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BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

TRANSCRIPT OF PROCEEDINGS

EVIDENTIARY HEARING

In the Matter of)
Missouri-American Water)
Company's Request for) File No. WR-2024-0320
Authority to Implement a)
General Rate Increase for)
Water and Sewer Service)
Provided in Missouri Service)
Areas)

WEDNESDAY, MARCH 5, 2025

9:00 a.m. - 5:00

Governor Office Building
200 Madison Street
Jefferson City, Missouri 65101

VOLUME 9

KEN SEYER, Presiding
REGULATORY LAW JUDGE

KAYLA HAHN, Chair
MAIDA J. COLEMAN,
GLEN KOLKMEYER,
JOHN MITCHELL,
COMMISSIONERS

Reported By:
Shelley L. Bartels, RPR, CCR

Job No.: 183150

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For: Triumph Foods

1 Proceedings began at 9:05 a.m.:

2 JUDGE SEYER: All right. Let's bring
3 this proceeding to order and go on the record. Today
4 is March 5th, 2025. The time is 9:05 a.m.

5 The Commission has set this time for an
6 evidentiary hearing in the case captioned as In the
7 Matter of Missouri-American Water Company's Request
8 for Authority to Implement a General Rate Increase
9 for Water and Sewer Service Provided in Missouri
10 Service Areas. It is the commission file number
11 WR-2024-0320.

12 My name is Ken Seyer. I am the
13 regulatory law judge presiding over this hearing.
14 The hearing is taking place in Public Service
15 Commission hearing room, room 310 of the Governor
16 Office Building in Jefferson City, Missouri.
17 However, there are counsel and some witnesses who
18 will be participating over the internet via Cisco
19 Webex.

20 At this time let's have counsel for the
21 parties make their entries of appearance beginning
22 with Missouri-American Water Company.

23 MR. COOPER: Thank you, Judge. Dean
24 Cooper from the law firm of Brydon, Swearngen &
25 England, PC, appearing for Missouri-American Water

1 Company. Also appearing for Missouri-American will
2 be Rachel Niemeier of Missouri-American Water
3 Company. And in addition you're going to hear from
4 both Hillary Close and Nicholas Kile of the Indiana
5 law firm of Barnes & Thornburg. These attorneys have
6 helped with the preparation of this case, have been
7 admitted to practice in Missouri for purposes of this
8 case and will assist in the hearing. We would note
9 that they're -- they are experienced and
10 knowledgeable regulatory attorneys whose work
11 includes the representation of Indiana-American Water
12 Company and we believe their participation will be
13 helpful in presenting this case to the Commission.

14 And while I'm speaking about that, in
15 fact when we get to the first issue today, the cost
16 of money issue, Ms. Close will be handling that for
17 the Company, Judge.

18 JUDGE SEYER: All right.

19 MR. COOPER: And the court reporter has
20 the addresses.

21 JUDGE SEYER: Okay. All right. For the
22 Staff?

23 MR. PRINGLE: Thank you, Judge. Travis
24 Pringle appearing on behalf of Staff, and my contact
25 information is with the court reporter.

1 JUDGE SEYER: Thank you. For the Office
2 of Public Counsel?

3 MR. CLIZER: Thank you, your Honor. John
4 Clizer on behalf of the Missouri Office of the Public
5 Counsel. My contact information is with the court
6 reporter.

7 JUDGE SEYER: Consumer Council --
8 Consumers Council of Missouri.

9 MR. COFFMAN: Yes. Good morning. John
10 B. Coffman appearing on behalf of the Consumers
11 Council of Missouri. I'm also appearing on behalf of
12 AARP.

13 JUDGE SEYER: Okay. Thank you. And then
14 the City of Riverside.

15 MR. BEDNAR: Joe Bednar from the law firm
16 of Spencer Fane. My contact information has been
17 provided to the court reporter.

18 JUDGE SEYER: Thank you. For the Empire
19 District Electric Company doing business as Liberty?
20 I thought she might be online this morning. Okay.
21 For Midwest Energy Consumers Group.

22 MR. OPITZ: Good morning, your Honor.
23 Tim Opitz on behalf of MECG.

24 JUDGE SEYER: And then for Missouri
25 Industrial Energy Consumers? She may not be on yet.

1 Okay. And Mr. Fischer, I know you're on; I think we
2 heard you earlier.

3 MR. FISCHER: Yes, Judge. On behalf of
4 the --

5 JUDGE SEYER: Go ahead, Mr. Fischer.

6 MR. FISCHER: Thank you, Judge. On
7 behalf of the Public Water Supply Districts, number
8 one and two of Andrew County, let the record reflect
9 the appearance of James Fischer. And I think our
10 contact information's in the file.

11 JUDGE SEYER: All right.

12 MR. FISCHER: Thank you.

13 JUDGE SEYER: All right. And then for
14 Triumph Foods, LLC.

15 MR. HARDEN: Yes. Thank you, your Honor.
16 Joshua Harden on behalf of Triumph Foods, LLC located
17 in St. Joe, Missouri. The address of law firm Harden
18 Law, 22500 West 75th street, Shawnee, Kansas. I
19 think the court reporter probably already has it in
20 something, but 66227.

21 JUDGE SEYER: And representing the City
22 of St. Joseph, William Steinmeier filed a request
23 yesterday to be excused from the hearing and
24 reserving the right to join the hearing when issues
25 more pertinent to his client. So I will grant that

1 request.

2 MS. PLESCIA: Your Honor? Your Honor?

3 JUDGE SEYER: Yes.

4 MS. PLESCIA: This is Diana Plescia. I
5 just -- (audio cut out). I'm Diana Plescia, Curtis
6 Heinz Garrett & O'Keefe for the MIEC.

7 JUDGE SEYER: And that's Missouri
8 Industrial Energy Consumers.

9 MS. PLESCIA: Missouri Industrial Energy
10 Consumers. Thank you.

11 JUDGE SEYER: And could you spell your
12 last name for the court reporter.

13 MS. PLESCIA: Yes. P as in Paul, L as in
14 Larry, e-s-c-i-a.

15 JUDGE SEYER: All right. Thank you. For
16 those in the hearing room, I ask everyone to silence
17 their cell phones and any other mobile devices. For
18 those participating via Webex, I ask that you mute
19 your microphone when you're not speaking.

20 MR. PRINGLE: And, Judge, quick question
21 from Staff real fast. Just because we will have a
22 few staff attorneys coming and going throughout the
23 hearing, would you like me to enter all of the
24 entries of appearance as well or have them do it as
25 they come to the desk?

1 JUDGE SEYER: They'll actually ask
2 questions, what have you?

3 MR. PRINGLE: We -- they will be in on
4 different issues, yes.

5 JUDGE SEYER: I would say let's just wait
6 until then.

7 MR. PRINGLE: All right.

8 JUDGE SEYER: And there has been a
9 partial stipulation and agreement that was filed last
10 Friday and so there are remaining issues and that's
11 why we are here today. But before we get to those
12 issues, you should know that I -- and I -- and there
13 was talk about it before we went on the record, there
14 will be a tornado drill today at 11:00 a.m., but we
15 should be in recess at that time. But you should
16 also know that this room is considered a safe room,
17 a -- during a tornado drill. And in addition, the
18 Commission's agenda meetings is scheduled for 11
19 o'clock this morning. So we will break no later
20 than 10:45 a.m. and we will likely reconvene
21 around 12:30 p.m.

22 It is my intention for the hearing this
23 week at least that we try to end the hearing as close
24 as we can to five o'clock, assuming that we're
25 staying fairly on schedule. I want you to keep that

1 in mind in case there's a witness who can only
2 testify on a -- testify on a particular day so we
3 will try to work with you to get that witness
4 testimony in on that particular day. If we do find
5 that we're into next week and we're running behind,
6 we may go late or we may go into that Wednesday
7 hearing date that's kind of reserved for extra time.

8 Before we go any further, Mr. Pringle, I
9 do have a question for you. There were, I think,
10 three reconciliations filed on behalf of Staff.
11 Which witness or witnesses would be best to ask
12 questions of those reconciliations?

13 MR. PRINGLE: Let me take a look back at
14 staff behind me.

15 JUDGE SEYER: Gotcha.

16 MR. PRINGLE: I'm being told Amanda
17 McMellen and Ashley Sarver would be the best Staff
18 witnesses for those questions.

19 JUDGE SEYER: Okay. And that -- for the
20 sake of the -- excuse me. For the sake of the court
21 reporter, that's Amanda McMellen,
22 M-c-M-c-M-e-l-l-e-n, and Ashley Sarver, S-a-r-v-e-r.
23 Correct?

24 MR. PRINGLE: That is correct, Judge.

25 JUDGE SEYER: All right. All right.

1 Friday there was an amended order of witnesses filed
2 and an amended hearing schedule. Are there any
3 changes to that? Can we pretty much rely on that
4 schedule? I'm seeing no -- shaking heads, so.

5 MR. PRINGLE: I think on depreciation,
6 Judge, there may be a Malachi Bowman listed for a
7 staff witness. His issue -- his issues were resolved
8 in the partial stip so he would not be testifying on
9 that -- on the deprec -- remaining depreciation
10 issues.

11 JUDGE SEYER: All right. And he is
12 currently scheduled for Friday.

13 MR. PRINGLE: Yeah. So we would ask
14 that -- his issue has been settled.

15 MR. CLIZER: Your Honor, I would simply
16 ask that the list of issues has been rewritten
17 multiple times. To the extent that, you know, a
18 party may need to move around a witness that kind of
19 got lost in the shuffle a little bit, but.

20 JUDGE SEYER: Right. I will not be so
21 strict that I will hold you to that revised hearing
22 schedule. There was -- there was something mentioned
23 though in that pleading as far as mini opening
24 statements. Is that something we're going to do this
25 morning?

1 MR. CLIZER: Yes, your Honor.

2 JUDGE SEYER: Okay.

3 MR. COOPER: Judge, before you move on,
4 you had mentioned witnesses that need to appear on
5 certain days. We do have Mr. Baryenbruch and
6 Mr. Mustich on the schedule for today and we do need
7 to get them on and off the stand today if that's at
8 all possible. So I just wanted to bring that to your
9 attention.

10 JUDGE SEYER: Okay. All right. Would
11 Missouri-American Water like to make an opening
12 statement?

13 MR. COOPER: We would. And as mentioned
14 previously, Ms. Close is going to do that for the
15 Company.

16 MS. CLOSE: Thank you, your Honor. Good
17 morning. As Mr. Cooper alluded, I'm Hillary Close
18 with Barnes & Thornburg, and I'm going to open us up
19 here with the rate of return discussion.

20 May it please the Commission. The issues
21 to be heard today by this commission concern the rate
22 of return that Missouri-American Water will be
23 authorized to earn for purposes of setting rates. To
24 calculate an overall rate of return, the Commission
25 must determine Missouri-American Water's capital

1 structure and the cost of obtaining the capital it
2 needs, including the cost of debt and an appropriate
3 return on equity. The Commission must balance the
4 interest of the investor and the consumer in
5 accordance with the principles established by the
6 U.S. Supreme Court decisions in Hope Natural Gas
7 Company and Bluefield Water Works which you will have
8 seen cited repeatedly in testimony and which this
9 Commission has itself cited regularly.

10 Bluefield and Hope provide guidance for
11 determining the proper return to which a public
12 utility is entitled. One, it must be commensurate
13 with returns on investments and other enterprises
14 with corresponding risks. Two, it must assure
15 confidence in the financial soundness of the utility.
16 And three, it must be adequate to maintain the
17 utility's credit and attract capital.

18 The return on equity and capital
19 structure must provide Missouri-American Water with
20 the ability to attract capital on reasonable terms on
21 a standalone basis and within the American Water
22 system. The standalone ratemaking principle is the
23 foundation of jurisdictional ratemaking. This
24 principle ensures that customers in each jurisdiction
25 only pay for the cost of the service provided in that

1 jurisdiction. All American Water utility operating
2 subsidiaries compete for proactive investment
3 capital. Unless Missouri-American Water is provided
4 a reasonable opportunity to earn a reasonable return
5 on equity with an appropriate capital structure, it
6 will be at a disadvantage in attracting capital from
7 its parent company resources.

8 As in most cases the financial analysts
9 in this case used a variety of methods to estimate
10 the Company's cost of equity and recommend a fair
11 return on equity or ROE. Missouri-American Water has
12 presented evidence supporting as reasonable an ROE
13 of 10.75 percent. Company witness Ann Bulkley
14 developed this recommendation based on a reasonable
15 range of 10.25 percent to 11.25 percent and after
16 taking into consideration the Hope and Bluefield
17 standards, current and prospective capital market
18 conditions, Missouri-American Water's capital
19 expenditure requirements and Missouri-American's
20 regulatory, business, and financial risks as compared
21 to her proxy group of utility companies that face
22 operating and financial risks substantially
23 comparable to those faced by Missouri-American Water.

24 When determining the appropriate ROE, the
25 Commission must consider the relative risks of the

1 Company and the proxy group companies. To her proxy
2 group Ms. Bulkley applied the constant growth form of
3 the discounted cash flow model, or DCF, the capital
4 asset pricing model, or CAPM, and the empirical
5 capital asset pricing model or ECAPM.

6 In contrast Staff recommends an
7 authorized ROE of 9.5 percent having determined the
8 range of reasonableness from 9.25 percent to 9.75
9 percent. Ms. Malki's recommendation of 9.5 percent
10 appears to be based on the average results of her
11 risk premium analysis rather than her DCF or CAPM
12 analyses.

13 OPC recommends an allowed return on
14 equity of 9.25 percent. Although Mr. Murray
15 conducted DCF, CAPM, and risk premium analyses, and
16 estimated the cost of the equity to be 7.25 to 8.25
17 percent. Mr. Murray appears to abandon those model
18 results based on his position that authorized ROEs
19 are often set higher than cost of equity estimation
20 model results and, therefore, recommends an ROE
21 of 9.25 percent.

22 Directionally both Ms. Malki and
23 Mr. Murray acknowledge that the cost equity has
24 increased since the time of the Company's 2022 rate
25 case, yet their recommended authorized ROEs do not

1 reflect that fact. Mr. Murray, while acknowledging
2 that increased interest rates indicate an increase in
3 the cost of equity, nevertheless recommends an ROE
4 that is 28 basis points below what he states is the
5 average authorized ROE nationally for water utilities
6 in 2024.

7 It's not enough, however, to look only to
8 comparable ROEs. The Commission must also ensure
9 that the capital structure to which that ROE is
10 applied achieves the objectives set forth in the Hope
11 and Bluefield cases.

12 In this proceeding the dispute over the
13 appropriate capital structure to use for ratemaking
14 purposes hinges on the relative amounts of common
15 equity and long-term debt in the capital structure.
16 As a part of the ratemaking equation, a lower equity
17 ratio would have the immediate effect of producing an
18 lower overall rate of return. All else equal, a
19 higher debt ratio increases the risk to investors.
20 However, simply artificially increasing the level of
21 debt within the capital structure will not
22 necessarily reduce the cost for customers over the
23 long term because it increases financial risk as
24 higher leverage leads to go lower coverage ratios,
25 lower credit ratings, and a higher cost of debt.

1 Both Staff and OPC recommend imputing to
2 Missouri-American Water the consolidated capital
3 structure of its parent company American Water. As a
4 result their equity ratios are 43.60 percent and 45
5 percent respectively compared to the actual
6 standalone capital structure of Missouri-American
7 Water consisting of 50.39 percent equity and 49.61
8 percent long-term debt.

9 Missouri-American's capital structure
10 should reflect the standalone operations of Missouri-
11 American Water. As noted earlier, the standalone
12 ratemaking principle is fundamental to ratemaking.
13 Missouri-American Water's actual standalone capital
14 structure reflects the capital that will be used to
15 fund the Company's rate base and cost to serve
16 customers during the time that rates will be in
17 effect.

18 Missouri-American Water is a standalone
19 business enterprise in all material respects. It has
20 an independent board of directors responsible for
21 authorizing the Company to enter contracts, issue
22 debt, and make dividend payments. The utility
23 operations this comp -- this commission regulates are
24 unique to Missouri. The investment needs are unique
25 to Missouri. The challenges and risks, regulatory

1 and financial, are also unique to Missouri. And the
2 customer base is unique to Missouri. The other
3 regulated utilities of American Water operate in
4 different geographic locations with different
5 operational characteristics including size and
6 customer base and, most importantly, different
7 regulatory environments.

8 The circumstances where use of a
9 hypothetical or imputed capital structure may be
10 necessary not present in the case of Missouri-
11 American Water. Missouri-American Water's actual
12 standalone capital structure is in line with utility
13 companies with similar risk profiles and so there's
14 need -- there's no need to manipulate the equity
15 ratio artificially as Staff and OPC propose. Its
16 equity ratio of 50.39 percent is within the range of
17 actual equity ratios of the utility operating
18 companies held by the proxy group as well as the
19 capital structures that have recently been authorized
20 for natural gas and water utilities. Using Staff's
21 or OPC's approach would make Missouri-American Water
22 an outlier in comparison to the proxy group.

23 In addition, the Commission has
24 previously acknowledged in its Spire 2018 rate case
25 decision that where a parent company has multiple

1 operating utilities in different states, it is not
2 appropriate to use the parent company's consolidated
3 capital structure for setting rates for the Missouri
4 utility subsidiary.

5 Use of American Water's consolidated
6 capital structure as proposed by Staff and OPC does
7 not reflect the difference in the risk profile of
8 Missouri-American Water and American Water.

9 Ms. Malki's own testimony recognizes that American
10 Missouri's diversification reduces the risk that it
11 faces compared to Missouri-American Water. They
12 should not be viewed as one and the same.

13 Use of a consolidated capital structure
14 also creates barriers to Missouri-American Water's
15 access to capital. Missouri-American Water competes
16 for capital with upgrading utility subsidiaries
17 within the American Water system. Those affiliates
18 operate in other jurisdictions, most of which use the
19 actual utility capital structure for setting rates.
20 This can result in constrained capital as it places
21 Missouri-American Water at a comparative
22 disadvantage.

23 Mr. Murray has suggested that the
24 Commission should use his recommended capital
25 structure to ensure that Missouri-American Water is

1 not overincentivized to invest in Missouri. The
2 Commission has the authority to disallow recovery on
3 expenditures it deems to be imprudent. Notably
4 Mr. Murray has not argued in his testimony that the
5 Company's projected capital structures -- capital
6 expenditures are imprudent. To use an artificially
7 low rate of return to chill investment in a more
8 arbitrary or blanket manner is not sound policy, it
9 is not in the customer's long-term interest, and is
10 not consistent with the Hope and Bluefield standards,
11 and is, therefore, unreasonable and should be
12 rejected by this Commission.

13 The NARUC primer on cost to capital and
14 capital markets that Mr. Furia cites in his direct
15 testimony advises that regulators are more effective
16 at serving customers when they harness investors'
17 desire to provide capital rather than constrain it.

18 The final component regarding the overall
19 rate of return of Missouri-American Water is the cost
20 of debt. Staff seeks to impute to Missouri-American
21 Water American Water's consolidated cost of debt
22 which was 4.22 percent as of June 30, 2024. OPC
23 seeks to impute to Missouri-American Water a cost of
24 debt of 4.13 percent based on weighted results from
25 American Water Capital Corp.'s embedded cost of debt

1 and certain legacy debt issuances of Missouri-
2 American Water. Notably Mr. Murray's recommended
3 cost of debt is lower than the range for other
4 utilities that he cites as of June 30, 2024 which
5 ranged from 4.25 percent to 4.45 percent.

6 Missouri-American Water's cost of
7 long-term debt for the test year as adjusted through
8 May 2025 was 4.56 percent which represents the actual
9 cost of debt that Missouri-American Water will incur
10 and will be obligated to pay on its long-term debt
11 during the period rates will be in effect.

12 While Missouri-American Water does issues
13 its own debt outside of the arrangement with American
14 Water Capital Corp., the majority of Missouri-
15 American Water's long-term debt is issued pursuant to
16 the financial services agreement with American Water
17 Capital Corp. which represents an efficient and
18 cost-effective means for Missouri-American to raise
19 debt financing.

20 Just as imputing the parent company's
21 capital structure to Missouri-American Water will
22 ultimately not necessarily reduce the cost to
23 customers of that capital over the long term, so too
24 imputing a cost of debt other than what Missouri-
25 American Water actually pays discourages prudent

1 financing transactions ultimately risking an increase
2 in the overall financial risk profile of the utility
3 and constraining Missouri-American Water's access to
4 the beneficial debt financing arrangement. That's
5 all I have.

6 JUDGE SEYER: All right. Thank you.
7 Chair Hahn.

8 CHAIR HAHN: Good morning.

9 MS. CLOSE: Good morning.

10 QUESTIONS

11 BY CHAIR HAHN:

12 Q. Question. You cited the Spire 2018 case
13 on imputing cost to capital. The Commission, I think
14 it was last year, had a Central States Water
15 Resources rate case where we imputed a hypothetical
16 capital structure of 50/50 largely based on the fact
17 that, similar to American Water and Missouri-
18 American, that capital structures could be
19 manipulated between parent companies and
20 subsidiaries. So how does that case -- how is it
21 distinct or different than this one and then -- or
22 who should I ask about that?

23 A. First of all it is my understanding that
24 that case is distinct. It's my understanding that
25 the -- this is the Confluence Rivers utility? That

1 that utility had a distinct fact pattern in some of
2 its corporate structure and what its actual capital
3 structure was including how it was receiving its
4 long-term debt financing. I'm not intimately
5 familiar with the details of that case. I don't know
6 whether we have any witnesses here that are, but
7 you're certainly, you know, welcome to ask the
8 witnesses how they could reconcile that as well.

9 But what I will say is that it is my
10 understanding that the actual capital structure in
11 that case was not shown necessarily to be in line
12 with what we're saying here, a comparable utilities,
13 a proxy group, similarly-situated utilities.

