Exhibit No.: ______________
Issue(s): Incentive Compensation/Corporate Allocations/Tank Maintenance
Witness/Type of Exhibit: Schaben/Cross-Rebuttal
Sponsoring Party: Public Counsel
Case No.: WR-2024-0320

CROSS-REBUTTAL TESTIMONY

OF

ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

FILE NO. WR-2024-0320

January 10, 2025

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CROSS-REBUTTAL TESTIMONY

OF

ANGELA SCHABEN

MISSOURI AMERICAN WATER COMPANY, INC.

CASE NO. WR-2024-0320

INTRODUCTION

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

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

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the accounting schedules filed in this case by the Staff of the Public Service Commission ("Staff") and direct/rebuttal testimony submitted by Staff in this case. In particular, I am responding Staff Witness Angela Niemeier in relation to incentive compensation related to financial incentives and Staff's revenue requirement calculated in the accounting schedules that fails to make necessary disallowances related to American Water Works Company, Inc. ("AWWC") corporate allocations related to business development, external affairs, and investor relations. Additionally, I agree with Staff's position regarding the treatment of tank painting as an operations and maintenance ("O&M") expense.

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

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

1. Union worker financial incentive compensation[1] should be treated the same as Staff's treatment of non-union worker financial incentive compensation and should be recorded below the line.

2. AWWC business development, external affairs, and investor relations expenses allocated to MAWC should be excluded from revenue requirement.

INCENTIVE COMPENSATION

Q. What is Staff's position regarding MAWC's incentive compensation programs?

A. According to page 20 of Staff witness Angela Niemeier's direct/rebuttal testimony, Staff allows 50% of the Annual Performance Plan ("APP") incentive compensation program[2] paid to non-union employees since the other 50% is paid out based on the financial performance of MAWC and AWWC. However, Staff recommends allowing 100% of the APP paid to union employees in the revenue requirement. Additionally, Staff recommends disallowing Long Term Performance Plan ("LTPP") costs entirely as LTPP is an incentive plan offered to non-union management and is also tied primarily to the financial performance of MAWC and AWWC.

Q. Does Staff recommend that MAWC should cease paying APP financially based incentive compensation to its non-union workers?

A. No. Staff recommends removing financially based incentive compensation from revenue requirement for non-union workers. In other words, Staff does not suggest that MAWC should

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[1] Financial incentive compensation and financially based incentive compensation refer to incentive compensation awarded to MAWC employees based on the favorable financial performance of AWWC. In other words, if AWWC reaches its earnings per share ("EPS") target, MAWC employees could be eligible for financially based incentive compensation.

[2] "The APP is designed to recognize and reward performance against key performance goals and targets that drive the Company's strategy" as stated in the Direct testimony of MAWC witness Ms. Carlson, page 38. The key performance goals in question are primarily financial in nature.

cease paying financially based incentive compensation, merely that ratepayers shouldn't fund it. As Ms. Niemeier states in her testimony "[h]istorically, Staff has recommended the removal of incentive compensation awards tied to company financial performance" since "there has been no connection found between the financial results for which incentives are awarded and the tangible benefits to ratepayers."[3]

Q. Is it reasonable that ratepayers should assume fiscal responsibility for APP financial incentives paid to union workers even while Staff is not recommending the same treatment for non-union workers?

A. No. The financial incentives of the APP are based on the financial performance of MAWC and AWWC for both union and non-union employees. Staff recognizes that Staff is recommending inconsistent treatment of the same financial incentives based on whether Company employees are union or non-union.

Q. Did Ms. Niemeier provide an explanation why APP financial incentives for union workers should be recovered in revenue requirement 100% while non-union employee financial incentives are removed from revenue requirement?

A. Ms. Niemeier does not provide such an explanation. However, the testimony of Staff witness Sherrie Lesmes regarding union employee payroll refers to Section 386.315.1, RSMo, which states the "Commission shall not reduce or otherwise change any wage rate, benefit, working condition, or other term or condition of employment that is the subject of a collective bargaining agreement between the public utility and a labor organization."

[3] Direct/Rebuttal Testimony of Angela Niemeier, WR-2024-0320, page 20.

Q. Would equal treatment of the APP financial incentives of the union and non-union workers violate Section 386.315.1, RSMo?

