for \$1.5 billion in additional projects through 2026, potentially raising monthly water bills by approximately \$18 for the average residential customer.

During this same period, MAWC's parent company stock has surged from about \$27 in 2011 to nearly \$150 today—a growth of almost 600%. Many area residents, especially retirees on fixed incomes, are deeply impacted by these increases and question whether the PSC recognizes the hardship these hikes place on those with limited financial flexibility.

Key Concerns

1. **Justification for the Hike:** While the company attributes these increases to new projects, some worry that current customers are disproportionately covering infrastructure costs intended for future development. Shouldn't existing customers see cost efficiency improvements before absorbing new infrastructure expenses?
2. **Efficiency and Alternative Funding:** Has Missouri American Water explored alternative funding options, such as financing or capital reserves, to support these upgrades? Given the company's financial health, there should be viable alternatives to placing the full financial burden on ratepayers.
3. **Comparative Rate Increases:** Compared to other utilities in the region, Missouri American Water's increases exceed typical annual requests, which usually range from 5-10% for similar improvements. However, MAWC has seen 20%+ hikes in recent years and now seeks 34%. Has the PSC reviewed these increases in light of regional standards?
4. **Responsibility as a Regulated Monopoly:** Operating as a regulated monopoly grants MAWC a secure customer base and limited competition. This privilege should come with a commitment to affordability. Large rate hikes that primarily serve to increase shareholder returns can place investor interests above those of the customers they serve.
5. **Profitability vs. Customer Affordability:** With steady profits and strong stock performance, is it fair to pass further costs to consumers—particularly when a significant portion of the revenue increase may go to dividends rather than direct service improvements? At what point do we prioritize the public's access to affordable water over shareholder gains?

In conclusion, I urge the PSC to carefully consider the financial strain these increases place on residents, especially vulnerable populations like retirees. As the regulatory authority, the PSC has the responsibility to ensure rates remain fair, reasonable, and aligned with MAWC's obligation to serve the public.

1 **Q. Were there any other concerns raised in customer comments or in the course of the local**
2 **public hearings held in this case?**

3 A. Yes. Several customer comments in EFIS state that customers did not receive notices
4 providing LPH details until after the LPHs were over. Several of these comments are
5 provided below:

6 "I'm a customer of American Water and received a notice of a public
7 hearing in the mail, just today on November 15. The only issue is that all
8 the public hearings were over by the time I've gotten this notice. This is
9 procedurally problematic, to get a notice for hearings that were long since
10 past. I'm against the proposed rate increase because I, a customer, have had
11 no opportunity or notice to comment on these changes, which means other
12 customers may not have either." **P202500994**

13 "I received the mailed notice of public hearings for this request on 11/16,
14 three days after the last hearing. Being presorted mail, I can't tell when it
15 was originally sent." **P202500988**

16 "I just got home from the Local Public Hearing in St. Louis and lo and
17 behold, look what was in my mailbox! There is no date of when it was
18 mailed. No USPS stamp on it anywhere. Now, while the USPS has gotten
19 incredible awful as well, this is what these monopolies do! They are self
20 interest groups-period; with no regard to the paying public who are at their
21 beck and call. Please add to the record, because this is just another piece of
22 evidence at how DECEPTIVE these monopolies are." **P202500954**

23 Additionally, examples are attached in Schedule ADS-D-3.

24 **Q. What about the factors related to safety and environmental factors?**

25 A. According to Ms. Carlson's testimony, the safety component of the APP is based on
26 avoiding or minimizing OSHA recordable injuries and Days Away, Restricted and Travel

1 OSHA restrictions. The environmental regulatory compliance component is based on
2 avoiding drinking water compliance and quality violations. While these are all good
3 concepts, they are also actions that should be undertaken and promoted as a matter of course
4 and not made the subject of performance-based compensation programs. It is also
5 concerning that these together make up only 30% of the entire APP weighting.

6 These components represent aspects of water and wastewater service that MAWC
7 ratepayers and employees should be entitled to receive without paying a premium through
8 the inclusion of the incentive compensation program in rates.