14 CHAIR HAHN: Thank you.

15 MS. CLOSE: Uh-huh.

16 JUDGE SEYER: Are there any other
17 questions from the commissioners? All right.
18 Hearing none, thank you.

19 MS. CLOSE: Thank you.

20 JUDGE SEYER: All right. Mr. Pringle,
21 would you like to make an opening statement?

22 MR. PRINGLE: Thank you, Judge Seyer.
23 Good morning, Chair Hahn, Commissioners, and may it
24 please the Commission.

25 My name is Travis Pringle, and I

1 represent Staff regarding the return on equity,
2 capital structure, and cost of debt issues today.
3 Staff witness Kelli Malki will be taking the stand to
4 answer any questions you may have regarding Staff's
5 positions on these issues. Regarding all three I ask
6 that you order the reasonable recommendations put
7 forward by Staff.

8 Three parties filed testimony regarding
9 the proper return on equity in this case: Missouri-
10 American Water Company, Staff, and the Office of
11 Public Counsel. When determining the proper return
12 on equity for a utility, focus should be on what is
13 called the zone of reasonableness. This zone is
14 meant to represent the lowest rate that would not be
15 deemed confiscatory and the highest rate that would
16 be fair to the public.

17 Staff's proposed range for a reasonable
18 return on equity is 9.25 percent to 9.75 percent.
19 Ultimately Staff recommends the Commission authorize
20 a return of equity of 9.5 percent for Missouri-
21 American Water Company. The Office of the Public
22 Counsel's proposed range for a reasonable return on
23 equity is 9.0 percent to 9.5 percent. The OPC
24 ultimately recommends the Commission authorize a
25 return of equity of 9.25 percent for Missouri-

1 American Water Company. While this is on the lower
2 end of Staff's range, the OPC's number would be
3 considered reasonable under Staff's analysis.

4 Missouri-American Water Company on the
5 other hand proposes a range of 10.25 percent to 11.25
6 percent and ultimately recommends the Commission
7 authorize a return of equity of 10.75 percent. The
8 Company's idea of a reasonable low return on equity
9 is 50 basis points higher than what Staff views as
10 the highest rate that would still be fair to
11 ratepayers. Missouri-American Water company's
12 ultimate recommendation is 100 basis points higher
13 than what Staff views would be reasonable and fair to
14 the public.

15 As outlined in the direct/rebuttal
16 testimony of Ms. Malki, Missouri-American Water
17 Company's recommended return on equity is a result of
18 a methodology that assumes return on equity is equal
19 to cost of equity. It also includes a projected
20 growth rate for the company over the next ten years
21 that is almost 300 basis points higher than the
22 current projected growth rate of the United States
23 GDP. As Ms. Malki further points out in her
24 testimony, this is simply far too extensive, too
25 unrealistic, and thus unreasonable. I implore you to

1 ask Ms. Malki about her reasonable analysis and how
2 that compares to that of the Company.

3 The next issue before you today regards
4 the reasonable capital structure for Missouri-
5 American Water Company. Typically it is reasonable
6 to use a utility's actual capital structure.
7 However, when a utility is part of a holding company
8 situation as Missouri-American Water Company is in
9 regards to its parent company, American Water Works
10 Company, Incorporated, using MAWC's capital structure
11 and capital costs may not accurately reflect the
12 actual capital costs. Because this is such a
13 situation Staff recommends that the most economical
14 capital structure to use is that of American Water's
15 capital structure as of June 30th, 2024. That
16 capital structure consists of 43.60 percent common
17 equity, .01 percent preferred stock, and 56.3 percent
18 long-term debt. Staff is continuing to monitor
19 American Water and Missouri-American Water Company's
20 capital structure throughout the true-up period and
21 this recommendation is subject to change. Please ask
22 Ms. Malki any questions you may have as to how Staff
23 reached this determination.

24 And the final issue I'll be presenting
25 before you today involves the appropriate cost of

1 debt to use in setting prospective rates for
2 Missouri-American Water Company. Similar to Staff's
3 position regarding capital structure, Staff's
4 recommendation is to use the actual cost of debt as
5 of June 30th, 2024 of Missouri-American Water
6 Company's parent company, American Water. That
7 percentage is 4.22 percent. Similar to the capital
8 structure issue, Staff will continue to monitor
9 Missouri-American Water Company and American Water's
10 cost of debt through the true-up period. And this
11 recommendation is subject to change. If you have any
12 questions regarding Staff's analysis on this issue,
13 Ms. Malki is available today to answer those
14 questions.

15 To summarize, Staff recommends the
16 Commission authorize 9.5 percent as a reasonable
17 return on equity for Missouri-American Water Company
18 and to use the capital structure and cost of debt of
19 Missouri-American Water Company's parent company,
20 American Water Works Company, Incorporated. Staff's
21 recommendation on these matters are the most
22 reasonably used in ensuring a healthy return for the
23 Company and to ensure fair rates to the public.
24 Thank you for your time today and I'm happy to try
25 and answer any questions you may have at this time.

1 JUDGE SEYER: Are there any questions
2 from the commissioners? All right. Hearing none,
3 thank you.

4 MR. PRINGLE: Thank you, Judge. And,
5 Chair Hahn, if I may, the question you asked the
6 Company earlier, Ms. Malki may be able to help you
7 out with that.

8 JUDGE SEYER: At this time I would ask if
9 any of the Intervenors intend to present an opening
10 statement on today's topics?

11 MR. BEDNAR: City of Riverside does not,
12 your Honor.

13 JUDGE SEYER: All right. Go ahead.

14 MR. COFFMAN: May I? May it please the
15 Commission. John Coffman on behalf of Consumers
16 Council of Missouri and AARP. We don't have a
17 witness on these issues, but we do think that they're
18 important and we do intend to brief them and to
19 examine them.

20 We view this case by Missouri-American
21 Water Company as being overly aggressive compared to
22 other cases. And it's certainly their right to ask
23 for whatever relief they think they deserve, but
24 there are many issues in this case where we believe
25 that they have gone beyond what is reasonable and

1 beyond what is comparable for your typical regulated
2 utility. The return on equity is certainly one of
3 those issues. 10.75 is, I think, outside the norm
4 certainly for our region. And would ask that you
5 certainly look at Staff and Public Counsel's
6 alternative returns there.

7 I would also ask that you look at the
8 rate of return in conjunction with some of the other
9 mechanisms that the water company is proposing as to
10 mitigating their risk, you know, the RSM, the
11 production cost tracker, and so forth. These
12 mechanisms significantly reduce business risk if
13 they're adopted. And in our minds that -- there
14 should be some counterbalance between the rate of
15 return and what business risk the utility has under
16 whatever regulatory structures it has. We believe
17 that the WSIRA, the W-S-I-R-A, significantly reduces
18 business risk and provides stability of revenues.
19 And we would point out that whenever the utility's
20 risk is mitigated, it has the effect of transferring
21 that risk to the ratepayers. And so that is the --
22 the balance that we hope that you see. Risk doesn't
23 necessarily go away; it's just -- it just transferred
24 and has a cost to it.

25 And would point out again that there are

1 many customers, perhaps half of the customers of this
2 water company that struggle currently with their
3 rates and would point out that, you know, every --
4 every dollar more that this rate increase is than
5 what is just basically necessary for safe and
6 adequate service is going to create a hardship. And
7 so we ask that you take that into account.

8 As to the capital structure, we believe
9 that you should look primarily at American Water
10 Works Company. That is the company that's traded on
11 the stock exchange. And there are a variety of ways
12 that with the internal affiliates, that we're afraid
13 that it can be gamed. And so we don't want a capital
14 structure necessarily set based on their internal
15 corporate policies regarding their affiliates. Sure
16 they compete for capital, but that's not the kind of
17 competition that drives costs down and so we're
18 skeptical and we hope that you look at it closely.
19 That's all I have.

20 JUDGE SEYER: All right. Chair Hahn.

21 CHAIR HAHN: Good morning, Mr. Coffman.

22 MR. COFFMAN: Yes.

23 QUESTIONS

24 BY CHAIR HAHN:

25 Q. I noticed in your comments your ROE was

1 suggested at 9.25 which is similar to OPC. OPC's was
2 caveated with an RSM calculation, so if an RSM is
3 adopted by the Commission, they would prefer a lower
4 ROE. On behalf of the Consumers Council, would you
5 prefer an ROE that is -- would you prefer either a
6 higher ROE or an RSM?

7 A. That's a good question. I think that
8 generally speaking we would prefer not to go down the
9 path of RSM. And in my experience, one of the
10 problems is that sometimes there will be an ROE
11 reduction to recognize some mechanism, but then it
12 only happens in one case and then it just becomes
13 baked in, becomes the new normal, and we go forward.
14 So on that experience I think we'd rather just, you
15 know, not have so many mechanisms that mitigate risk
16 and -- because that has the overall effect of
17 reducing what we see as the incentive for cost
18 cutting. So the more you can just keep the rates at
19 a basic revenue requirement, the more likely we think
20 that it provides a good cost-saving incentive going
21 forward. So I hope that --

22 CHAIR HAHN: Thank you. I appreciate it.

23 MR. COFFMAN: -- answered the question.

24 JUDGE SEYER: Any questions from the
25 other commissioners? All right. Hearing none.

1 Thank you. All right. Mr. Clizer, would you like to
2 make an opening statement?

3 MR. CLIZER: I would although I just want
4 to point out, the initial file of listed issues which
5 had the list of opening statements included in it,
6 the OPC was going to go last. I'm more than okay to
7 make mine now, but I generally was going to allow
8 anybody else that wanted to come up first. But if
9 nobody else wants to, I'm ready to go.

10 JUDGE SEYER: Yeah. I don't believe
11 anyone -- anyone representing the other parties
12 expressed a desire to give an opening statement this
13 morning.

14 MR. CLIZER: That's all right. I'm
15 already rolling. Do I need to give one of those to
16 the court reporter? I don't think I do. Right. My
17 witness is in the middle of handing out my
18 presentation. I'm going to let that die down and
19 then get started.

20 All right. So if it would please the
21 Commission, John Clizer on behalf of the Missouri
22 Office of the Public Counsel. We've already heard,
23 you know, both Staff and Company -- yeah -- come
24 forward and present their cases kind of regarding
25 what this is. However, before we really get into the

1 nuts and bolts of this other rate of return, I want
2 to start by just talking about this case in terms of
3 large numbers because it's important for the
4 Commission to kind of get a grasp of how this issue
5 interplays with the rest of the case.

6 So on that note, let's just start by
7 looking at where this case is at. Missouri-American
8 Water's current authorized revenues, this is
9 according to Staff's accounting schedules, \$466
10 million. The Company's requested increase as of
11 true-up date would be to move that to \$641 million.
12 Now, that represents an increase of about \$175
13 million over existing revenues or about a 38 percent
14 increase. And to put that into comparison what you
15 see here is a table that's taken from an investor
16 relations presentation provided by Missouri-American
17 Water on their website. And you can see the sort of
18 increases that were approved in the -- since -- oh,
19 sorry -- as effective January 1, 2024. You can see
20 right off the bat the 175 million that we're talking
21 about here completely dwarfs the other approved
22 increases across other states. Nearly double that
23 even of New Jersey. So we are talking about a
24 substantially large amount of money.

25 And it's also important to remember that

1 that's not the only increase that customers are going
2 to see as a result of this. As has been mentioned,
3 the Utility currently has what is called the Water
4 and Sewer Infrastructure Replacement Act, it's
5 referred to as WSIRA by its acronym. They have been
6 routinely hitting the caps for that system just about
7 every -- every -- they've been hitting the caps for
8 it regularly, which means that you can expect that
9 that 175 is going to blossom even more.

10 The other thing is the rate of return
11 that's set in this case is the rate of return used
12 for the WSIRA case. What that means is if you have a
13 higher rate of return here, you actually have a
14 higher cost included in the WSIRA. And because the
15 WSIRA has a cap attached to it, it means that they'll
16 be able to put in less pipes during the WSIRA
17 projects for the same dollar amount. If you give
18 them a higher ROR now, they'll hit the cap faster and
19 you'll actually accelerate them having to come back
20 in for a rate case.

21 Again, this is from that same
22 presentation, and just to highlight, the Missouri-
23 American Water WSIRA increases in just Missouri
24 amounted to another nearly \$50 million. Again,
25 that's not plant spend; that's the revenue increases

1 associated with those.

2 So there's a huge amount of money at
3 stake here. And you also need to recognize that this
4 case is going to be a massive increase almost no
5 matter what happens. Staff's case, and I don't
6 begrudge them for this, but I'm just going to say it
7 what it is, their case is currently recommending \$557
8 million increase as of their true-up position.
9 That's what I was told according to Staff. Again,
10 that represents a \$91 million increase over current
11 rates or about 19 percent.

12 Now, the OPC does have a few
13 disallowances, but I'm not going to sugarcoat it; we
14 don't have very many here. And we don't think that
15 we can bring this entire rate increase below 15
16 percent which, to be clear, that's usually what most
17 of the electric and gas companies are aiming for is
18 that 15, a high end of 20 percent. That's
19 effectively becoming the low end for this case.

20 So, like I said, huge amount of money at
21 stake here. So how does this tie into ROR. Why am I
22 bringing this up now. Well, to understand that you
23 need to understand how this difference breaks down.
24 So there's an \$85 million difference between where
25 the Staff is at in their recommendation and where the

1 Company's at. Of that \$85 million, \$52 million is
2 this issue alone. That's over 60 percent. Over 60
3 percent of the difference between where the Staff is
4 at and where the Company's at is this one issue.

5 The next largest issue is discrete
6 adjustments. That's about \$23 million. Corporate
7 Support Services which is the second issue you're
8 going to hear today, and it actually incorporates two
9 different issues -- I'll touch on that later --
10 that's about 8 million. And there's about a handful
11 of smaller issues beyond.

12 So I really implore you to pay careful
13 attention to this issue because it is in many
14 respects the single largest issue in this case.

15 Okay. So let's go to rate of return.
16 And again, I know we've already kind of gotten a few
17 of these things. I'm just going to do a very quick
18 primer on a couple of the terms to make sure
19 everybody's on the same page. Return on equity, this
20 is what the Company is awarded as a monetary amount
21 that they get passed on to their ratepayers. They
22 usually do that through dividends. They could also
23 theoretically retain earnings. This is what we
24 consider to be the profit a company earns on its
25 investments. Then you have the cost of debt. This,

1 fairly simply, is just the interest being charged on
2 the loans or other debt instruments that the company
3 enters into in order to finance its operations.
4 Finally you have the capital structure which is
5 usually the ratio of equity to debt that the
6 company's using to support its position.

7 Now, traditionally most companies are
8 using just common equity and debt, so those two
9 ratios usually should add up to 100 percent.
10 Sometimes you have a little bit of preferred stock.
11 I think in this case there's like a .0001 percent
12 preferred stock in Staff's case. It's such a small
13 amount that we don't really consider it.

14 But with those in mind let's look at the
15 numbers. And again, I know you've already heard the
16 numbers out there, but this is a good way to get a
17 quick view of where all three of the parties who
18 have witnesses are at. And right off the bat we
19 can look at the return on equity. Again, the
20 numbers have already been laid out. 10.75 is the
21 Company's recommendation. 9.5 is the Commission
22 Staff, and 9.25 is the OPC. Now, I will echo what
23 the attorney for Staff has already said. The Comp --
24 so Staff's recommendation was a -- based on a range
25 of 9.25 to 9.75. So the OPC's recommendation is

1 technically within Staff's range. OPC's
2 recommendation was based on a range of 9 to 9 and a
3 half, so Staff's recommendation is technically within
4 the OPC's range. I don't think either of the witness
5 for Staff or OPC can, therefore, disagree with what
6 the other has recommended in terms of a just and
7 reasonable ROR. I mean, we would prefer the
8 midground of either of our ranges obviously, but the
9 truth of the matter is both of us were within each
10 other's ranges.

11 As far as the percent of common equity
12 goes, the OPC is actually a little bit higher than
13 Staff. And the basic reason for this is, I
14 understand, Staff took sort of a point-in-time
15 analysis of where the corporate parent company was at
16 while OPC looked at more of an average basis. So we
17 ended up getting a little bit higher. And the
18 Company of course is asking for the 50.39 that they
19 ascribe to Missouri-American Water itself.

20 The cost of debt issue, which again I'll
21 get into a little bit here, is about a 25 basis point
22 difference. You will note, I believe earlier, that
23 the cost of debt for OPC was labeled at 4.13. That
24 is accurate with regard to the direct testimony.
25 The 4.23 that you see here is a true-up position.

1 Might be a little bit unfair because I think maybe
2 Staff might have also updated theirs in true-up, but
3 I just want to get that out there to make parties
4 aware that we have trued up our number on that issue.

5 But what I really want to draw people's
6 attention to is where those total rate of returns
7 shake out because in sort of ironic twist, the fact
8 that the OPC has a higher cost -- sorry -- equity
9 layer than the Staff, our rate of return actually
10 ends up being almost i -- top of Staff. And in fact,
11 once you factor in the tax component of it, we're
12 within one basis point of each other. So while we
13 technically have 25 basis points less on ROE, our
14 slightly higher equity layer means that we're almost
15 lockstep with where Staff is at. At least that's our
16 position on this.

17 I also want to just take a moment to kind
18 of remind people, because I don't want the Commission
19 to get the mistaken impression that either Staff or
20 OPC is trying to suggest that the Company shouldn't
21 be making a profit here. We have included a very
22 healthy amount of money in our respective cases to
23 account for the Company's return on their investment
24 and their profit on that investment. Both Staff and
25 OPC, based on a \$3.2 billion net plant -- sorry --

1 net rate base which is what the Company says it has
2 would generate \$175 million in pure profit for the
3 Company. The Company's increase over where the Staff
4 and OPC are at would produce \$225 million in pure
5 profit. Again, that's taking out the debt component
6 of it; this is just the profit the Company earns.

7 So as I was saying before, this case in
8 its entirety largely turns on just how the
9 Commission -- how much of that \$50 million in profit
10 difference this Commission is willing to give the
11 Company. That's what's really driving what the
12 parties' difference I would -- right this now.

13 So let's walk through really quickly what
14 the three components are. Again, they've already
15 been touched on a little bit so I will try and make
16 this relatively quick. Return on equity. This is,
17 of course, like I said before, what the Company earns
18 in profit. When the Commission sets a return on
19 equity, usually what you want to be thinking about is
20 risk, right, because equity gets paid off after debt
21 in the case of like a bankruptcy. Equity holders
22 have a higher risk than debt holders. So really what
23 the Commission needs to be thinking of is how much do
24 we need to incentivize or how much do we need to
25 provide equity holders to account for their risk in

1 holding equity.

2 So when you think of that, you need to
3 start thinking, okay, how risky is the company in its
4 totality, right. And the thing about water companies
5 in general is that they are generally considered much
6 lower risk than their other associates. Of the three
7 major utilities, so water, gas, electric, water
8 utilities regularly trade at a premium. They're
9 regularly considered lower risk, safer investments.
10 And it's really easy when you think about why that
11 would be. You think about an electric company,
12 right. They have to make big, huge lump investments
13 like building a generation. They're irregular so
14 they have to come in and get investments, get CCNs on
15 that. Water companies, their investments are
16 regular. It's just a constant renewal of a
17 distribution system. So they're going to be
18 constantly coming in and getting, you know, a regular
19 CapEx spend. And this is recognized by outside
20 observers. This quote from Guggenheim Securities
21 explains how water companies are again considered
22 lower risk than electric or gas utilities because you
23 have that consistent, predictable CapEx spend.

24 And that's a problem because in this case
25 you're seeing the -- kind of the exact opposite of

1 what you should be seeing. The Company's asking for
2 a 10.75 percent ROE. Their witness, Ms. Bulkley also
3 filed testimony in the Ameren Missouri electric case
4 that was, I believe, just settled. I'm not sure if
5 they've actually filed a settlement, but in the
6 process of being settled at any rate. In that case
7 she was recommending a 10.25 percent ROE. So right
8 off the bat you need to be asking yourself, is Ameren
9 Missouri less risky than Missouri-American Water. I
10 mean, think about it. Think about what Ameren
11 Missouri had to deal with. They had fight litigation
12 on Rush Island. They have had to deal with the bat
13 situation at High Prairie. Why would they have a
14 lower ROE than the Missouri-American Water Company
15 who's basically gotten the \$1.1 billion investment
16 put in this case without anybody raising real concern
17 about it.

18 The other thing is to just start looking
19 at, you know, what is happening in the rest of the
20 country. So the Regulatory Research Association
21 basically puts out papers, they're offered by S&P
22 Global, and they just look and they see, okay, what
23 have all the other utility operators or all the other
24 commissioners done, right. For 2024 they found out
25 of 16 cases, the average ROE awarded for water

1 companies was 9.52 percent. That was based on a
2 range of 9.01 to 9.84. I have that S&P Global report
3 and I intend to introduce it later in this hearing so
4 you all see it for yourselves. This is substantially
5 less than 9.72 percent that they gave for gas or
6 the 9.8 they gave for electric, which again makes
7 sense. We expect for water to have a lower ROE than
8 for gas or electric because it's a less risky
9 investment.

10 I'd also like to just sort of touch on
11 the fact that, you know, it was mentioned how our
12 witness, Mr. Murray, didn't use his own cost of
13 equity analysis which he came out to be 7.25 percent.
14 It's really important for the Commission to recognize
15 that there has been a divorce between cost of equity
16 and the allowed ROEs for a considerable period of
17 time. And that divorce is recognized by actual
18 analysts in the field. Wells Fargo uses a 7.25
19 percent estimated fair price for Missouri-American
20 parent company stock. That's not Wells Fargo being
21 paid to come here and present information. That's
22 just what they do on their end for their investors.
23 They're using a 7.25 percent cost of equity,
24 consistent with what Mr. Murray says.