A. No. I am not suggesting the Commission reduce or change the collective bargaining agreement between MAWC and the union. The collective bargaining agreement is a presumably good faith contract negotiated between the union and Company that should be honored. I am merely recommending the Commission order that the incentive compensation agreed to in the union contract is paid out in the same manner that Staff is recommending for non-union employees – below the line. Financial incentives benefiting shareholders should be funded by shareholders.

Q. Are AWWC Shareholders the primary beneficiaries of APP financial incentives paid out to both union and non-union employees?

A. Yes. AWWC shareholders are the primary beneficiaries of APP financial incentives paid out to both union employees and non-union employees, which again, are based on company earnings.

Q. So removing union employee APP financial incentives from the revenue requirement to be recovered below the line would not "change terms of employment subject to collective bargaining or certain accounting standards"?

A. No, removing APP financial incentives for union employees from the revenue requirement will shift the fiscal responsibility of these financial incentives to the primary beneficiary – AWWC shareholders.

Q. What are you recommending?

A. I recommend the Commission order that all incentive compensation financial incentives for both union and non-union employees be paid from below the line. Shareholders are the primary beneficiaries of financial incentives based on Company earnings.

Q. Did you submit direct/rebuttal testimony opining on the subject of incentive compensation?

A. Yes. I recommended removing all incentive compensation expenses from the revenue requirement in this case since the Company will always benefit from the positive regulatory lag of incentive compensation programs that benefits the bottom line between rate cases. However, should the Commission choose Staff's position regarding incentive compensation, then financial incentive compensation for union workers should be treated consistently with financial compensation for non-union workers and classified below the line.

Q. Are there other states that follow this practice?

A. Yes. Illinois and Iowa have both removed financial incentive compensation from revenue requirement for both union and non-union workers.

CORPORATE ALLOCATIONS

Q. Did you review Staff's testimony regarding corporate allocations?

A. Yes.

Q. Do you agree?

A. In part. Staff included corporate allocations expenses for Business Development services, External Affairs & Public Policy services, and Investor Relations services. These services primarily benefit shareholders at the AWWC level and MAWC has not provided documentation showing that its customers benefit from these activities.

Q. Why should Business Development services, External Affairs & Public Policy services, and Investor Relations services be removed from Staff's revenue requirement?

A. Publicly traded companies have an obligation to maximize shareholder value, and these companies usually incur costs, during the course of developing investor relations in order to achieve these obligations. In the case of public utilities, this often occurs at the expense of captive customers who pay for the cost of capital and the associated rate of return. In other words, "utilities' need to grow profits for their investors conflicts directly with their customers' interest in having lower rates."[4] Captive customers should not be on the hook for costs that provide more value to shareholders. The same concept also applies to business development, another practice that maximizes shareholder value[5], and external affairs/public policy activities.

Q. What do you recommend to the Commission?

A. Costs associated with AWWC corporate expenses for Business Development services, External Affairs & Public Policy services, and Investor Relations services allocated to MAWC should be removed from the revenue requirement in Staff's accounting schedules. These services primarily benefit shareholders at the AWWC level and MAWC has not provided documentation showing that its customers benefit from these activities.

<u>TANK PAINTING/MAINTENANCE COSTS</u>

Q. What is Staff's position on tank maintenance in this case?

A. Staff opines that tank painting costs should continue to be treated as an expense item.

Q. Do you agree?

A. Yes. In response to MAWC's request to continually capitalize tank painting over the life of the asset, Staff asserts that only the first tank painting should be capitalized, and additional tank paintings required thereafter should be recorded as O&M, in accordance with currently adopted USOA guidelines. I agree that tank painting events, beyond the first coating, should

[4] Weinmann, K., & Vardi, I. (2024). *Power Trip; How utilities use customer money to fund lobbying, corporate branding, and luxury lifestyle expenses.* Energy and Policy Institute; energyandpolicy.org; page 39.
[5] American Water Works Corporation Quarterly Earnings reports.

be considered an ongoing operations and maintenance expense. MAWC's tank painting expenses are relatively consistent between rate cases and the Company did not request the capitalization of tank painting expenses before its tank painting tracker was discontinued in case no. WR-2015-0301. Tank painting, even though it may not occur on a yearly basis, does not create a new asset, but provides maintenance to an existing asset[6], a characteristic of ongoing classic O&M expenses.

Q. Does this conclude your testimony?

A. Yes.

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

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 Service Provided in Missouri Service Areas	))))	Case No. WR-2024-0320

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 cross-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 9th day of January 2025.

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

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.