9 **Q. The last component listed was meeting DEI initiatives, should customers pay for these**
10 **DEI initiatives through the Company's incentive compensation?**

11 A. No, for at least two reasons. First, it is difficult to see how employees tasked with the day-
12 to-day operation of MAWC will be directly involved in meeting these metrics so it makes
13 little sense that they should be included as part of a general, companywide incentive
14 compensation program. Second, while the Company is free to pursue whatever DEI
15 initiatives its management considers prudent, it is not the responsibility of ratepayers to pay
16 an increased cost of service to meet these goals.

17 **Q. Even if the Commission were to find that the Company's incentive compensation**
18 **program did potentially result in controlling costs or capturing efficiencies, is there**
19 **any reason why the Commission should still disallow such costs from being recovered**
20 **in rates?**

21 A. Yes. Because the Commission utilizes a historic test year, its O&M costs will be fixed and
22 already built into rates. As a result, the Company's shareholders will reap the benefits of
23 any O&M efficiencies created in the years between rate cases. Present and future O&M
24 efficiencies only benefit customers in future rate cases when rates are re-evaluated based on
25 an updated test year revenue requirement. Between rate cases (*i.e.* updated test years), any
26 efficiency benefits derived on behalf of the customer will be absorbed by the company as

1 revenue. This is an example of what is sometimes referred to as positive regulatory lag and
2 benefits the Company more than its customers.

3 **Q. Can you please provide more detail on this positive regulatory lag and how it will benefit**
4 **the Company?**

5 A. As I already stated, any savings generated for the Company will be considered revenue for
6 MAWC and flow to the Company's bottom line in between rate cases. However, the
7 incentive compensation programs should increase payroll costs by less than the revenue
8 being generated, or else MAWC will be imprudently losing money through the program.
9 Therefore, any cost reductions or increase revenue generated by the incentive compensation
10 program will fully offset the cost of the incentive compensation program itself in between
11 rate cases.

12 If, between rate cases, the Company achieves higher earnings than expected, or authorized,
13 due to the achievement of underlying principles and metrics of its incentive compensation
14 program, the related incentive costs should be assumed by shareholders. Shareholders are
15 the primary beneficiaries of accomplishing incentive compensation goals. Ratepayers are
16 already bearing the burden of additional rate increase costs and any operational efficiencies
17 achieved between rate cases for which shareholders are rewarded, will not proportionately
18 adjust customer rates.

19 **Q. MAWC witness Ms. Carlson and Mr. Mustich both appear to suggest that failure by**
20 **the Commission to allow the Company to recover for its incentive compensation**
21 **program will result in MAWC's total compensation no longer being competitive. Is**
22 **this accurate?**

23 A. First, it needs to be made clear that my recommendation is only that the Commission not
24 permit MAWC to recover the cost of the incentive compensation programs in rates, not
25 that the Company should be directed to discontinue its incentive compensation program.
26 That would be a management decision that the Company itself would have to make. If

1 MAWC wants to encourage EPS growth to benefit its shareholders, then it is more than
2 welcome to do so with shareholder dollars.

3 Second, the testimony by Mr. Mustich would appear to show that MAWC's base salary
4 (meaning compensation absent the inclusion of the APP or LTPP) is already competitive.
5 Tables 3 and 4 of his testimony compare MAWC's "total compensation program excluding
6 performance compensation (that is, base salary alone) to market pay levels that include
7 performance compensation." However, the first column of these tables is still labeled "Base
8 Pay," which indicates that that column is comparing the total compensation program
9 excluding performance compensation for MAWC against the total compensation program
10 excluding performance compensation for the utilities in his proxy group. Given this, the
11 non-incentive pay for MAWC is well within the 10% range for both the national and
12 Midwest regional markets (-5% and -3% respectively). There is no evidence to suggest that
13 the state regulatory commissions that oversee the other utilities in Mr. Mustich's proxy
14 group allow recovery of incentive compensation programs in rates, so there is no reason for
15 the Commission to consider anything other than base salary when determining what costs
16 to allow recovery for in rates. Further, Mr. Mustich's table four shows that even when
17 comparing MAWC base rates to the Midwest Regional Market total compensation with
18 incentive compensation included, the MAWC base salaries are still within the 10%
19 threshold that Mr. Mustich himself considers to be "competitive."