25 So again, we are not outlandish. We are

1 following what the actual equity investor analysts
2 are saying. With all that in mind, why are we
3 talking about 10.75 at all. And again, this was
4 already brought up and done very well by Mr. Pringle
5 on behalf of Staff. The Commission has used in the
6 past a zone of reasonableness test. They have used
7 this in the past to say, Hey, if it's 100 basis
8 points above or below what the national average is,
9 we're not even going to consider it. It's just not
10 even worth thinking about. And in this case
11 Missouri-American Water is more than 100 basis points
12 beyond that 9 and a half that is the national
13 average. So in the past, the Commission would have
14 thrown that out right out the gate.

15 The reason that they've come and asked
16 for 10.5, and this is my personal opinion, it all has
17 to do with anchoring, right. They know or they
18 should know they're not going to get that. They
19 shouldn't get that. It's completely outlandish. But
20 by asking for a 10.75, they can set a midpoint in
21 your all minds somewhere between the 9 and a half
22 that's consistent with the national average and
23 where they want it to be. So they're aiming for
24 somewhere in the middle there. I truly do not
25 believe that that's reasonable, that you could ever

1 suggest a 10.75 given where national averages are
2 right now, but. I'm going to move on.

3 So cost of debt. This issue has been
4 explained before, but they haven't really gotten into
5 the details of what's happening here, so very briefly
6 I'm going to explain this. To understand the cost of
7 debt and actually the cost of capital issue, you have
8 to have a good understanding of how American Water
9 Company in general is set up. So American Water
10 Company or American Water Works Company is the parent
11 company. They're the ones who own all the
12 subsidiaries. They have an affiliate subsidiary
13 called American Water Work Capital Corporation.
14 Whenever the entire entity wants to raise money
15 through capital, American Water Work Capital Company
16 goes out and sells debt to third-party investors in
17 the name of the entire company. Then it takes the
18 money it generates and transfers it to the parents
19 and subsidiaries through affiliate loans.

20 Now, what's happening right now is they
21 are choosing, choosing to give the lower cost debt
22 loans to the parent company and the higher cost debt
23 loans to the subsidiaries. This is a choice that
24 they are making because the capital is being raised
25 in the name of the entire entity; it's not being

1 raised on behalf of one subpart. And all the OPC is
2 arguing and I believe all that Staff is arguing is
3 that's not fair. So we're using an average to
4 account for the fact that that would be what is fair.

5 This is just a short kind of recap of
6 what I just said. But that's the entirety of the
7 cost of debt issue in a nutshell. It's literally
8 just they are artificially choosing who gets the
9 debt. They're giving the lower cost to their parent.
10 They shouldn't. Or rather the Commission should
11 recognize the average cost of debt because that's
12 what's equitable and fair.

13 The capital structure issue is largely
14 based on the same problem. Again, if you think back
15 to that structure that I just went through, what's
16 happening is Missouri-American Water is raising debt
17 at let's say 4.1 or something. Then it's taking the
18 debt that it's raising and it's reinvesting that in
19 its subsidiaries. So it is controlling the amount of
20 equity that its subsidiaries have. And this is the
21 real key here because you heard earlier the counsel
22 for Missouri-American Water try to tell you, We are
23 independently managed. That's simply not the case at
24 all.

25 In fact, if you just look at who the

1 Company brought to present information to you today,
2 they didn't bring a Missouri-American Water Company
3 witness. They brought the American Water Works
4 Service Company witness who works for all of these
5 subsidiaries who routinely presents information for
6 all of these subsidiaries. There is no one at
7 Missouri-American Water Works that's making decisions
8 on how to capitalize their system. It's all being
9 done at the parent level and it's all being done
10 purposefully to ensure a higher equity ratio that
11 translates into a higher artificial return for its
12 ratepayers. If you want more information on this, I
13 again strongly encourage you to talk to Mr. Murray
14 about it. He can provide a lot more detail than I
15 can.

16 The last thing I just want to say on this
17 is if you look at what regulatory analysts or
18 investor analysts think when it comes to water
19 utilities, they routinely say that the safer,
20 low-risk profile water utilities can justify them
21 having a much higher leverage amount than other
22 utilities. It is expected that other utilities will
23 have -- sorry -- that water utilities will have a
24 higher-than-normal leverage when compared to electric
25 and gas. The exact opposite is what's happening here

1 and that is a concern.

2 So what do you do about it. Well, you
3 look at the parent company. The capital structure of
4 American Water parent company is being financially
5 and reasonably managed for the purpose of achieving
6 desired end for its rate -- sorry -- it's
7 shareholders. That is what a reasonable capital
8 structure would actually look like. And again, this
9 is from that same presentation that was given to
10 their investors. First of all, I just want to note
11 how the Company itself touts their investment rating
12 is based on, quote, low-risk business profile as well
13 as a strong regulatory environment.

14 So the Company is already acknowledging
15 that its low-risk profile is allowing them to
16 maintain a very high amount of leverage. How high.
17 Well, the Company itself touts that as of December
18 31st, 2024, which just happens to be the true-up date
19 for this case, they have a 57 percent debt-to-equity
20 ratio. That is exactly, give or take a point one or
21 point something, whatever Staff is recommending in
22 this case. So you can see, you know, this is -- the
23 Company's touting, Hey, our low-risk profile is
24 allowing us to maintain higher debt. And all the OPC
25 and Staff I believe are asking for is for that

1 reality to be reflected in a manner that allows
2 OPC -- sorry -- for Missouri customers to benefit
3 from the low risk that this state has generated for
4 Missouri-American Water.

5 So moving in, my closing thoughts on
6 this. As I said earlier, both the OPC and Staff
7 positions ultimately reach about the same results.
8 Both the OPC and Staff's ROEs are within the range of
9 reasonableness of the other witness's position. So
10 I'm not about to stand here and say it has to be OPC
11 or it has to be Staff. Honestly either one is just
12 and reasonable at this rate. And they are both going
13 to result in this company getting \$175 million in
14 profit. The only question really now before this
15 commission is how much more profit you think you
16 need to give the company. Because the difference
17 between 15, 19, 30 or 40 percent increase, it's going
18 to all turn on that one question. And we are here to
19 ask you to use a reasonable rate of return as
20 prescribed by either Staff or OPC to give the
21 company \$175 million in profit, but to mitigate the
22 extra increases on customers. They don't need it.
23 Customers don't need it.

24 Again, very last thing I'll just say as
25 I've said before, I strongly encourage you to ask any

1 questions of Mr. Murray. I will point out that of
2 all the witnesses here to present today, I believe he
3 is the only one who is an actual chartered financial
4 analyst. His wealth of experience in this field is
5 fantastic, and he has spent an enormous amount of
6 time trying to understand the interworkings both of
7 Missouri-American Water specifically and Missouri
8 utilities in general. So he is an incredibly
9 valuable assets. With that, I will pause and ask if
10 there are any questions.

11 COMMISSIONER MITCHELL: Mr. Clizer, this
12 is Commissioner Mitchell. I have a question for you.

13 MR. CLIZER: Yes, sir.

14 QUESTIONS

15 BY COMMISSIONER MITCHELL:

16 Q. I just want to make sure that I understood
17 what you said, that the parent company on behalf of
18 all of the affiliate companies or subsidiary
19 companies issues the debt or secures the debt on
20 behalf of all of the subsidiary companies and then
21 allocates that debt to different subsidiaries at
22 different costs or different costs of capital?

23 A. So -- I'm sorry, I didn't mean to cut you
24 off, sir.

25 Q. Do I understand that correctly?

1 A. First of all I want to make sure that you
2 please ask that to the witnesses just to make sure
3 that I didn't say something wrong. I am relaying
4 information that's provided to me by my witnesses,
5 but I've been known to err. So in the event that I
6 misspoke, I beg your indulgence.

7 I will again reiterate as I understand it,
8 looking over at my witness and hopefully he can nod
9 or correct me if he thinks differently. But I
10 strongly encourage you to directly ask the witnesses
11 that.

12 So my understanding of it is American
13 Water Works Capital Corporation, this is not the
14 parent company but a separate subsidiary, American
15 Water Work Capital Corporation, is responsible for
16 issuing the debt financing that funds the entire
17 American Water Works Company body. My understanding
18 is that the capital is raised on behalf of the entire
19 American Water Works Capital body, meaning that
20 effectively it's not raised on behalf of an
21 individual subsidiary or parent company, but on
22 behalf of the whole. And then it is -- once it's
23 raised by the capital company, it is distributed to
24 the parents and the subsidiary through affiliate
25 loans. And the Company itself determines how that

1 money flows out.

2 It is my understanding that the Company
3 treats the loans being raised, they basically flow
4 through the cost of debt in accordance with the debt
5 instruments that are being used to raise it, but they
6 are a multiple of different debt instruments being
7 used to raise it so some have a higher cost of debt,
8 some have a lower cost of debt. The Company is
9 choosing how those debt instruments are effectively
10 transferred internally and thereby assigning the cost
11 of debt between the parent and subsidiaries.

12 Did that make sense? And if not, I will
13 try it again.

14 Q. It did. And remind me, who is your
15 witness that would be best to follow up with?

16 A. A. Yes. The OPC's witness is
17 Mr. David Murray.

18 COMMISSIONER MITCHELL: Thank you.

19 JUDGE SEYER: All right. Thank you,
20 Mr. Clizer. All right. Is the Company ready to
21 bring on their first witness?

22 MS. CLOSE: Yes, your Honor.

23 Missouri-American Water would call Nicholas Furia.

24 MR. FURIA: Am I going to that chair over
25 there? Thank you.

1 JUDGE SEYER: All right. Mr. Furia,
2 would you raise your right hand please.

3 (Witness sworn.)

4 NICHOLAS FURIA,
5 the witness, having been first duly sworn,
6 testified as follows:

7 JUDGE SEYER: All right. Thank you.

8 MS. CLOSE: Thank you, your Honor.

9 DIRECT EXAMINATION

10 BY MS. CLOSE:

11 Q. Good morning, Mr. Furia. Will you please
12 state your full name for the court reporter.

13 **A. Nicholas Furia.**

14 Q. And by whom are you employed and in what
15 capacity?

16 **A. American Water Works Service Company as
17 the vice president and treasurer.**

18 Q. And you are testifying here today on
19 behalf of Missouri-American Water. Is that correct?

20 **A. That is correct.**

21 Q. Have you caused to be prepared for
22 purposes of this proceeding certain direct and
23 rebuttal and surrebuttal testimony in written
24 question-and-answer form?

25 **A. I have.**

1 Q. Is it your understanding that that
2 testimony's been marked as Exhibits 8 for your
3 direct, 9P for the public rebuttal, 9C for
4 confidential, and 9HC for highly confidential?

5 A. Yes.

6 Q. Do you have any changes to that testimony
7 at this time?

8 A. I do not.

9 Q. If I asked you the questions contained in
10 Exhibits 8, 9P, 9C, and 9HC today, would your answers
11 be the same?

12 A. Yes, they would.

13 Q. Are those answers true and correct to the
14 best of your information, knowledge, and belief?

15 A. They are.

16 MS. CLOSE: At this time Missouri-American
17 Water would offer Exhibits 8, 9P, 9C, and 9HC and
18 tender the witness for cross-examination.

19 JUDGE SEYER: All right. Are there any
20 objections to the admission of those documents,
21 Exhibit 8, 9P, 9C, and 9HC? All right. Hearing
22 none, those exhibits are admitted.

23 (Company Exhibits 8, 9P, 9C, and 9HC were
24 admitted and made a part of this record.)

25 JUDGE SEYER: And, Mr. Pringle, do you

1 have questions for the witness?

2 MR. PRINGLE: No questions, Judge. Thank
3 you.

4 JUDGE SEYER: All right. Mr. Clizer?

5 MR. CLIZER: No questions, your Honor.
6 Thank you.

7 JUDGE SEYER: Any questions on behalf of
8 the Consumers Council or AARP?

9 MR. COFFMAN: No questions, your Honor.

10 JUDGE SEYER: City of Riverside?

11 MR. BEDNAR: No questions, your Honor.

12 JUDGE SEYER: Liberty? MECG? MIEC?

13 MR. OPITZ: No questions for MECG.

14 JUDGE SEYER: Water Supply District?

15 Triumph Foods?

16 MR. HARDEN: No questions, thank you.

17 JUDGE SEYER: All right. Any questions
18 from the commissioners? All right. Hearing none. I
19 do have a few questions myself.

20 QUESTIONS

21 BY JUDGE SEYER:

22 Q. Mr. Furia, do you know how many American
23 Water rate cases were litigated in 2024?

24 A. I know there were several, but I'm not
25 sure of the exact number.

1 Q. Ballpark, do you know what equity
2 percentage was approved in those cases?

3 A. I don't have the exact numbers, and I
4 don't -- certainly don't have it in front of me here
5 today, but I think that they were reasonably in line
6 with what we're asking for in this case.

7 Q. And I don't -- I don't have your testimony
8 in front of me right now, but what would you say is
9 the definition of double leverage?

10 A. I think folks have used that terminology
11 to suggest that a holding company is loaning funds to
12 a subsidiary company in order to enhance its returns.

13 Q. Okay. And how about equity infusion, how
14 would you define that?

15 A. Simply an equity investment by the -- a
16 shareholder.

17 Q. Is all the equity portion of your capital
18 structure equity that is held at Missouri-American --
19 or is all the equity portion of your capital
20 structure equity that is held at Missouri-American or
21 is a portion of it infused from American Water Works?

22 A. So a portion of it would be retained
23 earnings which is, you know, earnings that weren't
24 dividend out that the Company has earned. Then a
25 portion would be common equity that the parent

1 **company has bought into the entity. It represents**
2 **its ownership stake in the company.**

3 Q. Okay. If the Commission wanted to trace
4 the infusion of equity dollars into Missouri-American
5 back to American Water Works to verify if those
6 dollars were for debt issuances at American Water
7 Works or dollars from the issuance of common stock
8 issued at American Water Works, how would the
9 Commission do that?

10 A. It wouldn't be able to, your Honor. The
11 details of that are not tracked in any of the systems
12 that we have and the cost to do so would be overly
13 burdensome. Would effectively mean we would have to
14 track every dollar that comes in and goes out of
15 American Water.

16 Q. Does American -- does Missouri-American
17 issue its own individual common stock separate from
18 American Water Works?

19 A. It does not.

20 Q. Does not. You may have already answered
21 this for me, but does American Water and Missouri-
22 American have in-house accounting mechanism or
23 bookkeeping method that can decipher whether or not
24 the equity infusions to Missouri-American from
25 American Water on debt issuances or common stock

1 issuances?

2 **A. Not to my knowledge, no.**

3 Q. Okay. Is there any Company witness
4 that --

5 **A. I should clarify. I -- I don't believe**
6 **one exists, and I don't know that there would be**
7 **another witness that would say different.**

8 JUDGE SEYER: Okay. All right. That's
9 all the questions I had. Chair Hahn has some
10 questions.

11 CHAIR HAHN: Yes, thank you.

12 QUESTIONS

13 BY CHAIR HAHN:

14 Q. Good morning.

15 **A. Good morning.**

16 Q. Discussing ROE it does appear that the
17 Company's position is significantly higher than both
18 Staff and OPC's positions on this particular subject.
19 I asked the Consumers Council about weighing the
20 optionality of an ROE that is higher according to
21 Consumers Council's standards which would be probably
22 in the 9.5 range compared to an RSM. What's the
23 Company's position on weighing an ROE that is
24 slightly higher versus implementation of an RSM that
25 would offset risk?

1 **A. I think -- I would love to provide an**
2 **answer for you, but I think that's probably a better**
3 **question for a different witness, possibly Witness**
4 **LaGrand.**

5 CHAIR HAHN: Okay. Thank you.

6 JUDGE SEYER: Are there any other
7 questions from the commissioners?

8 COMMISSIONER COLEMAN: Just a
9 clarification, please.

10 QUESTIONS

11 BY COMMISSIONER COLEMAN:

12 Q. OPC mentioned that there was a Missouri-
13 American Water witness that basically provided
14 testimony or can provide information for all of
15 American Water Works. Are you that witness?

16 **A. If I could provide testimony for all of**
17 **the American Water Works --**

18 Q. Well, you --

19 **A. -- as it would --**

20 Q. -- could answer --

21 **A. -- relate to capital structure --**

22 Q. Yeah.

23 **A. -- yes.**

24 Q. Okay. And you came in from where?

25 **A. New Jersey.**

1 COMMISSIONER COLEMAN: Okay. Thank you.

2 **THE WITNESS: You're welcome.**

3 COMMISSIONER COLEMAN: Thank you, Judge.

4 CHAIR HAHN: Just an additional question.

5 **THE WITNESS: Sure.**

6 **QUESTIONS**

7 BY CHAIR HAHN:

8 Q. When I look at Missouri-American's request
9 on ROE from 10.25 to 11.25, in any of American Water
10 Work's jurisdictions that have had rate cases in the
11 last two years, can you name any specific example
12 where an ROE has been awarded in that range?

13 **A. Not one that I'm aware of, no.**

14 Q. What has been the typical range that has
15 been awarded in other --

16 **A. I don't have all of that data in front of
17 me and it's not something I have committed to memory,
18 so I apologize, but I think it's in between the, you
19 know, mid-nine to mid-ten range would be my guess
20 based off of recollection.**

21 Q. So the mid-nine range, that would be
22 basically the standard that OPC pointed out was the
23 average ROE for water utilities across the U.S. last
24 year, so that would be roughly in line?

25 **A. Yes.**

1 CHAIR HAHN: Okay. Thank you.

2 JUDGE SEYER: Mr. Pringle, do you have
3 any follow-up questions?

4 MR. PRINGLE: One moment, Judge.

5 COMMISSIONER MITCHELL: Judge, if I may
6 while Mr. Pringle's thinking.

7 QUESTIONS

8 BY COMMISSIONER MITCHELL:

9 Q. What is the current ROE prior to this rate
10 case coming forward?

11 MR. CLIZER: I don't know if I want to
12 lodge an objection about -- so the difficulty there
13 is that the prior ROE was technically part of a black
14 box. There was, pursuant to the stipulation set in
15 the last case, a number included for the total ROR
16 for WSIRA purposes which is necessary to comply with
17 statute. But every party was entitled to prevent --
18 present what they believed the individual ROE was.
19 So, and I apologize. I'd allow the witness to answer
20 that question, but I want to make sure it's clear
21 that it's a stipulated term and it's not an agreed-to
22 number. Sorry. Thank you.

23 COMMISSIONER MITCHELL: Thank you. I'll
24 withdraw my question.

25 JUDGE SEYER: Yes, Chair Hahn.

1 CHAIR HAHN: Also prior to Mr. Pringle
2 asking a question.

3 QUESTIONS

4 BY CHAIR HAHN:

5 Q. Capital structure. So Missouri-American's
6 requesting what the actual Missouri-American capital
7 structure is, and Staff is requesting what the
8 American Water Works Corporation capital structure
9 is. In other states that American Water Works
10 operates, how often is the capital structure of
11 the -- of the parent company used in lieu of the
12 operating or subsidiary company?

13 A. I'm only aware of two jurisdictions that
14 do not use the actual standalone capital structure
15 for the operating company. Of the two, I believe one
16 is pending. I don't know that that rate case is
17 actually -- I don't know if we have a final order for
18 that one, that will be stipulating the consolidated
19 capital structure.

20 Q. Okay. I want -- can you repeat that
21 because I want to make sure I'm understanding what
22 you're saying. It is more often than not that the
23 subsidiary company's capital structure is used as
24 compared to the parent company?

25 A. Correct. The standalone actual capital

1 **structure of the operating company is most often**
2 **used.**

3 CHAIR HAHN: Okay. Thank you.

4 JUDGE SEYER: All right. Mr. Pringle.

5 MR. PRINGLE: Just one question, Judge.

6 RE CROSS-EXAMINATION

7 BY MR. PRINGLE:

8 Q. Mr. Furia, when it comes to the capital
9 structure and the percentage of equity, are you aware
10 of any other American Water jurisdictions that have
11 even close to a 56 percent?

12 A. **Am I aware of any operating company that**
13 **has close to 56 percent? Yes.**

14 Q. And do you know which ones those are?

15 A. **I believe New Jersey and Pennsylvania.**

16 MR. PRINGLE: Thank you, sir. No further
17 questions.

18 **THE WITNESS: Thank you.**

19 JUDGE SEYER: Mr. Clizer.

20 RE CROSS-EXAMINATION

21 BY MR. CLIZER:

22 Q. Mr. Furia, you were asked a question sort
23 of concerning the equity ratios that have been put
24 forward in other states. Do you recall filing
25 testimony for the Virginia-American Water Corporation

1 or American Water Company's case?

2 **A. Yes.**

3 Q. And is it correct that you requested a
4 ratemaking common equity rate -- is it correct that
5 for that case you requested a ratemaking common
6 equity ratio of 45.67 percent?

7 **A. Not entirely the way you've characterized**
8 **it. The Virginia statute requires the actual**
9 **standalone capital structure for the operating entity**
10 **be used at the point in time. And at that point in**
11 **time that was the capital structure. That was the**
12 **equity layer.**

13 MR. CLIZER: No further questions.

14 JUDGE SEYER: All right. I will
15 generally ask, do any of the Intervenors have any
16 recross for this witness? All right. They're
17 indicating no here in the hearing room and I do not
18 hear any online. So, Ms. Close, do you have
19 redirect?

20 MS. CLOSE: Just very briefly, your
21 Honor.

22 REDIRECT EXAMINATION

23 BY MS. CLOSE:

24 Q. Mr. Furia, you were asked about the equity
25 ratios in other states and whether you knew if any of

1 them were close to 56 percent. Do you know if
2 Indiana was awarded 56 percent in its most recent
3 ratemaking?

4 **A. Yes. Yes. Thank you for refreshing my**
5 **memory on that. That is correct.**

6 MS. CLOSE: No further redirect, your
7 Honor, but I would point out that I think
8 Commissioner Mitchell had a question during opening
9 statements. I just want to point out that if he
10 would like to ask that question about the cost of
11 debt that gets realized by Missouri-American Water,
12 that Mr. Furia, on behalf of the company, is happy to
13 answer that question as well.

14 COMMISSIONER MITCHELL: Yeah. Thank you.

15 QUESTIONS

16 BY COMMISSIONER MITCHELL:

17 Q. That question was, I'm understanding
18 correctly that Missouri-American capital secures the
19 debt for all of the subsidiaries, and I'm curious how
20 the cost of that debt is then assigned to the
21 subsidiary companies.

22 **A. The -- the FSA, the financial services**
23 **agreement, that Missouri-American and the other**
24 **participating subsidiaries in the American Water**
25 **Capital Corp. financing program stipulate that we --**

1 we assign that cost of debt at the same terms that
2 AWCC has issued in the capital markets and/or -- so
3 the lower of that cost or market rates. And that's
4 how it gets allocated. If there is any difference
5 between American Water Works' rates and an entity's
6 rates, it's because they did not participate in the
7 same manner in all issuances that American Water has
8 outstanding.

9 COMMISSIONER MITCHELL: Thank you.

10 JUDGE SEYER: All right. Are there any
11 other follow-up questions for this witness before
12 he's excused?

13 MS. CLOSE: Your Honor, if I could just
14 follow up on -- briefly on that one.

15 FURTHER REDIRECT EXAMINATION

16 BY MS. CLOSE:

17 Q. Mr. Furia, is there a portion --

18 MR. CLIZER: I'm just going to object that
19 redirect is based on cross-examination.

20 JUDGE SEYER: I'll sustain that
21 objection.

22 MS. CLOSE: All right. Thank you, your
23 Honor.

24 JUDGE SEYER: All right. Mr. Furia,
25 thank you for your testimony.

1 **THE WITNESS: Thank you.**

2 MR. COOPER: Judge, before we go on, I
3 guess I want to comment if it's all right on that
4 last ruling or ask about that. Because certainly my
5 understanding has been over the years that redirect
6 is appropriate for questions from the Bench in
7 addition to cross-examination.

8 JUDGE SEYER: I believe you are correct
9 on that, so I will -- I will reverse that ruling and
10 if you don't mind, Mr. Furia, if you'll retake the
11 stand.

12 MR. PRINGLE: Well, Judge, I would like
13 to point out as well, before the Company could do any
14 kind of redirect, we -- the parties have a chance to
15 conduct cross-examination based on Commissioner
16 Mitchell's question.

17 JUDGE SEYER: Do you, Mr. Pringle, have
18 any questions?

19 MR. PRINGLE: I do not have any based on
20 that.

21 JUDGE SEYER: All right. Mr. Clizer?
22 The answer is no. Okay. Ms. Close.

23 MS. CLOSE: Thank you, your Honor.

24 BY MS. CLOSE:

25 Q. Mr. Furia, I just wanted to ask you if

1 there's a portion of the long-term debt in Missouri-
2 American Water's capital structure that is standalone
3 issuances by Missouri-American Water?

4 **A. Yes, there is. They have some legacy**
5 **first mortgage bonds and some SRFs, state revolving**
6 **fund loans that they have outstanding.**

7 MS. CLOSE: Thank you. Nothing further.

8 JUDGE SEYER: All right. Anything
9 further? All right. Thank you, Mr. Furia.

10 **THE WITNESS: Thank you.**

11 JUDGE SEYER: All right. The Company may
12 call their next witness.

13 MS. CLOSE: Thank you. Missouri-American
14 Water calls Ann Bulkley.

15 JUDGE SEYER: All right. Ms. Bulkley,
16 would you raise your right hand please.

17 (Witness sworn.)

18 ANN BULKLEY,
19 the witness, having been first duly sworn,
20 testified as follows:

21 JUDGE SEYER: Thank you. Go ahead.

22 MS. CLOSE: Thank you.

23 DIRECT EXAMINATION

24 BY MS. CLOSE:

25 Q. Good morning, Ms. Bulkley.

1 **A. Morning.**

2 Q. Would you please state your full name for
3 the record.

4 **A. Yes, it's Ann Bulkley.**

5 Q. By whom are you employed and in what
6 capacity?

7 **A. By the Brattle Group as a principal.**

8 Q. And are you here testifying today on
9 behalf of Missouri-American Water?

10 **A. Yes, I am.**

11 Q. Have you caused to be prepared for
12 purposes of this proceeding certain direct and
13 rebuttal and surrebuttal testimony in written
14 question-and-answer form?

15 **A. Yes.**

16 Q. Is it your understanding that the
17 testimony has been marked as Exhibits 2 for your
18 direct, 3P for public rebuttal, 3C for confidential
19 rebuttal, and 3HC for highly confidential rebuttal?

20 **A. Yes.**

21 Q. Do you have any changes to that testimony
22 at this time?

23 **A. I had one change in my rebuttal --**
24 **rebuttal/surrebuttal/sur-surrebuttal testimony. On**
25 **page 7 at line 7 I would like to correct; it should**

1 **be Ms. Malki, not Mr. Malki at that page. Apologize**
2 **for the error.**

3 Q. Thank you. Did you have any further
4 changes?

5 **A. No.**

6 Q. If I asked you the questions contained in
7 Exhibits 2, 3P, 3C, and 3HC today, would your answers
8 be the same?

9 **A. Yes.**

10 Q. Are those answers true and correct to
11 the best of your information, knowledge, and
12 belief?

13 **A. Yes.**

14 MS. CLOSE: Your Honor, I would offer
15 Exhibits 2, 3P, 3C, and 3HC, and tender the witness
16 for cross-examination.

17 JUDGE SEYER: All right. Are there any
18 objections to the admission of those documents?
19 Hearing none, Exhibits 2, 3P, 3C and 3HC are admitted
20 into evidence.

21 (Company Exhibits 2, 3P, 3C, and 3HC were
22 admitted and made a part of this record.)

23 JUDGE SEYER: And, Mr. Pringle, I'll turn
24 the witness over to you.

25 MR. PRINGLE: Thank you, Judge.

1

CROSS-EXAMINATION

2

BY MR. PRINGLE:

3

Q. Good morning, Ms. Bulkley.

4

A. Good morning.

5

Q. Do you have your direct testimony in front
6 of you?

7

A. I do.

8

Q. Could you turn to page 3 please and let me
9 know when you're there.

10

A. I'm there.

11

Q. And I am looking at lines 10 through 19.
12 Do you see that?

13

A. I do.

14

Q. All right. So just be clear, when
15 calculating your return on equity, you did use a
16 proxy group that included electric and natural gas
17 utilities. Correct?

18

A. That's correct.

19

Q. And then in your expert opinion you
20 used -- did you use those proxies due to an
21 equivalency in risk between electric, natural gas,
22 and water and sewer utilities?

23

**A. Well, to be clear, the proxy group had to
24 have water operations as well, right.**

25

Q. Yes. Yes.

1 **A. Yes. So, and then I did use those as**
2 **proxies, that's correct.**

3 **Q. All right. And in your expert opinion,**
4 **that's because there is similarity in risk?**

5 **A. Overall, yes. So it would have been**
6 **transmission and distribution related --**

7 **Q. Yes. Thank you, ma'am.**

8 **A. -- just to be clar -- just to clarify.**

9 **Q. And then how -- you do acknowledge though,**
10 **and I think you were kind of getting to that with the**
11 **second part of your answer, that electric and natural**
12 **gas utilities may face different risk profiles**
13 **compared to water and sewer utilities?**

14 **A. Can you point to that in my testimony for**
15 **me?**

16 **Q. Oh, no. This is just a general question.**
17 **Do you acknowledge that?**

18 **A. Well, I think there are -- I mean, there**
19 **are no absolute proxies, but we aim to come with up**
20 **with a proxy group that is of reasonable size and**
21 **generally comparable risk. And so the proxy**
22 **companies that I relied on, for the electric**
23 **companies, they needed to have water operations and**
24 **they -- and it was transmission and distribution**
25 **only. And then the gas companies are distribution.**

1 So from that perspective I considered them to be
2 generally comparable. There is no perfect proxy so
3 there are obviously some differences in the risks,
4 and my analysis also went through those risk factors,
5 yes.

6 Q. But so for the purpose of your proxy
7 group, you do equate electric distribution, natural
8 gas distribution, and water distribution?

9 A. That's not entirely true as there's one
10 electric company that's in the group that is -- that
11 has water operations, so I wouldn't say that that's
12 an entirely true statement. I did consider the
13 distribution functions associated with the natural
14 gas operations to be generally comparable to the
15 water companies. And it's largely in order to try to
16 get a large enough sample to not have one company
17 unduly influence the results of the analysis, so.

18 Q. And how many electric utilities did you
19 include in your proxy group?

20 A. One that's part of the value line universe
21 of electric companies, yes.

22 Q. And then also when it comes to your
23 analysis, do you rely upon the S&P 500?

24 A. I do.

25 Q. And are you aware of any, I guess any --

1 any water or sewer utility that has been authorized
2 an ROE of 10.75?

3 A. In the most recent year, no, but I think
4 it would be important to take into consideration the
5 weighted return. We've talked a lot this morning
6 about --

7 Q. Well, thank you for that one. That's not
8 part of my question though, Ms. Bulkley, but thank
9 you.

10 Are you aware of what could be or what the
11 current average is for ROEs across the nation for all
12 utility industries?

13 A. For the entirety, no. I think it's done,
14 generally speaking, it's reported by segments. So
15 for the entirety of the industry, no, I can't -- I
16 can't give you that. But I would say that ROEs and
17 equity ratios are part of a decision in the entirety,
18 so a litigated decision would include the equity
19 ratio as well as the ROEs. And the equity ratios
20 have been largely above 50 percent across the
21 country.

22 MR. PRINGLE: And permission to approach?

23 JUDGE SEYER: Yes.

24 BY MR. PRINGLE:

25 Q. Ms. Bulkley, I'm handing you what has been

1 premarked Staff Exhibit 228.

2 And may I approach the bench?

3 And, Ms. Bulkley, what I've handed you has
4 been marked as Staff Exhibit 228. This is from the
5 S&P Global Market Intelligence, and it has to do with
6 average ROEs and median ROEs granted across the
7 country for water and sewer industries.

8 **A. Yes. This would be a portion of that**
9 **report actually. This is not the complete report.**

10 Q. Well, yeah. This is the portion I'll be
11 asking you questions on. And looking at the average
12 ROE for 2024, what is that number?

13 **A. 9.56 percent.**

14 Q. And what is the median ROE for 2024?

15 **A. 9.6 percent.**

16 Q. And then what about for 2023, the average
17 ROE?

18 **A. 9.64 percent.**

19 Q. And the median ROE for that same year?

20 **A. 9.57 percent. I would note the equity**
21 **ratios on this as well as 51.69 and 52.53 percent.**

22 Q. Thank you for --

23 **A. As an --**

24 Q. -- that, Ms. Bulkley.

25 **A. As an average. Sure. And the RORs are**

1 **important as well.**

2 Q. And then my final question for you today,
3 do you agree that a higher equity ratio in the
4 capital structure generally leads to higher costs for
5 ratepayers?

6 **A. Say that again for me.**

7 Q. Do you agree that a higher equity ratio in
8 the capital structure generally leads to a higher
9 cost for ratepayers?

10 **A. I think that's a tough statement to make**
11 **in generalities.**

12 Q. Well, may it?

13 **A. I'm sorry?**

14 Q. Could it cause a general increase in cost
15 to ratepayers?

16 **A. Possibly. I mean, it also depends on what**
17 **the ability is to attract capital and at what terms.**
18 **So I don't think that you can say necessarily that an**
19 **increase in the equity ratio is an absolute increase**
20 **in cost to customers. Certainly higher leverage**
21 **comes with its own cost to customers in terms of**
22 **higher debt costs and potentially concerns about**
23 **attraction to capital at different points in the**
24 **marketplace. So there is a tradeoff between --**

25 Q. And based on that answer it sounds like

1 also that you would say it would not -- there's no
2 way to actually say it would not lead to an increased
3 cost for ratepayers.

4 **A. I can't say definitively that it would**
5 **increase the costs to ratepayers.**

6 MR. PRINGLE: And with that I have no
7 further questions at this time. But Staff would move
8 to enter into the record Staff Exhibit 228.

9 JUDGE SEYER: Are there any objections?

10 MS. CLOSE: No.

11 MR. PRINGLE: Thank you, Judge. And
12 thank you for your time, Ms. Bulkley.

13 JUDGE SEYER: All right. Exhibit 228 is
14 admitted.

15 (Staff Exhibit 228 was admitted and made
16 a part of this record.)

17 JUDGE SEYER: All right. Mr. Clizer, any
18 questions on behalf of the Office of the Public
19 Counsel?

20 MR. CLIZER: No, thank you, your Honor.

21 JUDGE SEYER: Any cross-examination by
22 the other Intervenors in the case? Yes, Mr. Opitz.

23 CROSS-EXAMINATION

24 BY MR. OPITZ:

25 Q. Good morning, Ms. Bulkley. You were here

1 for your counsel's opening statement on this issue.

2 Is that right?

3 **A. I was, yes.**

4 Q. And do you recall that she had a comment
5 about the national average ROE and that OPC was so
6 many basis points below that average?

7 **A. Yes, I do recall that.**

8 Q. What is that average for the national ROE
9 average?

10 **A. I think we've already talked about that in
11 this cross-examination. So the average on this page
12 is 9.6 as I indicated with an equity ratio of 51.69.**

13 Q. And what is your recommended ROE average?

14 **A. It is --**

15 Q. Your recommended ROE in this case, sorry.

16 **A. Sure. My recommended ROE in this case as
17 I indicated is -- it is 10.75 percent, but again,
18 turning to page 42 of my rebuttal testimony, I think
19 it's important to put in context what we're talking
20 about with respect to the weighted returns. And when
21 you look at the weighted return on that page on
22 figure ten you'd see that the Company proposal, my
23 proposal including the company's equity ratio is 5.42
24 percent. When you look at that in the context of the
25 overall returns for the other American Water, the**

1 regulated subsidiaries of American Water, it is well
2 within the range of those weighted returns. And so
3 the difference there is -- and Staff and the OPC are
4 down at 4.14 percent and 4.16 percent, well below the
5 range for the other American Water subsidiaries.

6 Q. Still --

7 A. So I think that's important.

8 Q. Ms. Bulkley, still your recommendation,
9 how many basis points above the national average is
10 your recommendation?

11 A. On the ROE specifically, the -- slightly
12 over a hundred.

13 Q. And your recommended ROE would be the
14 highest in the country that you'd be aware of this
15 year?

16 A. Not taking into consideration the overall
17 capitalization, which I think is a flaw. I don't
18 think you can do that. I think we're setting the
19 ROE --

20 Q. So it would be is what you're saying?

21 A. The ROE by itself would be higher than
22 other authorized ROEs, but as I indicated, the equity
23 ratios are quite a bit higher. And so a balance --

24 Q. I think you've answered my question. So
25 following up on a -- on a -- I guess some

1 hypothetical questions from Staff counsel about the
2 ROE leading to higher customer rates, will your
3 recommended ROE in this case lead to higher rates
4 paid by customers?

5 **A. I don't think that was actually the**
6 **Staff's question. It was --**

7 Q. Well, that's --

8 **A. -- with respect to --**

9 Q. -- my question now.

10 Will your recommended ROE in this case
11 lead to higher rates for customers?

12 **A. The calculation may lead to a higher rate.**
13 **However, the access to capital may differ and on**
14 **overall --**

15 Q. So --

16 **A. -- weighted basis, if I may finish my**
17 **response, I think it would be well in line with the**
18 **returns and the -- the contribution to equity for the**
19 **remainder of the American Water system.**

20 MR. OPITZ: That's all the questions I
21 have.

22 JUDGE SEYER: Mr. Coffman, do you have
23 questions?

24 MR. COFFMAN: Yes, a couple. Thank you.

25 CROSS-EXAMINATION

1 BY MR. COFFMAN:

2 Q. Good morning, Ms. Bulkley.

3 A. **Good morning.**

4 Q. John Coffman on behalf of Consumers
5 Council and AARP. I wanted to ask you a question
6 about the interaction between your recommended ROE
7 and other issues in the case. And in your
8 surrebuttal testimony, am I understanding correctly
9 that you don't think that this Commission should take
10 into account whether or not it has an RSM or other
11 mechanism in this case when deciding ROE?

12 A. **No, that's not my testimony. I actually**
13 **evaluated the testimony -- if you look in my direct**
14 **testimony, I evaluated the risk profile of the proxy**
15 **group companies and concluded that the proxy group**
16 **companies largely have revenue stabilization**
17 **mechanisms. In my rebuttal and surrebuttal testimony**
18 **I discuss other Commissions that have made similar**
19 **determinations that -- that I have concluded in this**
20 **testimony based on the fact that the majority of the**
21 **proxy group companies already have a revenue**
22 **stabilization mechanism, that the effect of that**
23 **revenue stabilization is already factored into the**
24 **proxy group market data that we're using to establish**
25 **the return estimates.**

1 And so because you've already factored
2 that in, there is no need to make any additional
3 adjustments to the ROE. It's already been
4 established in the market data that we're using to
5 estimate the cost of equity. And, therefore, it does
6 not need to be separately considered.

7 Q. Ms. Bulkley --

8 A. And that actually has been discussed by
9 many other regulatory commissions and has concluded
10 the same thing.

11 Q. So if this Commission decides to grant the
12 RSM mechanism that's proposed, will that make
13 Missouri-American Water Company a less risky company?
14 Would it have less business risk as a utility?

15 A. It would have less upside and less
16 downside.

17 Q. Less upside and downside of what?

18 A. Of revenue. But it does not make it less
19 risky relative to the proxy group which is how we're
20 determining the cost of equity.

21 Q. Would it be more or less -- would it have
22 more or less business risk, that is would Missouri-
23 American Water Company have more or less business
24 risk than if it was granted the RSM or if it --
25 compared to if it was not granted the RSM?

1 A. It would have more stability than if it
2 were not granted the RSM. But that's actually not a
3 determining factor in considering the ROE. What
4 we're doing -- the ROE is being set using a
5 benchmarking group, and so it's very important to be
6 evaluating the return on equity as compared to that
7 group. To the extent that that group already has an
8 RSM and already does have a more stabilized revenue,
9 that's been affecting -- that's affected their market
10 data. It affects their stock price for example,
11 which is used in the constant growth DCF, so it's
12 already been included there.

13 So the analysis of any one individual
14 change to Missouri-American's business risk in
15 isolation would be a mistake in -- in the
16 consideration of the ROE because what we're doing
17 here is setting that using market data for a proxy
18 group. We cannot then simply just look at Missouri-
19 American on its own without relationship to that
20 group. That would be an error.

21 Q. Ms. Bulkley, on page 131 to 132 of your
22 surrebuttal testimony you claim or you conclude that
23 the Company has a moderately higher regulatory risk
24 than the proxy group given its lack of full fuel
25 recovery and limitations on capital cost recovery.

1 Let me ask you about the first one, full
2 fuel cost recovery. And am I correct in assuming
3 that that's because you're comparing this water
4 company to a natural gas company and a fuel adjust --
5 or the -- like a purchase gas adjustment for a gas
6 company?

7 **A. Can you please point me to where you are**
8 **in my testimony specifically please?**

9 Q. Yes. Page 132 and it's -- it's also
10 footnotes 219 and 220.

11 **A. So I see the footnotes. Now I can have**
12 **your question again?**

13 Q. Yes. So in saying that it has -- that
14 this company has more risk, you're comparing it to a
15 natural gas company with a purchase gas adjustment?

16 **A. Well, I'm --**

17 Q. In that footnote --

18 **A. -- comparing production --**

19 Q. -- 219.

20 **A. -- costs.**

21 **Yes. The production costs of the company**
22 **to the purchase gas costs of the gas companies, yes.**

23 Q. So wouldn't a purchase, the contractor
24 have several different kinds of expenses, not just
25 the commodity cost that a gas would have in a

1 purchase gas adjustment?

2 **A. Ask your question again.**

3 Q. The -- the production cost tracker
4 proposed in this case would cover more than just fuel
5 costs. Right?

6 **A. And so does the purchase gas cost. It**
7 **would cover all of the costs related to the**
8 **acquisition of supply.**

9 Q. But isn't a purchase gas -- a PGA or a
10 purchase gas adjustment primarily the cost of the
11 commodity of natural gas?

12 **A. It would include other elements related to**
13 **the purchase of the commodity. It would include the**
14 **hedging costs associated with it. It would include**
15 **various other costs associated with gas, not just the**
16 **gas cost alone.**

17 Q. Okay. Well, let me ask you about the
18 second part of your statement there. You think that
19 this company has higher regulatory risk I guess than
20 the proxy group based on limitations on capital cost
21 recovery. What are those limitations on -- that
22 you're referring to on capital cost recovery for this
23 water utility?

24 **A. I think that's discussed in the beginning**
25 **of my testimony in direct, not in rebuttal, so let's**

1 go there. If you look to pages 54 and 55 of my
2 direct testimony, in that particular section I
3 discuss the limitations associated with the WSIRA.

4 Q. And what do you -- what do you see as the
5 significant limitations on that mechanism?

6 A. That it cannot exceed 15 percent of the
7 total base revenue requirement approved by the
8 Commission.

9 Q. Well, in that regard did you see the
10 slideshow presentation that the Office of Public
11 Counsel just gave?

12 A. I did not commit it to memory. If you'd
13 like to --

14 Q. Do you recall the slide where it showed
15 the various infrastructure surcharges amongst
16 American Water affiliates?

17 A. I don't recall that. If you'd like me
18 to -- if you'd like to submit it, that would be
19 great.

20 MR. COFFMAN: May I approach?

21 THE WITNESS: This relates to American
22 Water's other operating companies, not the proxy
23 group. I'm not sure I'm following your comparison.
24 As I just mentioned all of the analysis that we're
25 doing in this case is really with respect to the

1 proxy group of companies. That's the market data
2 that we're using to set the ROE. So there is no
3 market data for Illinois-American Water.