20 Based on these facts, I do not believe that what Ms. Carlson and Mr. Mustich appear to be
21 insinuating is accurate.

22 **Q. Given the foregoing, can you please summarize what you recommend regarding**
23 **MAWC's request that its ratepayers assume 100% of its incentive compensation**
24 **costs?**

25 A. I recommend removing all expenses resulting from APP and LTPP from the revenue
26 requirement in this case. MAWC has not quantified how the operational metrics utilized to
27 develop their incentive compensation plans will benefit ratepayers. However, the incentive

1 compensation EPS targets and financial metrics show definitive shareholder financial
2 benefits. Based on the Company workpapers filed with its direct testimony, this amounts
3 to approximately \$3,075,539 for both APP and LTPP incentive compensation⁵. However,
4 since the initial filing, MAWC has provided supplemental direct testimony updating payroll
5 numbers due to various factors, including the use of a hybrid test year over a future test year.
6 As MAWC provides updated information outlining the amount of APP and LTPP incentive
7 compensation it included in its updated payroll request, my calculations will be updated in
8 the next round of testimony.

9 **Q. You included customer comments above in reference to late customer notices informing**
10 **MAWC customers of LPHs. Is it surprising that MAWC customers received late LPH**
11 **notices?**

12 A. Yes. American Water experienced a cyber breach on October 3, 2024. Despite the fact that
13 billing and customer service systems were shut down in order to mitigate overall damage,
14 MAWC representatives provided assurances that customer notices went out timely.

15 **Q. Why is this concerning?**

16 A. Customers who did not receive a LPH notice until after the LPHs were over, and who did
17 not hear about the LPHs through any other means, did not get their opportunity to voice
18 concerns or ask questions related to MAWC's sixth rate increase request in 11 years.

19 **Q. Do you have additional comments regarding the cyber breach of American Water?**

20 A. Yes. In the past, one argument made to justify the privatization of small and/or municipal
21 water systems was the superiority of cybersecurity capabilities of larger privatized utility
22 monopolies. The American Water breach shows that even a privatized monopoly utility
23 with superior security measures is just as susceptible to breaches as a small water utility that
24 follows cybersecurity best practice measures and privatization may not always be the best

5

1 avenue, especially as large privatized monopolies lose sight of the concept of customer
2 affordability.

3 **Tank Maintenance**

4 **Q. Please describe MAWC’s proposal to capitalize and include tank maintenance expenses**
5 **within rate base.**

6 A. MAWC proposes to include \$3,403,123 in tank painting maintenance expense within its
7 calculation of rate base. MAWC Witness Matthew A. Lueders states the Company owns
8 and operates 130 steel water storage tanks across its service territories and the maintenance
9 cycle on each tank could run approximately 15 to 20 years.

10 **Q. Do you agree that MAWC should capitalize tank maintenance expenses?**

11 A. No. Currently, the routine maintenance expenses performed on tanks are amortized over a
12 period of years and included within test year operating expenses.

13 **Q. What do you recommend to the Commission regarding the treatment of tank**
14 **maintenance expenses?**

15 A. I recommend the Commission order that tank maintenance expenses continue to be included
16 within the calculation of test year operating expenses and not capitalized within rate base.
17 Tank maintenance is an expense, not an asset on which a return should be earned.

18 **Q. Is the continuation of treating tank maintenance as an expense item consistent with the**
19 **American Water Works Association (“AWWA”) M1 Manual?**

20 A. Yes. The AWWA M1 manual states the following:

21 Some O&M expenses do not have the characteristics of ongoing annual
22 expenses. These expenses are not incurred repeatedly from year to year but
23 rather occur infrequently. A good example of a non-recurring O&M

1 expense is the cost of painting a water storage tank. **Tank painting does**
2 **not create a new asset but provides maintenance to an existing asset.**
3 **This expense is an O&M expense even though it might only be incurred**
4 **once every 10 years.** (Emphasis added)⁶

5 **Affiliate Transactions and Corporate Support Services**

6 **Q. Please describe the services that American Water Works Service Company, Inc.**
7 **(“Service Company”) provides to MAWC.**

8 A. The Service Company provides services ranging from customer service, human resources,
9 communications, information technology, finance, accounting, payroll, tax, engineering,
10 accounts payable, etc. Within these categories, the Service Company also provides
11 Business Development services, External Affairs & Public Policy services, and Investor
12 Relations services.

13 **Q. Do Business Development services, External Affairs & Public Policy services, and**
14 **Investor Relations services primarily benefit shareholders or captive ratepayers?**

15 A. These types of activities primarily benefit shareholders and therefore should be removed
16 from MAWC’s revenue requirement. As of the filing of this case, MAWC included
17 \$436,912 in business development shared service costs, \$863,435 in external affairs and
18 public policy costs, and \$332,295 of investor relations costs. Since the filing was based on
19 a future test year, these numbers will be updated in the next round of testimony.

⁶ American Water Works Association, *Principles of Water Rates, Fees, and Charges* at 28 (7th Ed. © 2017).

1 **Q. Has Staff proposed the exclusion of business development costs from revenue**
2 **requirement in other rate cases?**

3 A. Yes. Staff did not include business development department expenses in revenue
4 requirement in the most recent Confluence Rivers rate case because “this department
5 focuses on acquisitions and the exploration of future acquisitions”.⁷

6 **Q. Do you agree with this assessment?**

7 A. Yes. Furthermore, the business development function occurs at the Service Company level,
8 which is allocated between AWC affiliates relative to the size of AWC itself, as the parent
9 company. MAWC has not shown how its customers benefit from allocated corporate shared
10 business development costs.

11 **Q. Are the external affairs and public policy and investor relations costs similar to business**
12 **development costs?**

13 A. In a way. Like business development costs, external affairs/public policy and investor
14 relations costs are corporate costs allocated to AWC affiliates based on AWC’s size.
15 Additionally, these are costs that don’t necessarily benefit MAWC ratepayers. The external
16 affairs/public policy costs incurred from the External Affairs department could range from
17 charitable foundation programs to lobbying and maintaining relationships with government
18 officials. These costs result from AWC corporate activities and therefore MAWC
19 ratepayers should not bear the costs. Likewise, investor relations activities occurring at the
20 corporate level should also not be borne by MAWC ratepayers. When considering capital
21 structure MAWC prefers to maintain its independence from AWC. Investor relations costs
22 derive from the AWC parent company level and the Company has not shown how these
23 costs benefit MAWC ratepayers over AWC shareholders.

⁷ Direct Testimony of Ashley Sarver, File No. WR-2023-0006, page 19.

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

2 A. Yes.

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

In the Matter of Missouri-American Water)
Company's Request for Authority to Implement)
a General Rate Increase for Water and Sewer) Case No. WR-2024-0320
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 direct/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.

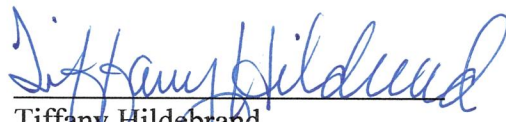


Angela Schaben
Utility Regulatory Auditor

Subscribed and sworn to me this 5th day of December 2024.

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| TIFFANY HILDEBRAND NOTARY PUBLIC - NOTARY SEAL STATE OF MISSOURI MY COMMISSION EXPIRES AUGUST 8, 2027 COLE COUNTY COMMISSION #15637121 |
|---|

My Commission expires August 8, 2027.



Tiffany Hildebrand
Notary Public