4 BY MR. COFFMAN:

5 Q. Well, based on --

6 A. I'm not sure how this relates.

7 Q. Sorry. Go ahead. Based on the annual
8 revenue increases shown there, wouldn't you say that
9 the WSIRA in Missouri is much more generous than
10 other -- the other cost -- the infrastructure
11 surcharges for the affiliates, the other American
12 Water affiliates?

13 A. Well, I'll start by saying I didn't put
14 this document together, so I'm not exactly sure that
15 I can represent that anything in this document is
16 accurate. I'm going to start there. But then and --
17 then I'm going to go back to my original response,
18 that none of this analysis is actually being -- the
19 market data that we're using is for the proxy group,
20 not for the individual operating companies of -- of
21 American Water. So I'm not really sure -- this is
22 actually not at all part of my analysis nor should it
23 be because what I should be doing in my analysis is
24 comparing to the proxy group that I started with that
25 is reasonably comparable, not the other affiliates of

1 **American Water for which I can get no market**
2 **information.**

3 MR. COFFMAN: Thank you. That's all I
4 have.

5 JUDGE SEYER: Unfortunately we are at a
6 point where we need to break for the agenda meeting.
7 And so if it's okay with -- well, let's just
8 reconvene at 12 noon. All right.

9 MR. CLIZER: 12 noon.

10 JUDGE SEYER: 12 noon. So we're going
11 off the record.

12 (Off the record.)

13 JUDGE SEYER: All right. Let's go back
14 on the record. Ms. Bulkley is still on the stand.
15 And if I recall correctly, I have not yet asked if
16 there was any cross-examination for City of
17 Riverside.

18 MR. BEDNAR: No questions, your Honor.

19 JUDGE SEYER: Okay. And then for Triumph
20 or Public Water Supply District?

21 MR. HARDEN: No cross by Triumph, thank
22 you.

23 JUDGE SEYER: Okay. Are there questions
24 from the commissioners? All right. I am seeing and
25 hearing none. Ms. Bulkley, I do have a few questions

1 myself.

2 QUESTIONS

3 BY JUDGE SEYER:

4 Q. If you could refer to your
5 rebuttal/surrebuttal/sur-surrebuttal testimony, on
6 page 107 there is a figure 22.

7 A. Yes. I'm there.

8 Q. Okay. And on that figure you seem to
9 indicate that most of Mr. Murray's cost of equity
10 estimates are outside the zone of reasonableness.
11 Would you agree that most of your recommended ROE
12 range of 10.25 percent to 11.25 percent is also
13 outside the zone of reasonableness?

14 A. Well, the -- the zone of reasonableness is
15 not -- is not what I would have established. So this
16 is Mr. Murray's zone of reasonableness.

17 Q. Uh-huh. Okay.

18 A. But -- so the point of this chart was just
19 to say that the analysis that he's done essentially
20 all falls below what he thinks is a reasonable range
21 and then he just comes up with a number that is his
22 ROE that isn't really based on any of the results of
23 his analyses. So the first column here is all of the
24 cost of equity analyses that he's done that relies
25 on, in some form, market data. But then he

1 recommends a number that doesn't relate to the market
2 data that he's developed.

3 Q. Further in your testimony on page 131.

4 A. I'm there.

5 Q. Roughly around line 10 you use the term
6 "regulatory risk" at the end of that sentence. What
7 do you mean by regulatory risk?

8 A. So this is the characterization from
9 Mr. Abbott and Mr. Murray that they suggest that the
10 RSM will reduce the Company's risk. Probably should
11 note back to their testimony where I have attempted
12 to characterize what they have stated there.
13 Generally speaking their proposals were to suggest
14 that with an RSM, the Company would have less risk.

15 And so maybe I haven't characterized
16 that -- it's not quoted, so maybe I've used the term
17 "regulatory risk" to mean that, but that's kind of
18 a -- the point of this sentences was to try to
19 characterize what they were implying in their
20 testimony, that the RSM would result in lower risk
21 for the Company.

22 And as I mentioned earlier today, if --
23 there are many commissions that have looked at this
24 as well, over time, have looked at RSM mechanisms and
25 how they would effect the ROE. One of the commission

1 orders that I reference in my testimony is from the
2 Maryland Commission from a Baltimore gas and electric
3 case that's probably 15 years old. And 15 years ago
4 they said, We used to think about RSMs as affecting
5 the ROE, but because all of the proxy companies now
6 have some form of RSM, we no longer think that it
7 affects the ROE.

8 And so there are other regulatory
9 commissions in my testimony that I also reference
10 that have come to similar conclusions, that because
11 the proxy group -- that was sort of conversation we
12 were having earlier today. Because the proxy group
13 companies all have some form of RSM that it is
14 already factored into the ROE.

15 Q. Speaking of the proxy groups, do the -- do
16 the companies in the proxy group that you study have
17 a mechanism similar to the WSIRA?

18 A. Some of them do, yes.

19 Q. Some of them do.

20 A. Yeah. So if you go to my -- I've gone
21 through this in my direct testimony. Let me just
22 find the exhibit for you. This is schedule AEB-9.
23 So AEB-9 goes through the mechanisms that I looked at
24 for each of the operating companies that is owned by
25 the proxy group companies and whether or not they

1 have a mechanism. And so the WSIRA, I would have
2 compared to this column called Infrastructure Cost
3 Recovery Mechanisms. And at the end of that
4 schedule, AEB-9, page 2, 78 percent of the proxy
5 groups had something like the WSIRA.

6 JUDGE SEYER: All right. Thank you. All
7 right. Chair Hahn has a question.

8 QUESTIONS

9 BY CHAIR HAHN:

10 Q. Out of curiosity, how many states do have
11 an RSM for water utilities that's currently utilized
12 by any company in that state?

13 A. I can look through this chart. I have it
14 for the proxy group. I don't necessarily have it for
15 all states.

16 Q. Yeah. I'm trying to understand the
17 broader context because we are talking about ROE
18 nationwide and you're talking about a proxy group.
19 So I'm trying to understand the broader context. If
20 you assumed RSM for all of those in the proxy group
21 but the national representative is different than
22 what's in your proxy group. I'm trying to understand
23 that better.

24 A. Yeah. So that's a great question. So
25 there are two different -- we've looked at two

1 different data sets here in the conversation that
2 we've had today. We've looked at overall authorized
3 ROEs across the U.S. and we've looked at the data
4 that we've been modeling for the proxy group
5 companies. So the proxy group company data I feel
6 like would reflect that given that it's in their
7 price determinations.

8 And so in looking at this particular
9 chart, 58 percent of the companies had some form of
10 revenue stabilization for the proxy group.

11 More broadly, I would say that RSM, I
12 don't have the number for you for every state. I
13 could -- I don't think I could say what percentage of
14 the states, but overall I would say RSM has become
15 more commonly accepted across many regulatory
16 jurisdictions, and I've testified in probably 40
17 regulatory jurisdictions. And revenue stabilization
18 has been part of many cases across those 40
19 jurisdictions I would say. But I can't tell you
20 specifically which states or how many are water-only
21 RSMs.

22 Q. I guess for me I'm trying to better
23 understand your assumptions in the proxy group and
24 compare that across all jurisdictions. Because when
25 I think about the ROE that you have developed from

1 your proxy group, it does seem significantly outside
2 of -- of national average as presented by S&P and
3 OPC. So I'm trying to understand how -- how that --
4 how this happens.

5 **A. Yeah. So I think there's a range. I**
6 **mean, I do think the average is a representation**
7 **of -- of, you know, the central tendency in a range,**
8 **but I wouldn't say that it's completely outside.**
9 **So -- and it does -- I do think it's important to**
10 **consider the combination of the two, the equity ratio**
11 **and the return.**

12 **Q. And I did hear you mention that before,**
13 **but to me I keep hearing about the equity debt ratio**
14 **and how that's more important when developing the ROE**
15 **but then ask the same questions about RSM. And it's**
16 **somewhat discounted compared to the debt capital**
17 **structure conversation when we're talking about ROE.**
18 **But they both -- you know, everything factors in but**
19 **you keep coming back to the capital structure**
20 **conversation, but there are also other factors. And**
21 **so I'm -- I'm just struggling with that.**

22 **A. Sure. So I do think there are other**
23 **factors and I have tried to include those in my**
24 **analysis. So, I -- you know, in looking at the proxy**
25 **group -- the analysis is largely based on the proxy**

1 group; that's where all of the ranges come from. And
2 then when you look at that proxy group, we have -- I
3 have looked at whether there's a WSIRA-type mechanism
4 or a revenue stabilization mechanism. And I also
5 have looked at what those equity ratios are.

6 So I think we're -- we -- in my rebuttal
7 testimony I think I'm looking at all of those things
8 in the same way, right. What is the effect of
9 greater or less leverage in the -- in the return
10 calculation; that's our equity ratio, right. And
11 then taking into consideration whether or not those
12 proxy companies already have included some form of
13 capital tracker which would be picked up in the
14 market data that we're using, the price data and the
15 expectations of equity investors in terms of the
16 ability to recover costs in between rate cases and to
17 some extent, the credit rating agencies which all
18 mention these mechanisms as being important tools,
19 particularly with large capital programs, right. So
20 there's sort of well-known tools that are being used
21 in the -- in the industry today, particularly with
22 the capital investment that we're seeing in all of
23 the regulated companies.

24 So I do think that they're all taken into
25 consideration in the analysis of the proxy group.

1 There is probably less -- when you look at this
2 subset of the RRA data that was presented to me
3 earlier, it's missing those pieces. You can't tell
4 from this what's -- what has a revenue stabilization
5 mechanism or not. But you can at least look to see
6 that when you're talking about returns, they are
7 talking about them with respect to the -- the overall
8 return, the ROR which takes into consideration
9 capitalization as well. So, but the piece that's
10 missing from this particular analysis is what are the
11 mechanisms, right.

12 CHAIR HAHN: Yeah. Understood. Thank
13 you.

14 THE WITNESS: Sure.

15 JUDGE SEYER: Okay. Any recross on
16 behalf of the Staff?

17 MR. PRINGLE: No recross, Judge, thank
18 you.

19 JUDGE SEYER: All right. Public Counsel?

20 MR. CLIZER: No, thank you, your Honor.

21 JUDGE SEYER: Mr. Coffman?

22 MR. COFFMAN: Yes, thank you.

23 RECROSS-EXAMINATION

24 BY MR. COFFMAN:

25 Q. I just want to follow up on questions from

1 Chair Hahn regarding the RSM. Would you agree with
2 me that around the country revenue stabilization
3 mechanism has been applied to a variety of different
4 types of mechanisms?

5 **A. I'm not sure what you mean by applied to**
6 **variety of mechanisms. They're revenue**
7 **stabilization, so I don't know what you mean by --**

8 Q. Are you aware that there are formula rates
9 in the state of Alabama and they call that revenue
10 stabilization mechanism?

11 **A. Yes.**

12 Q. Is that included in your definition of RSM
13 today in your testimony?

14 **A. My analysis would include straight fixed**
15 **variable revenue stabilization. Let me just go to**
16 **the analysis really quickly and show you what I've**
17 **included.**

18 Q. Okay. Would -- when you say RSM, do you
19 mean just a revenue decoupling mechanism, or do you
20 mean something broader than that?

21 **A. Revenue stabilization and decoupling.**
22 **So it's taking into consideration partial**
23 **decoupling, full revenue, full decoupling and**
24 **straight fixed variable rate design which is shown in**
25 **schedule AEB-9.**

1 Q. Well, straight fixed variable rate design
2 is -- is a rate design. Right?

3 A. Well, straight fixed variable rate design
4 recovers the fixed portion of the costs in a fixed
5 charge and the variable portion and the variable
6 charge so that it does stabilize.

7 Q. So you include straight fixed variable
8 rate design under your umbrella of RSM mechanisms?

9 A. A. In this schedule, yes, that's
10 correct. And I note for each case where that is. So
11 there is one --

12 Q. But --

13 A. -- in the analysis that I have conducted
14 here.

15 There is one jurisdiction for -- out of
16 the 23 jurisdictions I have looked at, there is one
17 straight fixed variable rate design that would be
18 considered part of the revenue stabilization.

19 Q. And what state is that?

20 A. It is one -- one company within the state
21 of Ohio.

22 Q. Okay.

23 A. So that it's not all companies in Ohio.
24 It would be one operating company for NiSource out of
25 all of the companies looked at.

1 Q. But am I correct in assuming that you're
2 not including formula rates as an RSM mechanism in
3 your --

4 A. That's correct.

5 Q. Okay. But given the fact that that label
6 is applied to a variety of things that are not
7 revenue decoupling, would you agree with me that it
8 would be difficult to get a definitive list of what
9 states have RSM and what don't and really be able to
10 compare apples to apples?

11 A. Well --

12 Q. Because that term is so generic and
13 applied to so many different things.

14 A. Well, I think you would just define what
15 they are and -- and I think you would look to each of
16 the mechanisms. I mean, there are a lot of
17 mechanisms for a capital recovery too that all have
18 different names in 50 states, right. They're named
19 something different, but we look at each of them to
20 figure out what it is they're actually -- what the
21 objective is of that mechanism. And then we
22 characterize it based on the objective of the
23 mechanism, not based on its title, right. So to the
24 extent that the title isn't revenue stabilization, if
25 it functions that way, we would characterize it --

1 Q. Okay.

2 A. -- that way.

3 Q. And to be clear for the record for
4 purposes of this case, your testimony when it refers
5 to RSM, essentially refers to mechanisms that in
6 some -- in some sense decouple revenue from the
7 rates?

8 A. In some sense, yes. In a variety of
9 different operating -- so they intend to stabilize
10 the recovery of the fixed costs.

11 Q. So not necessarily every mechanism that is
12 called an RSM mechanism around the country, but
13 something that is revenue decoupling related is
14 what -- is the definition you're using here today?

15 A. Well, so I've used very specific
16 categories in the exhibit, right. And so those are
17 the ones --

18 Q. Okay.

19 A. -- that I have looked at.

20 Q. Make sure that I have -- what -- what
21 is -- and that's in the exhibit to your direct
22 testimony?

23 A. Right. And it's Exhibit AEB-9.

24 Q. Okay. Thank you.

25 A. Sure.

1 MR. COFFMAN: That's all I have. Thank
2 you.

3 JUDGE SEYER: Thank you. Are there any
4 other cross-examination questions by the other
5 intervenors?

6 MR. BEDNAR: None from Riverside.

7 JUDGE SEYER: All right. Ms. Close, do
8 you have redirect?

9 MS. CLOSE: Just briefly, your Honor.

10 REDIRECT EXAMINATION

11 BY MS. CLOSE:

12 Q. Ms. Bulkley, you were asked before we went
13 on our break about the presentation that had been
14 made in the opening statements. And I think your
15 response in -- to the line of questioning on that
16 presentation was that you didn't prepare the data or
17 that you couldn't tell if it was accurate. Do you
18 recall that line of questioning?

19 A. I do, yes.

20 Q. There's another slide that attributes some
21 data to your name specifically. Do you -- can you
22 speak to the accuracy of that data?

23 A. Yes, I can. So the presentation referred
24 to my testimony that I provided in the Ameren case
25 that was filed before this Commission and it

1 indicated -- the slide indicates that I made a
2 recommendation of 10.25 percent for Ameren in that
3 case. And the context that was placed around that
4 slide when the presentation was given was that I -- I
5 attributed different risks to the two companies. And
6 neither of those is accurate.

7 I provided a range based on the analysis
8 that I performed in that case, and the Company
9 selected their ROE. It's also reasonable and
10 important to note that the equity ratio that they
11 proposed in that case was 52 percent, so higher than
12 the equity ratio that's being proposed in this case.
13 And I continue to impress -- try to impress that it's
14 important to look at the two together, that the
15 leverage matters and it creates different risk that
16 needs to be reflected in the ROE.

17 And so I would say that the
18 characterization of the testimony is incorrect. And
19 then it is important to understand the context in
20 which that 10.25 percent was requested by that
21 company.

22 MS. CLOSE: Thank you, your Honor.
23 Nothing further.

24 JUDGE SEYER: Okay. Thank you for your
25 testimony.

1 **THE WITNESS: Thank you.**

2 JUDGE SEYER: And according to the
3 hearing schedule that I'm looking at, that would
4 bring us to Staff's witness, Kelli Malki.

5 MR. PRINGLE: Yes, Judge. Staff calls
6 Ms. Malki to the stand. Also due to the question
7 about Ms. Bulkley's Ameren testimony, I would move
8 for the Commission to take administrative notice of
9 her testimony in Ameren rate case ER-2024-0319.

10 JUDGE SEYER: Okay. Not my case, but I
11 will let the judge in that case know about that. All
12 right. Ms. Malki, would you raise your right hand
13 please.

14 (Witness sworn.)

15 KELLI MALKI,
16 the witness, having been first duly sworn,
17 testified as follows:

18 JUDGE SEYER: Thank you.

19 MR. PRINGLE: May I proceed, Judge.

20 JUDGE SEYER: Sure.

21 DIRECT EXAMINATION

22 BY MR. PRINGLE:

23 Q. Good morning, Ms. Mal -- good afternoon,
24 Ms. Malki.

25 **A. Good afternoon.**

1 Q. Please state and spell your name for the
2 record.

3 **A. Kelli Malki, K-e-l-l-i, M-a-l-k-i.**

4 Q. Thank you, Ms. Malki. By whom are you
5 employed and in what capacity?

6 **A. I am employed by the Missouri Public
7 Service Commission as a financial analyst.**

8 Q. And are you the same Kelli Malki who
9 caused to file in these proceedings what has been
10 premarked as Staff Exhibit 208 which is your public
11 and confidential direct/rebuttal testimony as well as
12 Staff Exhibit 220, the public and confidential copies
13 of your cross-rebuttal and surrebuttal testimony?

14 **A. I am.**

15 Q. At this time do you have any corrections
16 to make to either of those exhibits?

17 **A. I do.**

18 Q. What are those corrections?

19 **A. I have corrections to KMR-1, columns D
20 through L; KMR-3, columns C, D, G, H, and I; columns
21 KMR-4, columns E and rows 96 through 251 of column T
22 as well as Table 4 on page 30 due to a transcription
23 error.**

24 Q. And how are you aware of these
25 corrections?

1 **A. Ms. Bulkley in her testimony made me**
2 **aware.**

3 Q. And you said these were transcription
4 corrections?

5 **A. Yes.**

6 Q. Did this have any substantive change to
7 your testimony?

8 **A. No.**

9 Q. Thank you, Ms. Malki.

10 **A. Thank you.**

11 Q. And if I were to ask you these same
12 questions within your -- within Exhibits 208 and 220,
13 would your answers be the same or substantively
14 similar?

15 **A. They would be.**

16 Q. And are your answers in Exhibits 208
17 and 220 true and correct to the best of your
18 knowledge and belief?

19 **A. They are.**

20 MR. PRINGLE: Thank you, Ms. Malki. And,
21 Judge Seyer, we can file a corrected copy of
22 Ms. Malki's direct/rebuttal testimony or an errata
23 sheet. I'd go whichever preference you prefer me to
24 go with entering it on the record.

25 JUDGE SEYER: If you could submit a

1 corrected copy.

2 MR. PRINGLE: All right. And at this
3 time Staff moves to enter on the record what will be
4 Exhibit 208, the corrected direct/rebuttal testimony
5 of Kelli Malki, public and confidential, and
6 Exhibit 220, the cross-rebuttal and surrebuttal
7 testimony of Kelli Malki, public and confidential.

8 JUDGE SEYER: Are there any objections to
9 the admission of 208 and 220, both public and
10 confidential versions?

11 MS. CLOSE: Your Honor, I guess I have an
12 objection to the timing on these corrections, only in
13 the sense that Petitioner has not had an opportunity
14 to review them. I mean, we've been told now on the
15 record the location of them and I think Staff has
16 endeavored to get us copies, but there just has not
17 been time to review those or see whether a response
18 is needed to them. And so I think Petitioner would
19 need to reserve the opportunity to -- to so respond.

20 JUDGE SEYER: Okay. At this time I will
21 hold off on ruling on the admission of those two
22 exhibits and --

23 MR. PRINGLE: I do think it's only 208
24 had the corrections. There were no corrections
25 of 220.

1 JUDGE SEYER: Is that fair to say,
2 Ms. Close?

3 MS. CLOSE: Yes.

4 JUDGE SEYER: Okay. Then I will
5 admit Exhibit 220 and will reserve my ruling on
6 Exhibit 208.

7 (Staff Exhibit 220 was admitted and made
8 a part of this record.)

9 MR. PRINGLE: Thank you, Judge. At this
10 time Staff tenders Ms. Malki for cross-examination.

11 JUDGE SEYER: All right. And will that
12 be you, Ms. Close?

13 MS. CLOSE: Yes. We don't have any
14 cross-examination questions.

15 JUDGE SEYER: Mr. Clizer?

16 MR. CLIZER: Okay. All right. Yes, I
17 have a couple.

18 CROSS-EXAMINATION

19 BY MR. CLIZER:

20 Q. So good afternoon. Before I go anywhere
21 else, I want to make sure I'm pronouncing your name
22 correctly. It's Malki, is that --

23 **A. Malki, yes.**

24 Q. Super. Thank you. Just really briefly
25 want to kind of touch on the different methodologies

1 that are used because I find this a fascinating
2 subject and we don't really kind of get into the
3 details on that. So correct me if I'm wrong here,
4 but when it comes to ROR, witnesses usually are using
5 one of three, maybe all three of these three methods
6 I'm about to name, right? You have the discounted
7 cash flow or DCF -- sorry, DCF; the capital asset
8 pricing model or CAPM or C-A-P-M; and then you used a
9 bond yield plus risk premium.

10 **A. Yes.**

11 Q. Is that accurate?

12 **A. Yes.**

13 Q. Now, that third one, am I correct in -- I
14 believe that you used all three, but you put more
15 weight on the third one. Is that accurate?

16 **A. Yes.**

17 Q. Yes. And just so we have a clear
18 understanding of how that works at a high level, a
19 bond yield plus risk premium basically starts with
20 you looking at what the interest rate would be on a
21 bond comparable to the company that you're examining
22 and then adding on the risk premium that you would
23 expect an equity investor would need to feel
24 comfortable investing. Is that fairly accurate or do
25 you need to correct that?

1 **A. It's fairly accurate.**

2 Q. Okay. Now, to your knowledge, like, did
3 any of the other ROR witnesses in this case really
4 rely on that same methodology?

5 **A. Not to my knowledge.**

6 Q. And that was kind of the impression that I
7 got as well. So is it then fair for, safe to say
8 that Staff and really the OPC for that matter used
9 different methodologies, but got to a range that was
10 about 25 basis points apart from the high and low
11 end?

12 **A. Yeah.**

13 Q. Thank you. The only other thing I kind of
14 want to touch on very briefly, there's obviously been
15 a lot of discussion about proxy groups so far today.
16 And I'm correct that Staff took an issue with the
17 proxy group that was employed by Missouri-American
18 Water in this case. Is that right?

19 **A. Yes.**

20 Q. And specifically I believe that in your
21 direct/rebuttal on page 35, you kind of outline what
22 your concerns are. Is that accurate?

23 **A. Yes.**

24 Q. And again, based on what I'm reading here
25 and based on what I'm seeing, it would appear that

1 the proxy group that was employed by Ms. Bulkley -- I
2 hope I'm pronouncing her name correctly -- was --
3 incorporated a large number of electric and gas
4 utilities as well as actual water utilities. Is that
5 accurate?

6 **A. That is.**

7 Q. And would you characterize that as being
8 at least one of the primary concerns you have with
9 the way the proxy group was formed?

10 **A. Yes.**

11 Q. You would agree with me that gas and
12 electric utilities generally trade at a higher
13 premium than electric -- no, other way around.
14 Sorry. Gas and electric companies trade at a lower
15 premium than water companies.

16 **A. To my knowledge.**

17 Q. Right. So, you know, we would expect
18 obviously for them to have a higher ROE or higher
19 return on equity than corresponding water groups?

20 **A. Yes. That's typically what I've seen.**

21 Q. And so just to completely draw this to a
22 close, the inclusion of gas or water electricities in
23 a proxy group is more likely to skew the overall
24 return on equity upwards. Is that your conclusion?

25 **A. Yes.**

1 Q. And then this might be a bit of a long
2 shot.

3 A. Okay.

4 Q. Did you review the direct/rebuttal
5 testimony of Mr. David Murray?

6 A. Yes.

7 Q. Do you happen to have a copy of it in
8 front of you?

9 A. I do believe so I do. Let me get to it.
10 Okay.

11 MR. PRINGLE: John, did you say Dave's
12 direct?

13 MR. CLIZER: Direct/rebuttal. Remember
14 because we got the -- I'm going to hand this out.
15 I'm not asking it to be marked as an exhibit because
16 it's a page from an already premarked exhibit, if you
17 follow what I'm saying there. And so I'm just
18 handing it out so that everybody has a copy in front
19 of them, nobody has to go rifling through things.
20 Sorry. I think I just handed you two.

21 BY MR. CLIZER:

22 Q. All right. So what I've -- I never
23 actually handed one to you, but you should have in
24 front of you a copy of page 63 of Mr. Murray's
25 direct/rebuttal testimony which I should have handed

1 a copy out to everyone. Do you have that in front of
2 you?

3 **A. Yes.**

4 Q. Okay. So at the top of that page there's
5 a graph that Mr. Murray has included where he has
6 sort of compared the water utilities and nonwater
7 utilities of Ms. Bulkley's desegregated proxy group
8 on the price-to-earnings ratio. Would you agree with
9 me?

10 **A. Uh-huh.**

11 Q. And again, this just reaffirms what we've
12 been discussing here momentarily, the idea that
13 nonwater utilities are going to be traded at a much
14 lower price-to-earnings ratio than water utilities
15 which would again correspond to a higher expected
16 cost of equity or return on equity component.

17 MS. CLOSE: Your Honor, I just want to
18 interject an objection. All of these questions are
19 extremely leading and -- and/or supplementing
20 testimony by virtue of counsel testifying.

21 JUDGE SEYER: Well, I mean --

22 MR. CLIZER: It's close -- it is
23 cross-examination.

24 JUDGE SEYER: Right. Right. So --

25 MS. CLOSE: It -- it's cross-examination

1 that isn't really being characterized as
2 cross-examination. It's -- it's friendly cross.

3 JUDGE SEYER: I'll overrule the
4 objection.

5 BY MR. CLIZER:

6 Q. I forgot what my question was. I'm going
7 to try and paraphrase it simply and then I think I'm
8 going to be done afterwards. But you --

9 **A. Okay.**

10 Q. -- would agree with me that this graph is
11 effectively demonstrating what we had discussed
12 earlier regarding the fact that water utilities are
13 traded at a higher premium, they have a higher price-
14 to-earnings ratio than nonwater utilities?

15 **A. I would say that is what this graph shows.**

16 MR. CLIZER: That's all I'm going to ask
17 for right now. All right. I have no further
18 questions. Thank you.

19 JUDGE SEYER: Mr. Coffman, any questions?

20 MR. COFFMAN: No, your Honor. No, thank
21 you.

22 JUDGE SEYER: Mr. Bednar?

23 MR. BEDNAR: No, no questions, your
24 Honor.

25 JUDGE SEYER: And Mr. Opitz?

1 MR. OPITZ: No, thank you, your Honor.

2 JUDGE SEYER: All right. Any questions
3 from the other Intervenors? Aright. Questions from
4 Chair Hahn.

5 CHAIR HAHN: Just one.

6 **THE WITNESS: Okay.**

7 **QUESTIONS**

8 BY CHAIR HAHN:

9 Q. So in a case that we had I think last year
10 with Confluence Rivers or CSWR the Commission imputed
11 a hypothetical capital structure.

12 **A. Yes.**

13 Q. Are you familiar with that case?

14 **A. I am not in-depthly familiar, but I -- I**
15 **do have knowledge of the case.**

16 Q. Okay.

17 **A. I have an understanding of it.**

18 Q. Great. Can you just help me understand
19 why -- is this case significantly different where
20 we've -- there's capital structures here, none of
21 which are imputed.

22 **A. Uh-huh.**

23 Q. Can you help me understand or
24 differentiate Staff's recommendation in that case
25 compared to this case?

1 A. So in that case the parent company has a
2 very, very large equity ratio and the subsidiary
3 themselves, which was the case in question, their
4 ratio -- their capital ratios were proven to be very
5 volatile over time just because of how they do
6 business. Their business practice is to acquire
7 small distressed water companies and incorporate it
8 into them, so it caused a lot more volatility. So a
9 hypothetical was deemed to be the best option for
10 them at that time.

11 Q. That is really helpful. Can you also then
12 maybe tell me when it may not be appropriate to use
13 the parent company's capital structure?

14 A. So typically we wouldn't use it if it was,
15 like, a basically financially standalone company.
16 Like, if they were -- if they were independent, we
17 definitely would not use the parent company at all.
18 But it's kind of -- it's -- each case is a case-by-
19 case basis. We judge it off of kind of multiple
20 factors to see what would be best for that company.

21 CHAIR HAHN: Thank you so much.

22 THE WITNESS: Thank you.

23 JUDGE SEYER: Are there any other
24 commissioner questions? All right. Ms. Malki, I do
25 have some questions myself.

1 **THE WITNESS: Okay.**

2 **QUESTIONS**

3 BY JUDGE SEYER:

4 Q. And I'm going to direct your attention to
5 page 29 of your direct and rebuttal testimony.

6 **A. Okay. Let me just get there.**

7 Q. Are you there?

8 **A. I am.**

9 Q. Okay. At the bottom of that page there's
10 a sentence that starts, Staff notes that it is not
11 always appropriate to use the parent company's cost
12 of common equity if the parent company's risk profile
13 is significantly -- significantly different from that
14 of its regulated subsidiaries.

15 In that statement are you referring to the
16 equity portion of the capital structure or the cost
17 of equity when you state the parent company's cost of
18 common equity?

19 **A. The cost.**

20 Q. Okay. Can you explain when it would not
21 be appropriate to use the parent company's capital
22 structure for ratemaking purposes?

23 **A. When it would not be appropriate? So**
24 **typically Staff uses guidance, as I had in my sur --**
25 **I put it in my surrebuttal testimony, my**

1 cross-rebuttal/surrebuttal testimony. Staff, in
2 order to determine what -- whether to use the parent
3 company or the subsidiaries uses the guidance put out
4 by SURFA that was included in the -- in the Cost of
5 Capital Practitioners Guide. In this guidance, it's
6 on page 4 of my cross rebuttal/surrebuttal testimony
7 if you'd like to take a look. It basically lays out
8 four reasons on whether -- whether or not to use the
9 parent company or the subsidiaries.

10 So it's whether the subsidiary utility
11 obtains all of its capital from its parent or issues
12 its own debt in preferred stock, whether the parent
13 guarantees any of the securities issued by the
14 subsidiary, whether the subsidiary's capital
15 structure is independent of its parent, and whether
16 the parent or consolidated enterprise is diversified
17 into nonutility operations.

18 And again, this is directly from the Cost
19 of Capital Practitioners Guide prepared for SURFA by
20 David C. Parcell.

21 Q. Okay. Let me shift gears just a little
22 bit and --

23 A. Okay.

24 Q. -- let me ask you this question.

25 If the -- and the topic is the RSM.

1 **A. Uh-huh.**

2 Q. So if the Commission were to approve an
3 RSM for the Company, are there any adjustments that
4 Staff would propose to either the capital structure
5 or the ROR?

6 **A. I am -- that is outside of my area of**
7 **expertise, but if you would like to talk with Staff**
8 **Witness Abbott, I believe he can help you more than I**
9 **would be able to with that.**

10 Q. Okay. All right. And then I have one
11 final question.

12 **A. Okay.**

13 Q. The cost of long-term debt, will Staff
14 update the cost of long-term debt for the true-up in
15 this case?

16 **A. We do plan to.**

17 Q. Okay. Do you have any indication of what
18 that number will be?

19 **A. I believe, if I remember correctly, it is**
20 **not too far off from what Staff has already**
21 **recommended. I believe the numbers with true-up**
22 **stayed fairly consistent.**

23 Q. Okay.

24 **A. With minor changes.**

25 JUDGE SEYER: Okay. All right. Thank

1 you. Any recross on behalf of the Company?

2 MS. CLOSE: No, your Honor.

3 JUDGE SEYER: OPC?

4 MR. CLIZER: Yes, if I could.

5 RECROSS-EXAMINATION

6 BY MR. OPITZ:

7 Q. Obviously you were asked several questions
8 about these four factors. I just want to, again,
9 complete that circle. Let's just run through them
10 really quick and see where they land on each of these
11 because I want to make sure this is very clear. So
12 the first one you mentioned, and again I'm reading
13 from page 4 of your surrebuttal.

14 A. Uh-huh.

15 Q. Whether the subsidiary utility obtains all
16 of it capital from its parent or issues own debt in
17 preferred stock.

18 Again, I don't want to have the risk of
19 friendly cross here, but just to --

20 A. Uh-huh.

21 Q. -- make clear, outside of the legacy
22 mortgages that was kind of discussed, currently
23 Missouri-American Water is covering all of its
24 capital through its parent company. Is that right?

25 A. To my understanding.

1 Q. Correct. The second one is whether the
2 parent guarantees any of the security issued by the
3 subsidiary.

4 Now, this is a bit of a tricky one in this
5 situation because is it correct that all of the debt
6 being issued is being issued on behalf of the parent
7 company? Well, not the parent company, but the
8 entity as a whole effectively?

9 A. So Staff did actually ask this as a part
10 of a DR request. I believe it was DR 37.1. Let
11 me -- and the response indicated when Staff asked if
12 the funds were guaranteed by AWCC, they indicated a
13 support agreement exists between AWCC and AWCC, but
14 AWWC does not guarantee the funds.

15 Q. Well, this is a very easier way to say it
16 then.

17 A. Uh-huh.

18 Q. Missouri-American Water isn't issuing any
19 of its own debt itself. Correct?

20 A. For the most part.

21 Q. So if there's nothing there to be issued,
22 there's no way you can have security guarantee --

23 A. Uh-huh.

24 Q. -- effectively.

25 MS. CLOSE: Your Honor, I'm going to renew

1 my objection that I -- Counsel seems to be testifying
2 and restating things in a way that the witness hasn't
3 even stated them.

4 MR. CLIZER: May I respond?

5 JUDGE SEYER: You may.

6 MR. CLIZER: Again -- again, this is
7 cross-examination. It's designed to be yes or no
8 questions. I mean, this is how cross-examination
9 works. As to the idea of friendly cross, every party
10 has an opportunity to build their case. Whether
11 they're using that through a witness that agrees with
12 their position or not is not a justifiable reason for
13 an objection.

14 JUDGE SEYER: Would you like to respond,
15 Ms. Close?

16 MS. CLOSE: I would just respond that I
17 believe what is occurring during the leading
18 questions is a mischaracterization of testimony.
19 That's the fundamental crux of my objection.

20 MR. OPITZ: And if I may weight in, I
21 would say, you know, the witness is not OPC's
22 witness. I mean, it's mischaracterizing the
23 testimony, they are on the stand to weigh in on
24 whether it's mischaracterizing it or not.

25 JUDGE SEYER: All right. And for the

1 sake of the record, that was Mr. Opitz.

2 MR. PRINGLE: And from Staff's
3 perspective, Judge, I don't believe there is
4 mischaracterization of the witness's testimony.

5 JUDGE SEYER: Understood. All right.
6 I'll overrule the objection. You can continue,
7 Mr. Clizer.

8 BY MR. CLIZER:

9 Q. The third issue was whether the
10 subsidiary's capital structure is independent of its
11 parents. I don't know that I can actually ask this
12 one in a yes or no question to be completely honest,
13 so I'm going to leave it alone.

14 And the fourth one is whether the parent
15 or consolidated enterprise is diversitized [sic] into
16 nonutility operations. You would agree with me that
17 Missouri-American Water's parent, American Water
18 Works Company is not diversified into other
19 operations outside of regulated utility service?

20 **A. Not to my knowledge.**

21 MR. CLIZER: All right. Thank you. That
22 was the extent of my recross.

23 JUDGE SEYER: All right.

24 MR. CLIZER: Actually, sorry, one last
25 question.

1 BY MR. CLIZER:

2 Q. So, and I want to make sure for the
3 record. That is why Staff reaches the -- on the
4 totality of those considerations you reached the
5 conclusion that the parent company's capital
6 structure should be considered in this case. Is that
7 accurate?

8 **A. That is a big factor in it, yes.**

9 MR. CLIZER: All right. Thank you. No
10 further questions.

11 JUDGE SEYER: Thank you. Is there any
12 recross by any of the other parties? All right.
13 Ms. Close, do you have redirect?

14 MS. CLOSE: No, your Honor.

15 MR. PRINGLE: This is Staff's witness,
16 Judge.

17 JUDGE SEYER: Oh, I'm sorry.
18 Mr. Pringle, do you have redirect?

19 MR. PRINGLE: One moment. No, no
20 redirect, Judge, but I would kind of like to revisit
21 though because this is Ms. Malki's only time taking
22 the stand in these proceedings and typically we do
23 enter the testimony on before they are dismissed from
24 the proceedings. I know you said you wanted to
25 reserve your ruling, but the Company had no

1 cross-examination questions on these corrections, so
2 I would believe now is the proper time to enter the
3 corrected testimony on the record.

4 MS. CLOSE: Your Honor, the Company has
5 not had a chance to review the corrections. That's
6 why we don't have any cross-examination prepared for
7 them.

8 JUDGE SEYER: So with that, Mr. Pringle,
9 I will still reserve my ruling on that.

10 MR. PRINGLE: And then just so I make
11 sure, Ms. Malki's available for recall if needed?

12 JUDGE SEYER: Yeah, that's fine.

13 MR. PRINGLE: Okay.

14 JUDGE SEYER: You can step down. Thank
15 you.

16 **THE WITNESS: Thank you.**

17 MR. CLIZER: I made a slight tactical
18 error. I thought there might be redirect and I told
19 him he could go run and get his water cup refilled.
20 He should be back in only a couple of minutes I hope.
21 My apologies. I think he's just filling up his
22 water. I really expected there to be a slightly
23 longer delay.

24 JUDGE SEYER: All right. Let's go off
25 the record.

1 (Off the record.)

2 JUDGE SEYER: Let's go back on the
3 record.

4 MR. CLIZER: Office of Public Counsel
5 would call David Murray.

6 JUDGE SEYER: All right. Mr. Murray,
7 welcome back to the hearing.

8 MR. MURRAY: Yeah, thank you. I'm sorry.
9 I needed some water.

10 JUDGE SEYER: You've got your right hand
11 raised.

12 (Witness sworn.)

13 DAVID MURRAY,
14 the witness, having been first duly sworn,
15 testified as follows:

16 JUDGE SEYER: All right. Thank you.

17 DIRECT EXAMINATION

18 BY MR. CLIZER:

19 Q. Mr. Murray, can you state and spell your
20 name for the record.

21 A. **My name is David Murray, last name's**
22 **spelled M-u-r-r-a-y.**

23 Q. And who are -- by whom are you employed?

24 A. **The Office of the Public Counsel for the**
25 **State of Missouri.**

1 Q. And have you cause -- have you prepared or
2 caused to be prepared testimony that's been premarked
3 as 300 and 301 referring to direct/rebuttal testimony
4 and cross-rebuttal testimony respectively?

5 A. Yes.

6 Q. And are the answers contain in those
7 prefiled testimony -- well, let's start with do you
8 have any corrections to make?

9 A. I apologize, I have a -- I do have a
10 correction. To schedule DM-D-7, and I recognized
11 this when I was looking at true-up numbers, when I
12 provided an average capital structure, a
13 five-quarter capital structure for Missouri-American
14 for the period, quarterly periods 12/31/2022
15 through 12/31/2023, the figures were -- the average
16 figures were pulled from the wrong numbers. It may
17 be easier to go ahead and -- I can go through this --
18 as far as submitting it. I apologize; I wasn't
19 looking at the true-up numbers.

20 But the average common equity balance
21 instead of 1,003,840,000.2 is -- I think this is
22 going to be easier for us to submit it, but anyway,
23 is -- should have been 1,299,985,000.2. The average
24 long-term debt balance should have been 1,189,000,424
25 instead of the 943,892.8. And the short-term

1 debt balance should have been 71,825,800 instead
2 of 31,337,800. And that affected each of those
3 percentages of the capital structure ratios. The
4 average common equity ratio with short-term debt
5 should be 50.76 percent instead of 50.74. The
6 average long-term debt should be 46.44 percent
7 instead of the 47.66. The average short-term debt
8 ratio should be 2.8 percent instead of 1.6 percent.
9 And when excluding short-term debt, the average
10 common equity ratio should be 52.22 percent instead
11 of 51.58 percent and the average long-term debt ratio
12 should be 47.78 instead of 48.42 percent.

13 Again, I apologize. I didn't catch that
14 until I just looked at some true-up figures just
15 recently.

16 Q. Just to clarify, that was schedule DM-D-7?

17 A. Yes.

18 Q. And that would mean that it's the schedule
19 seven of the direct testimony. Correct?

20 A. That is correct.

21 MR. CLIZER: Your Honor, given the amount
22 of numerical changes just listed, the OPC will file
23 an updated version of this particular schedule just
24 as soon as I am able. I apologize. I did not
25 realize the extent of the changes prior to that.

1 BY MR. CLIZER:

2 Q. Barring those changes made to that
3 schedule, are there any other changes that you wish
4 to make to your testimony?

5 **A. There is not.**

6 Q. Again, barring those changes, is the rest
7 of your testimony true and correct to the best of
8 your knowledge and belief?

9 **A. It is.**

10 Q. If I were to ask you the same questions
11 posed in your testimony today, your answers would be
12 the same or substantially similar?

13 **A. Yes.**

14 MR. CLIZER: All right. In that case I
15 would move for the admission of OPC Exhibits 300, the
16 direct/rebuttal testimony of David Murray and 301,
17 the cross-rebuttal testimony of David Murray. I
18 would also note, Judge, in the past the Commission
19 has ruled differently on whether they want things
20 marked public, confidential, or highly confidential.
21 Both versions of that include public, confidential,
22 and highly confidential versions. I am listing them
23 just by their numbers 300, 301. If you would like me
24 to do something differently, please let me know.

25 JUDGE SEYER: No, that's fine. And are

1 you -- I lost track of what the schedule number was.

2 MR. CLIZER: Schedule DM-D-7 which would
3 be schedule 7 attached to the direct/rebuttal
4 testimony. I will file an updated version of that as
5 soon as possible.

6 JUDGE SEYER: Okay. So is there any
7 objection to admission of Exhibits 300 and 301?

8 MS. CLOSE: Your Honor, may I just ask a
9 clarifying question? Is the changes that you alluded
10 to are solely in the Average column in that the math
11 to the left of that Average column would yield the
12 changes you just read off?

13 **THE WITNESS: It's not the math. I**
14 **actually pulled -- whenever I did -- prepared the**
15 **schedule, I looked at the capital structures as well**
16 **as the five-quarter 2022 to 2023. I looked at**
17 **previous capital structures. It was already in my**
18 **Excel file. I hid those. I just did a hide**
19 **function, and I -- I didn't realize that my averaging**
20 **function did not draw from the correct cells.**

21 MS. CLOSE: Okay. Thank you. No
22 objection, your Honor.

23 JUDGE SEYER: Then I will admit
24 Exhibit 300 and Exhibit 301.

25 (OPC Exhibits 300 and 301 were admitted

1 and made a part of this record.)

2 MR. CLIZER: Just for the sake of the
3 record, when we file the updated schedule, is that
4 to be considered a modification of the existing
5 Exhibit 300 or do you want me to give it its own
6 exhibit number? I'm sorry to cause you problems. I
7 want to make sure I get this right.

8 JUDGE SEYER: I would prefer it replace
9 the original.

10 MR. CLIZER: That is how I will operate
11 unless somebody wants to object. With that in mind
12 then, I will tender the witness for
13 cross-examination.

14 JUDGE SEYER: All right. Mr. Coffman, do
15 you have cross-examination?

16 MR. COFFMAN: No questions, your Honor.

17 JUDGE SEYER: Mr. Bednar?

18 MR. BEDNAR: No questions, your Honor.

19 JUDGE SEYER: Any on behalf of Liberty?
20 On behalf of MECG?

21 MR. OPITZ: No, thank you, your Honor.

22 JUDGE SEYER: Public Water Supply
23 District? And Triumph Foods?

24 MR. HARDEN: No, thank you, your Honor.

25 JUDGE SEYER: All right. Mr. Pringle,

1 any on behalf of Staff?

2 MR. PRINGLE: Yes, Judge. Thank you.

3 CROSS-EXAMINATION

4 BY MR. PRINGLE:

5 Q. Good afternoon, Mr. Murray.

6 A. **Good afternoon, Mr. Pringle.**

7 Q. And were you present when Mr. Furia was on
8 the stand for Missouri-American Water Company?

9 A. **I was present, yes.**

10 Q. Did you hear him -- well, did you hear his
11 definition of double leverage?

12 A. **Yes. Yes.**

13 Q. Did you hear his definition of equity
14 infusion?

15 A. **Yes.**

16 Q. Did you hear him state that the Company
17 simply can't trace these infusions?

18 A. **I recall that line of questioning, yes.**

19 Q. Do you agree with that?

20 A. **It's -- as far as tracing a dollar for
21 dollar, good luck. I mean, yeah, I -- I think that
22 that's a very difficult thing to do and I wouldn't
23 expect anybody to be able to -- to trace that. And
24 I -- I think that's one of the problems here as far
25 as, you know, what's the proper capital structure and**

1 what's the proper cost today. Because it -- I mean,
2 it -- it's -- it -- there's some subjectivity to it.

3 But the biggest thing, it was in the 2022
4 rate case, and American Water was more leveraged. It
5 actually got to a common equity ratio of slightly
6 below 40 percent. And, you know, and all of its --
7 all of its subsidiaries, including Missouri-American,
8 continued to have, at least maintaining their common
9 equity ratio or in some states actually increasing
10 their common equity ratios while American Water was
11 becoming more and more leveraged when we had
12 extremely low costs of debt through 2020.

13 And so anyway, for about ten years, and
14 this goes back a-ways because American Water was
15 taken private for a while by RWE. But whenever they
16 went public again, there was about a ten-year period
17 where they didn't issue any sizable common equity
18 whatsoever.

19 So there's only one way that -- that those
20 equity contributions as Mr. Furia said, infusions,
21 contributions, whatever you want to -- however you
22 want to characterize it, there was really only one
23 main source of funds and that was the AWCC debt being
24 loaned to American Water.

25 MR. PRINGLE: Thank you, Mr. Murray. No

1 further questions, Judge.

2 JUDGE SEYER: All right. Ms. Close?

3 MS. CLOSE: No questions, your Honor.

4 JUDGE SEYER: Are there any questions
5 from the commissioners?

6 COMMISSIONER MITCHELL: Just one from
7 Commissioner Mitchell.

8 QUESTIONS

9 BY COMMISSIONER MITCHELL:

10 Q. So why would -- why would the cost of debt
11 issued from AWCC to the subsidiaries, why would those
12 costs vary to each subsidiary? Why wouldn't they
13 just be the same as what AWCC is issuing the debt
14 for?

15 A. Well, that's -- yeah. My -- my
16 understanding of the way the -- the way American
17 Water operates its treasury is as a company such as
18 Missouri-American is -- is making capital
19 expenditures, you know, they need capital infusions.
20 And I think there's -- you know, I have a schedule
21 attached to my testimony, but it shows that, you
22 know, that Amer -- Missouri-American say it needs 300
23 million of equity and 300 million of debt in the past
24 year. And so they'll just infuse, you know, that
25 equity and that debt.

1 And so whatever debt they have recently
2 issued, American Water Capital Corporation that is,
3 they -- you know, they definitely try to, you know,
4 get something that's in close proximity as far as --
5 and they assign the same terms as the underlying --
6 as the underlying debt instrument.

7 But, you know, that's -- but I can
8 consider that -- whether it's -- I'm not -- you know,
9 as far as the American Water, you know, cost of debt,
10 I do think that there is, you know, obviously an
11 effort to low -- you know, to lend a lower cost of
12 debt that AWCC issues to American Water for purposes
13 of its infusion of common equity into -- into its
14 subsidiaries. So that's why when you include that
15 debt that's not assigned to the subsidiaries, it
16 brings the overall AWCC portfolio cost debt down to
17 what I had as 4.13 percent.

18 But that is -- the reason why it's
19 different, and I don't -- I don't know what all the
20 other subsidiaries' cost of debt are. I mean, I
21 tried to look at that, but the Missouri-American
22 didn't want to provide financial statements for the
23 other subsidiaries. But -- but the reason why it is
24 probably just purely due to timing of the need for
25 capital for each of those subsidiaries and then they

1 assign and they execute affiliate notes when that
2 capital is transferred.

3 Q. Thanks. And do you know if American Water
4 places or requires debt outside of AWCC?

5 A. American Water does not. The subsidiaries
6 do. Most of your subsidiaries are going to try to
7 take advantage of the state --

8 Q. Revolving?

9 A. -- yeah, revolving fund.

10 Thank you. Thanks for completing that.
11 And that's true in other states as well.

12 COMMISSIONER MITCHELL: Okay. Thank you.

13 JUDGE SEYER: All right. Okay.

14 Mr. Murray, I do have some questions myself.

15 QUESTIONS

16 BY JUDGE SEYER:

17 Q. In your direct, slash, rebuttal testimony,
18 you provide two methods to adjust the rate of return
19 if the Commission were to approve an RSM. The first
20 method is to adjust the equity ratio in the capital
21 structure, and the second is to adjust the allowed
22 ROE. Is that fair to say?

23 A. Page 74. And, yeah, I'm just trying to
24 make sure I'm on the same page with you. Page 74
25 and 75 of my direct/rebuttal testimony?

1 Q. I believe so.

2 A. Yes. I discuss two methods and then I
3 ultimately, you know, suggest that I believe the best
4 approach is to recognize the additional debt capacity
5 that lower business risk, you know, would allow.

6 Q. Okay. For the first method you provide
7 the Ca step-by-step guideline to adjust the equity
8 ratio, which your calculation results in an 11 point
9 basis reduction to rate of return. Is that correct?

10 A. I don't believe I -- I don't -- did I
11 quantify that? Let me just check as far as the basis
12 points.

13 MR. CLIZER: While he's in the process of
14 doing this, is this page 74 and 75 of his
15 direct/rebuttal? Correct?

16 JUDGE SEYER: Yes.

17 MR. CLIZER: I just wanted to note that
18 there were some marked confidential information
19 there. And just reminding the witness to please
20 ensure that we are not breaching confidentiality in
21 answering questions.

22 THE WITNESS: Yeah. I'm not seeing where
23 I quantified it in the basis points. On the bottom
24 of page 75, which is not confidential, I indicated
25 that if the lower business risk was, you know,

1 recognized by specifically S&P, discusses some other
2 different benchmark tables, that I would recommend
3 the revenue requirement be lowered by 4.6 million.

4 I believe the 11 percent that you're
5 referring to is my discussion of what is a credit
6 metric referred to as a funds from operations to debt
7 ratio that -- that rating agencies evaluate when
8 assigning credit ratings.

9 BY JUDGE SEYER:

10 Q. If the Commission were to decide an
11 adjustment to ROE is justified, could that same
12 step-by-step guideline be used by the Commission?

13 A. It's -- I'm going to give my discipline
14 kind of a -- I'm going to, I don't know, give us a
15 little bit of a bad reputation. It's somewhat
16 subjective, I mean, as far as, you know, how much to
17 adjust an ROE. I mean, I -- what I was trying to do
18 was rely on a third party -- and I know I'm
19 explaining a little bit more as to why, you know, I
20 didn't necessarily want to go the ROE route. But I
21 knew that there was a third party, the rating agency
22 that said, If you have low business risk, we allow
23 you to have more debt in your capital structure and
24 maintain the same credit rating.

25 But you could -- I mean, the way I have

1 done it in the past when I've looked at mechanisms
2 that, you know, hypothetically, because Missouri-
3 American's not publicly rated as far as by credit
4 rating agencies, but if you just want to assume that
5 it's a -- could possibly result in a one-notch
6 improvement in the credit rating, say -- say it goes
7 from A minus to A, you could look at bond yield, and
8 that's the cost of bonds, that's the cost of debt,
9 but that could be used as a proxy for an adjustment
10 to the cost of equity. I've done that before.

11 But I -- because of the information that
12 was -- that Missouri-American apparently had gone out
13 and received from the rating agencies for a private
14 monitored rating, I thought, you know, this makes
15 sense. Let's use this.

16 Q. Excuse me. Earlier during Ms. Malki's
17 testimony, I had a question to her about a statement
18 in her testimony where it says that Staff notes that
19 it's not always appropriate to use the parent
20 company's cost of common equity if the parent
21 company's risk profile is significantly different
22 from that of its regulated subsidiaries. Do you
23 agree with that statement?

24 A. No. And I'll use an example that this
25 Commission's going to deal with or may deal with.

1 The Algonquin Power & Utility Company is a troubled
2 parent company that has financial strain and
3 additional risk that are affecting its, in my
4 opinion, affecting its cost of capital, even its cost
5 of debt. And in that situation because it has
6 nothing to do with the regulated utility business
7 risk, there's -- I would think it would be entirely
8 unfair and unacceptable to -- to suggest that the
9 parent company's capital structure or parent
10 company's cost of capital should be used because its
11 business risk is not based on the regulated
12 utilities.

13 American Water is predominately a pure-
14 play regulated utility and water and sewer or
15 water/wastewater I guess more appropriately. But in
16 a situation where the -- the parent company is -- is
17 more or less a pure play with what we refer to it as,
18 you know, concentrated in the -- the operations of
19 the subsidiary, the business risk should not be that
20 much different other than being a bigger -- owning
21 more water and sewer utilities, being a -- you know,
22 having more assets.

23 Q. To your knowledge has the Commission
24 authorized a standalone capital structure in any
25 previous rate cases?

1 A. Yes. They -- the Commission is very
2 clear, even though I have not agreed and made
3 different recommendations. But Spire Missouri,
4 Ameren Missouri, Evergy, well, I don't know if you
5 had -- did you make a -- but the companies that are
6 similar to Spire in Missouri which the Commission did
7 adopt the subsidiary capital structure. The other
8 companies that are similar to Spire Missouri are
9 Ameren Missouri, Evergy Metro, Evergy Missouri West.
10 They issue their own long-term debt. They have --
11 they're assigned a credit rating. You know, there's
12 no -- some are more -- some other are less integrated
13 than others, but they essentially have the same
14 corporate structure. So yes, in that situation the
15 Commission has said we're adopting Spire Missouri's
16 subsidiary capital structure.

17 Q. And was the rationale by the Commission
18 similar in all those cases?

19 A. Well, I backed up because I couldn't
20 remember -- Ameren Missouri settled a lot of their
21 cases recently, so it's been a while. And cases that
22 were litigated were probably over 10, 15 years ago.
23 And Ameren didn't issue holding company debt at the
24 time. So, you know, we didn't have -- at least my --
25 my opinion was that it didn't even push back much

1 because they weren't using the leverage at the
2 holding company to boost the returns, but.

3 And the same thing with Great Plains
4 Energy. These companies are going through changes
5 and strategies and financing approaches as they
6 merge. Evergy is a great example. Before Great
7 Plains Energy and West Star merged, Great Plains
8 Energy owned Kansas City Power & Light and -- and --
9 and KCPL greater Missouri operations. But Great
10 Plains didn't issue any holding company debt and so
11 the capital structure, the subsidiary, and the
12 holding and the consolidated were fairly similar. So
13 it's ever change -- I mean, it's a changing
14 situation. Spire does have quite a bit of holding
15 company debt.

16 Q. I'm going to refer you to your direct and
17 rebuttal testimony on page 5.

18 A. I'm there.

19 Q. All right. In your final answer on that
20 page, you make reference to a report from the
21 Regulatory Research Association; you've got it
22 footnoted down there. And this report though, it
23 contains water rate case decisions through the third
24 quarter of 2024. Correct?

25 A. Yes.

1 Q. All right. Do you happen to have that
2 report with you today?

3 A. I do not have it with me, but I could
4 easily get it for you. I'm sorry, I don't have it
5 with me.

6 Q. Is that a -- well, let me ask you this:
7 Has that report been updated to include water --

8 A. Fourth quarter?

9 Q. Yes.

10 A. It has. And Mr. -- my attorney,
11 Mr. Clizer --

12 MR. CLIZER: I will offer it on redirect
13 per the Commission's request. I can move to
14 introduce what I believe to be the most current
15 version of that report.

16 JUDGE SEYER: Yes. That was going to be
17 my next question. And that is all the questions I
18 have.

19 THE WITNESS: Thank you, Judge.

20 JUDGE SEYER: Any recross from Staff?

21 MR. PRINGLE: No, Judge, thank you.

22 JUDGE SEYER: From Public Counsel?

23 MR. CLIZER: It's my witness.

24 JUDGE SEYER: Oh, I'm sorry.

25 MR. CLIZER: That's okay.

1 JUDGE SEYER: Mr. Coffman, any?

2 MR. COFFMAN: No questions.

3 JUDGE SEYER: Mr. Bednar?

4 MR. BEDNAR: No questions, your Honor.

5 JUDGE SEYER: Mr. Opitz is shaking his
6 head. And any redirect, Mr. Clizer? Oh, I'm sorry.

7 MS. CLOSE: That's all right. We do not
8 have any more recross.

9 JUDGE SEYER: Okay.

10 MR. CLIZER: Yes. And starting
11 backwards, I'm hoping that this answers the question
12 that you just posed. So I will guess move to mark,
13 this should be 315 I think is first of our
14 nonprefiled.

15 JUDGE SEYER: Yes, that would be correct.

16 MR. CLIZER: For you, Madam Court
17 Reporter.

18 REDIRECT EXAMINATION

19 BY MR. CLIZER:

20 Q. Mr. Murray, do you have a copy of what's
21 in front of you that's been pre -- well, not
22 premarked, but has now been marked as OPC
23 Exhibit 315?

24 **A. I do.**

25 Q. And is this document familiar to you?

1 **A. It is.**

2 Q. Can you please explain to me what this
3 document is?

4 **A. This is a Regulatory Research Associates,**
5 **which is now an offering of S&P Global Capital IQ,**
6 **but it provides a quarterly update of average**
7 **authorized returns for water utility companies in the**
8 **United States for 2024.**

9 Q. And so pursuant to the Bench questions
10 that were just posed to you, is it accurate to say
11 that this is a more updated version of the report
12 referenced in footnote 5 of page 5 of your
13 direct/rebuttal testimony?

14 **A. It is. This is dated February 13th, 2025.**
15 **That was dated November 21st, 2024.**

16 MR. CLIZER: All right. I will go ahead
17 move to admit OPC Exhibit 315.

18 JUDGE SEYER: Any objections? 315 is
19 admitted.

20 (OPC Exhibit 315 was were admitted and
21 made a part of this record.)

22 MR. CLIZER: Your Honor, you didn't have
23 any additional questions as it related to this; you
24 were just looking for an updated version so I'm going
25 to refrain from asking additional questions as to it

1 as well. Just putting it in there for the sake of
2 your request.

3 BY MR. CLIZER:

4 Q. Mr. Murray, do you recall being asked a
5 question regarding when the Commission approved a
6 standalone capital structure?

7 A. Yes.

8 Q. And sort of -- and you listed off
9 obviously several utilities in answering that
10 question. Do you recall what the Staff's position is
11 in the cases that you were referencing where the
12 Commission did adopt a standalone capital structure?
13 What the Staff's recommendation was?

14 A. I think, if I remember -- I mean, I -- the
15 Staff once -- once the Commission provided its
16 decision in the Spire Missouri case in 2017, if I
17 recall correctly, Staff -- not if I recall correctly,
18 I think I was working for Staff for a while after
19 that; I think I came over to Public Counsel in 2019.
20 But yeah, I think the, you know, the general policy
21 for Staff was if the Commission had made a decision,
22 unless we had, you know, other evidence to provide
23 that would, you know, maybe sway them the other way,
24 that, you know, that they followed the Commission's I
25 guess rationale which is what the Staff has been

1 doing and I understand that.

2 Q. Let me ask a different question then.
3 It's not -- there was discussion earlier regarding
4 the four factors that Staff relies on. How would you
5 interpret those four factors in the cases in which
6 the Commission has ordered a standalone capital
7 structure?

8 A. Yeah. Some of them, obviously issuing
9 their own long-term debt is -- is just one of the
10 primary factors for Spire Missouri and for -- and for
11 those other companies that have the same corporate
12 structure. The guarantee of the debt, like I said, I
13 have a dispute on that because -- well, actually it's
14 the regulated utility subsidiaries are the ones that
15 provide the credit quality that make it possible for
16 holding companies to issue capital, so I kind of
17 question whether or not that's interpreted correctly.

18 But -- but as far as the, you know, the
19 guarantee, yeah, I mean, if you -- if you -- if you
20 just say that they don't guarantee, yes, they don't
21 guarantee -- the parent company does not guarantee
22 the subsidiary's debt. That's true. You know, what
23 does it mean, but anyway. But those factors are not
24 in play here.

25 This case is more like Liberty Utilities.

1 I just talked about Algonquin. And the reason why I
2 wanted to bring that up is because Liberty Utilities
3 finances as a -- it's a finance subsidiary for its --
4 all of its regulated United States subsidiaries
5 regulated utilities, and it does the same thing. And
6 in those cases the Commission has adopted the LUCo
7 capital structure, not the subsidiary's capital
8 structures.

9 Q. Just to follow up on that, for the sake of
10 the record, what is LUCo?

11 A. Oh, sorry. I'm sorry. Liberty Utilities
12 Company.

13 Q. Okay. And just as another reminder, I
14 believe the Liberty Utilities' case is currently
15 pending, so please be mindful about discussing a
16 pending case.

17 Moving up further on -- you were asked a
18 quick question I think regarding the business risk
19 and sort of the differences in the business risk
20 between the Missouri-American Water and its parent
21 company, American Water Works Company. Do you recall
22 that?

23 A. Yes.

24 Q. And just to clarify and make sure that I
25 heard you correctly, the -- how does the difference

1 in business risk affect your recommendation with
2 regard to the capital structure in this case?

3 A. Well, that's -- that's what prompts me
4 to -- to consider and consider it appropriate to --
5 to recommend more leverage capital structure. The
6 way American Water is capitalizing its investment in
7 its subsidiaries, it -- the rating agencies allow
8 relaxed credit metric thresholds for water utilities
9 because they recognize -- recognize them as having,
10 quote, unquote, low volatility financial performance.
11 And so American Water is able to take advantage of
12 that and have a very leveraged capital structure.

13 Like I said, they expressly target that
14 they are -- they are fine with going up to 40 percent
15 or as down as low as 40 percent common equity and yet
16 they still maintain an A credit rating. And there's
17 one reason for that. That's because water utilities
18 are assigned -- are compared to lower volatility
19 credit metric tables. Rating agencies say that, you
20 know, this is a very low business risk industry. You
21 can take out more debt.

22 And so, but American Water is just a
23 compilation. It's a portfolio of all their water
24 utilities. That's all -- that's all there is to it.

25 Q. You were asked a question by Commissioner

1 Mitchell regarding the assignments of the debt, the
2 mechanism by which the parent company sort of funds
3 the operation. Do you recall that line of
4 questioning?

5 **A. Yes.**

6 **Q.** And I think you answered the question, but
7 I want to make sure the record is very clear on this.
8 Can you please very briefly explain how exactly the
9 debt is assigned? How do they make the decision
10 where debt costs are flown?

11 **A.** Well, I -- I can't tell you exactly how
12 the Company decides -- the treasury decides how they
13 assign it. I can just tell you that the -- more the
14 shorter term debt is assigned to American Water
15 which has a -- and it's in my testimony, weighted
16 average maturity of seven years. And the longer-term
17 debt, at least for Missouri-American because that's
18 the only subsidiary I've able to look at because
19 that's the only information I've been provided, has
20 a 15-year weighted average maturity.

21 **So other than knowing that the**
22 **longer-tenured debt is assigned to Missouri-American**
23 **and shorter-tenured debt is assigned to American**
24 **Water, I don't know other than -- than whenever they**
25 **need capital, whatever debt they've recently issued**

1 is -- AWCC is likely to be the terms assigned to that
2 affiliate note. But I don't know their exact
3 process. I'm not -- I don't know the interworkings.
4 I don't work there.

5 Q. Fair enough. You were asked a series of
6 questions from counsel for the Commission Staff. You
7 were asked at one point -- do you recall his line of
8 questioning? Let me start there.

9 A. Yes.

10 Q. And one of the questions there concerned
11 the definition of double leveraging.

12 A. Yes.

13 Q. Do you recall that?

14 A. Yes.

15 Q. For the sake of the record and my brief,
16 can you give me a working definition of what double
17 leverage means?

18 A. At the very basic level double leverage is
19 simply a holding company issuing debt and a
20 subsidiary issuing debt. Now, a more refined
21 definition that some people get hung up on, and I
22 don't think we need to get hung up on because it
23 really just matters as to what -- you know, how much
24 leverage the consolidated enterprise, you know, knows
25 it can incur and still maintain an invest grade

1 credit rating regardless of whether or not those
2 funds are used to buy the equity in the subsidiary.

3 I mean, one of the things that's happened
4 here recently is Missouri-American has not been, you
5 know, distributing a dividend up to American Water.
6 Well, how does American Water fund its dividend then.
7 It issues more holding company capital, debt capital.
8 And so that's just an internal financial strategy
9 decision. It does not mean that Missouri-American
10 could not have, you know, the debt capital issued at
11 their level if they were like Spire Missouri and
12 Ameren Missouri.

13 But anyway, so the -- but the double
14 lever -- some people get very strict and -- and --
15 and limited in saying that double leverage is only
16 when you issue debt specifically to buy equity in the
17 subsidiary. There are many ways you can move things
18 around.

19 Q. So just --

20 A. And --

21 Q. So just to confirm, in your professional
22 opinion do you believe double leveraging is occurring
23 in this specific situation at Missouri-American
24 Water?

25 A. Yes. But it's all affiliate notes.

1 MR. CLIZER: All right. I have no further
2 redirect. Thank you very much.

3 JUDGE SEYER: All right. Thank you,
4 Mr. Murray.

5 **THE WITNESS: Thank you.**

6 MR. CLIZER: Judge, quick poll. Can I
7 confirm that 300 and 301 was received into the
8 record?

9 JUDGE SEYER: That is correct.

10 MR. CLIZER: Thank you.

11 MR. PRINGLE: And, Judge, I'd just like
12 to request a brief recess so Staff can do some
13 musical chairs, get the right people here for the
14 next issue.

15 JUDGE SEYER: All right. Ten minutes
16 enough?

17 MR. PRINGLE: Yeah. And before go off
18 record too, would you like me for me to file the
19 corrected testimony so we have that description of
20 the correct -- the corrected version or the errata?

21 JUDGE SEYER: Yes.

22 MR. PRINGLE: And get that on.

23 JUDGE SEYER: Yes.

24 MR. OPITZ: Your Honor, before we go off
25 the record as well, and this is Tim Opitz, MECG, I

1 don't have any cross or opening statement for the
2 remaining issues listed today. May I be excused --

3 JUDGE SEYER: Yes.

4 MR. OPITZ: -- until tomorrow?

5 JUDGE SEYER: Yes.

6 MR. BEDNAR: And I would request the same.

7 JUDGE SEYER: Yes, Mr. Bednar. All
8 right. So let's break until roughly 1:30 and we'll
9 reconvene then.

10 (Off the record.)

11 JUDGE SEYER: Let's go back on the
12 record. All right. We are about to start on the
13 issue of Support Services. But we have new Staff
14 counsel. Could you go ahead and enter your
15 appearance.

16 MS. JOHNSON: Yes, thank you, Judge. It's
17 Tracy Johnson for Staff counsel, and the court
18 reporter has my card.

19 JUDGE SEYER: All right. Thank you. And
20 will there be opening statements for this topic, this
21 issue?

22 MS. JOHNSON: Yes.

23 MR. CLIZER: I --

24 JUDGE SEYER: Go ahead, Mr. Clizer. I
25 think everybody's nodding. All right. Is that going

1 to be you, Mr. Cooper?

2 MR. COOPER: It will me, Judge. And if
3 it's okay with you, I'll give it from counsel table
4 as I think it will be much more mini than the mini
5 openings we had earlier.

6 JUDGE SEYER: All right. Then go ahead,
7 Mr. Cooper.

8 MR. COOPER: Thank you, your Honor. This
9 issue concerns the cost MAWC pays to the American
10 Water Works Service Company or service company as
11 it's commonly called for services received by
12 Missouri-American. The services provided by the
13 service company include customer service, water
14 quality testing, environmental compliance, human
15 resources, communications, information technology,
16 finance, accounting, regulatory, legal, engineering,
17 supply chain, and risk management among others.
18 Included as a part of this broad range of services
19 are a variety of financial and accounting services
20 that include payroll, human resource, data
21 management, utility plant accounting, cash
22 management, general accounting, and reporting,
23 accounts payable and tax accounting.

24 Our first witness today will be
25 Mr. Patrick Baryenbruch who has in his testimony

1 presented the results of a study that evaluated and
2 assessed the services provided by the service company
3 to Missouri-American Water Company and the
4 reasonableness of the associated charges. This study
5 concludes that the service company services are
6 essential to Missouri-American's ability to deliver
7 water service to its customers, that the services are
8 customarily provided by other utility service
9 companies to their operating utility affiliates, and
10 for each cost comparison performed, the service
11 company charges were shown to be reasonable.

12 Staff has recommended removal of some
13 performance compensation costs, costs associated with
14 business development and some external affairs and
15 public policy job positions. OPC also questions
16 performance compensation as well as recommending
17 removal of payroll costs related to business
18 development, external affairs, and investor
19 relations.

20 We were -- we were talking here around
21 the counsel tables before we went on the record that
22 some of these issues show up sort of within other
23 classifications during the hearing. And the best
24 example of that is performance compensation which is
25 actually a listed issue within the labor and

1 labor-related issues which are coming up next on the
2 list, so that will be at a different point.

3 The individuals in external affairs
4 positions that have been removed we believe should
5 remain in because they interact with local municipal
6 officials within the Company's service territory on
7 issues such as customer service, boil advisories and
8 orders as well as infrastructure, construction, and
9 replacement.

10 Business development activities also
11 benefit customers of Missouri-American in both the
12 short and long term by mitigating the costs to be
13 recovered per customer and enhancing purchasing
14 power.

15 Lastly, investor relations positions help
16 attracts and maintain investors that provide needed
17 capital for investments in the utility infrastructure
18 which is a -- obviously a critical part of the
19 Company's operations.

20 Missouri-American's service company
21 expenses as have been proposed by the Company should
22 be included in Missouri-American's cost of service.
23 Thank you.

24 JUDGE SEYER: All right. Ms. Johnson,
25 would you like to present an opening statement?

1 MS. JOHNSON: Yes, please. Thank you,
2 Judge. I will take my opportunity at the podium if
3 that's all right.

4 So good morning. Afternoon, excuse me,
5 Chair Hahn and Commissioners, Judge Seyer. So I'm
6 Tracy Johnson as I said earlier and I'm standing
7 before you on behalf of Staff specifically on the
8 issue that Mr. Cooper outlined, Support Services is
9 what we're calling it.

10 If you're trying to follow along like I
11 was, this issue is number 20. It's on page 6 of the
12 amended list of issues. It's in page 18 of Staff's
13 statement of positions. And more information can be
14 found in Staff Witness Ashley Sarver's
15 direct/rebuttal testimony on pages 7 to 10.

16 So with that, may it please the
17 Commission. I'll start in the same place that we'll
18 finish. So Staff doesn't believe that allowing the
19 inclusion of Support Services is a bad thing. Staff
20 takes issue with Mr. Cooper's argument of the
21 reasonableness of those costs. Staff supports a
22 reasonable evaluation and inclusion of support
23 services where the services of a third party who
24 provides them should be treated the same way as if it
25 was in one of the Company's direct accounts. It

1 should be based on the type of expense and how it
2 relates to the provision of safe, reliable, and
3 affordable services to ratepayers.

4 This is Staff's approach. Staff
5 disallowed the same expenses through the Support
6 Services category as they did in the Missouri-
7 American direct accounts. I know that we're all
8 familiar with the subsidiary relationship; we've
9 talked about it a lot, so I just want to summarize it
10 for everyone's understanding, maybe just my own.

11 So Missouri-American's relationship with
12 American Water Works Company is that they are a
13 subsidiary of American Water Works Company. American
14 Water Works Service Company, Incorporated is another
15 subsidiary of American Water Works Company. American
16 Water Works Service Company, Incorporated is the
17 service company that we're talking about that
18 provides these support services at issue in issue
19 number 20. I won't list out the services that are
20 provided; Mr. Cooper covered those pretty well, so
21 we'll skip that.

22 What I do want to point out is that the
23 service company provides its services to Missouri-
24 American at cost and issues monthly invoices in one
25 of two ways. They either do it directly at a hundred

1 percent because all of the services were utilized by
2 Missouri-American or as a percentage allocation
3 across all of American Water's regulated
4 subsidiaries.

5 Like I said, Staff does not take issue
6 with the expenses that are charged to Missouri-
7 American. Rather the concern is over the
8 reasonableness of the amounts allocated to Missouri-
9 American by the service company. Staff recommends
10 adjustments to the costs allocated to Missouri-
11 American. For reference, the OPC recommends larger
12 adjustments and greater disallowances for support
13 services than Staff recommends to be cut from
14 Missouri-American's cost of service.

15 So what's the number, right. There's
16 a \$12 million difference between Staff's
17 recommendation and Missouri-American's position on
18 this issue. I'm going to give approximates because
19 if you round it incorrectly, you're going to end up
20 with a number that's different than 12. So for the
21 sake of our \$12 million difference, approximately 6
22 million of that is outlined in incentive
23 compensation; 4 million is labor expenses, and then
24 all other services cover about 2 million.

25 As Mr. Cooper outlined there -- this is a

1 summary sort of issue and there are a lot of other
2 witnesses, Staff witnesses especially who can speak
3 to some of these issues. But I want to outline that
4 Ashley Sarver is the Staff witness who's going to
5 take the stand in a second and she is the one who can
6 answer the general questions in this category, but
7 she's also the one, if you'll remember earlier, Chair
8 Hahn, that was indicated for reconciliation
9 questions. So she'll take the stand today. And then
10 Amanda McMellen was the other one indicated to you
11 and she'll be up tomorrow for reconciliation-type
12 questions. So please be prepared for Ms. Sarver to
13 defer specific details of adjustments to her Staff
14 colleagues.

15 Okay. So I'll end where we started which
16 is what I said I would do. So Staff isn't opposed to
17 support services expenses being included. Staff
18 simply suggests a series of adjustments to temper the
19 excess requested by Missouri-American and produce a
20 reasonable outcome on the issue of Support Services.

21 Thank you for your attentiveness and I
22 can do my best to answer your questions.

23 JUDGE SEYER: Are there any questions
24 from commissioners? All right. Would any of the
25 intervening parties like to give an opening

1 statement?

2 MR. CLIZER: I think I might be the only
3 one left.

4 JUDGE SEYER: Okay. Mr. Clizer.

5 MR. CLIZER: I have a handout here. This
6 is a relatively small issue, so in lieu of a bigger
7 PowerPoint presentation, I just put together this
8 small handout. I'll go over it really quick.

9 Again, if it would please the Commission,
10 John Clizer, I'll be here all week. The issue in
11 front of you right now, it's titled Support Services.
12 As you kind of heard, this is -- issue is a little
13 bit mixed up with the other labor and relations
14 issues. I heard you just give a breakdown of 12
15 million from 6, 4, and 2. I'm pretty sure that we
16 are on the 2 million part, that last part. Because
17 the 6 million incentive comp and the other 4 million
18 in labor I think is coming up next. Don't quote me
19 on that. The numbers got a little bit confused
20 there, so apologies.

21 The other thing is, again, there are a
22 lot of support services being offered. I know that
23 Mr. Cooper on behalf of Missouri-American Water read
24 off the list. I'll hit you with another one. You
25 know, we got accounting and financing administration,

1 business development, communications, compliance,
2 education and training, engineering, health and
3 safety, human resources, information -- the court
4 reporter is going to throw something at me, so I
5 better slow down.

6 The point here is that there are a lot of
7 support services at play, but not a lot of support
8 service at issue. What's really at issue comes down
9 to just about three, two that were kind of disallowed
10 by the Staff and another one on top of those other
11 two that was disallowed by the OPC. And those three
12 at issue are business development, external affairs
13 and policy, and your investor relations. And the
14 short version for what the OPC's position is is
15 basically, hey, these aren't positions that are
16 benefiting ratepayers. They're out there to benefit
17 shareholders. We're okay with the Company doing
18 them, but the Company shareholders should pay for it
19 because that's who earns the benefit.

20 And the easiest, faster, simplest way to
21 understand it is just to look at the actual job
22 descriptions. When we go forward in the actual
23 hearing, I'm going to present the Company's response
24 to data request sent by the Staff that has the actual
25 job descriptions. I pulled out the key ones and put

1 them in here, so this is a bit of a preface.

2 But again, what is business development.
3 It's basically it's the Company going out and
4 acquiring new symptoms. It's that simple. This is
5 how they go out, they acquire new symptoms, they push
6 water contracts. This benefits shareholders because
7 you get additional CapEx. We're okay with them doing
8 it. It's not benefiting their existing ratepayers.
9 It's not improving or ensuring safe and adequate
10 service.

11 What is external affairs and public
12 policy. Well, in short terms it's their internal
13 lobbying division. Again, we're not saying the
14 Company shouldn't have one. I think that their
15 lobbying division does an excellent job frankly and I
16 think that shareholders have gotten massive returns
17 on -- on that -- on the Company's lobbying groups.
18 But again, it's not necessary for customers to be
19 paying for that. The shareholders are the ones
20 benefiting from that lobbying group. They should be
21 the ones to pay for it.

22 The final one, and this is the one that
23 we drew a difference with the Commission Staff on, is
24 investor relations. Again, if you read the actual
25 job description, you're going to see, you know, the

1 primary description put out there is mostly kind of
2 talking about the Company's ESG report. That's the
3 environment, social, and governance report. But
4 again, it's -- you can predict, it's the people who
5 kind of talk to the investors who put together those
6 reports to say how well the Company's doing and all
7 that. Again, these are investor relations. They are
8 meant to benefit investors, not individual
9 ratepayers, so the investors, i.e., shareholders
10 should be paying for it.

11 That is the short version. Really it's
12 just as simple as looking at these jobs and asking
13 ourselves, you know, is this something necessary to
14 provide safe, adequate service. And if not, if it's
15 still benefiting shareholders, they can do it; they
16 just should be the ones paying for it. So I have
17 nothing else and I see, I think, at least one
18 question.

19 JUDGE SEYER: Chair Hahn.

20 CHAIR HAHN: Thank you.

21 QUESTIONS

22 BY CHAIR HAHN:

23 Q. I just probably have several questions,
24 but help me out. So Staff agreed with you that the
25 business development positions which include, it

1 looks like, two particular positions --

2 **A. Let me clarify. I -- I grabbed the job**
3 **descriptions that show up in here. I think that**
4 **there are more than just two positions. And it's**
5 **something you definitely want to ask Staff. But the**
6 **actual job descriptions, and you'll see the DR**
7 **response I'm going to give you don't have like a huge**
8 **list. I just grabbed the ones that related to it in**
9 **that DR response if -- am I confusing you?**

10 Q. So --

11 **A. It's more than just --**

12 Q. -- it's these titles, but it's more people
13 than this?

14 **A. I think so and if I'm wrong, I expect the**
15 **Company or Staff witnesses will correct me on that.**

16 Q. Okay. I'm assuming the same is true
17 for --

18 **A. Yes.**

19 Q. -- external affairs?

20 **A. Yeah. We're not talking about just five**
21 **people.**

22 Q. And -- okay. So both OPC and Staff agree
23 that these particular positions should be excluded?

24 **A. So the Staff disallowed positions related**
25 **to the business development and the external affairs**

1 and public policy. And I will say that from Staff's
2 perspective, and again, they are free to come up here
3 and correct me if I get this wrong, they went by and
4 sort of went on a very, you know, person-by-person
5 basis. But I think ultimately they excluded the vast
6 majority from both of those two positions. They did
7 not exclude the investor relations; that's just OPC.

8 Q. Okay.

9 A. And I apologize in advance if I
10 miscommunicated that, but that was my understanding.

11 Q. That's okay. I'll ask them. But on
12 investor relations how -- and maybe I could just ask
13 your witness, but how do we treat this in other --
14 how have we treated this in other cases?

15 A. You know, I -- actually I do not know the
16 answer to that off the top of my head. I apologize.

17 Q. Would your witness know?

18 A. It would be worth asking her. I'm not
19 entirely sure though.

20 Q. I'm sure that all these companies have --
21 I know they have all investor relations, so I want to
22 understand that better.

23 A. The principle problem is I'm not sure if
24 my witness who is Angela Schaben has taken up this
25 issue before in other cases. So I would invite you

1 to ask Ms. Schaben, but I'm not entirely sure if this
2 is her forte.

3 Q. Okay. Because I do have other questions
4 about the investor relations descriptions and how it
5 compares to other investor relations descriptions
6 because this is highly focused on ESG which --

7 A. So the short answer I will give you is
8 that I was pulling from the data responses, and I
9 intend to put the entire data response in. To the
10 extent that there was something in there regarding
11 investor relations I missed, that may be the case,
12 and maybe there's more in there that I overlooked.
13 But once I put the entire thing in, you should be
14 able to see for yourself if there's something else
15 there that shouldn't be or another way it could be
16 handled if that makes sense.

17 CHAIR HAHN: Thank you.

18 JUDGE SEYER: Were there any other
19 questions?

20 MR. CLIZER: I'm guessing no other
21 questions.

22 JUDGE SEYER: No other questions.

23 MR. CLIZER: Okay.

24 JUDGE SEYER: Mr. Cooper, call your first
25 witness.

1 MR. COOPER: Thank you, your Honor. We
2 would call Mr. Patrick Baryenbruch.

3 JUDGE SEYER: Would you raise your right
4 hand please.

5 (Witness sworn.)

6 PATRICK BARYENBRUCH,
7 the witness, having been first duly sworn,
8 testified as follows:

9 JUDGE SEYER: Thank you. Go ahead,
10 Mr. Cooper.

11 MR. COOPER: Thank you.

12 DIRECT EXAMINATION

13 BY MR. COOPER:

14 Q. Mr. Baryenbruch, would you go ahead and
15 state your name for the record.

16 A. **Patrick Baryenbruch.**

17 Q. And by whom are you employed and in what
18 capacity?

19 A. **I work for myself, president of**
20 **Baryenbruch & Company, LLC.**

21 Q. And are you appearing today on behalf of
22 Missouri-American Water Company?

23 A. **Yes.**

24 Q. Have you caused to prepare -- caused to be
25 prepared for the purposes of this proceeding certain

1 direct testimony in question-and-answer form?

2 **A. I have.**

3 Q. Is it your understanding that that
4 testimony has been marked as Exhibit 1 for
5 identification?

6 **A. Yes.**

7 Q. Do you have any changes that you would
8 like to make to that testimony at this time?

9 **A. I have one change on page 16 of my direct
10 testimony, line 12. The number two, two positions
11 should be four positions. It's simply an inac --
12 it's just a reference change correction. It doesn't
13 impact any of the underlying data or cost
14 comparisons.**

15 Q. If I were to ask you the questions which
16 are contained in Exhibit 1 today as have now been
17 amended, would your answers be the same?

18 **A. Yes.**

19 Q. Are those answers true and correct to the
20 best of your information, knowledge, and belief?

21 **A. Yes.**

22 MR. COOPER: Your Honor, I would offer
23 Exhibit 1 at this time into evidence and tender the
24 witness for cross-examination.

25 JUDGE SEYER: Any objections to the

1 admission of Exhibit 1? All right. Exhibit 1 is
2 admitted.

3 (Company Exhibit 1 was admitted and made
4 a part of this record.)

5 JUDGE SEYER: Ms. Johnson, do you have
6 questions?

7 MS. JOHNSON: Apologies, Judge. No
8 cross, thank you.

9 MR. CLIZER: No cross, your Honor, thank
10 you.

11 JUDGE SEYER: Thank you, that's
12 Mr. Clizer. And I'm going to agree with Mr. Clizer
13 that most of the attorneys for the other parties are
14 no longer here. Oh, he left too. All right. But
15 just in case, are there -- is there any cross
16 examination by the other parties? All right.
17 Hearing none. Commissioner questions? Go ahead,
18 Chair Hahn.

19 QUESTIONS

20 BY CHAIR HAHN:

21 Q. Tell me about your investor re -- your
22 view of OPC's position on the investor relations
23 disallowance. In American Water's other
24 jurisdictions, how is investor relations treated
25 for -- in rate cases? Is it typically recovered or

1 not recovered?

2 A. Your Honor, that's not a topic I typically
3 cover in the rate cases. Generally it's covered by a
4 Company witness.

5 Q. Okay.

6 A. But I'm -- I'm glad you asked me about
7 that because in my report, I show if that function,
8 external relations, investor relations is performed
9 by the service company of other utility holding
10 companies. And if you are interested, it's in a
11 schedule in my testimony. It's schedule PLB-2,
12 page 14 of 44.

13 Q. Thank you.

14 A. And if you care to take a look at that,
15 it's a matrix that I built that shows, going down the
16 left-hand side, the functions that are provided by
17 service companies to their operating company
18 affiliates. And -- and then across the top are the
19 holding companies that have service companies that
20 provide services to the operating utilities operating
21 subsidiaries of these holding companies. And what I
22 do is I filled in the -- the matrix to indicate which
23 of these functions are performed by the service
24 companies in question in this comparison group. And
25 you can see that external affairs is -- is --

1 corporate, slash, external affairs is a service being
2 provided by the service companies of all the
3 utilities in this group. For investor relations, the
4 vast majority of service companies provide that
5 service to their operating utilities. There are a
6 few that don't, but I thought you might be interested
7 in that.

8 CHAIR HAHN: Thank you.

9 THE WITNESS: Okay.

10 JUDGE SEYER: Commissioner Coleman.

11 COMMISSIONER COLEMAN: Thank you, Judge.

12 QUESTIONS

13 BY COMMISSIONER COLEMAN:

14 Q. What's the source document that you used
15 and relied upon in Exhibit 1?

16 A. In --

17 Q. Relative to the American Water Works
18 Service, if I got that whole name straight. I can't
19 keep them -- American Water Works Service Company.

20 A. Yes. The --

21 JUDGE SEYER: Excuse me. If I may, I
22 believe you're referring, Commissioner, to the
23 witness's schedule PLB-2 Exhibit 1 which I believe
24 starts on page 11 --

25 COMMISSIONER COLEMAN: Okay.

1 JUDGE SEYER: -- of 44.

2 BY COMMISSIONER COLEMAN:

3 Q. Let me pull it up here on mine. In the
4 meantime, is that something you can offer any insight
5 into?

6 A. I'm sorry, your Honor. Are you talking
7 about the exhibit I was just --

8 Q. Yes.

9 A. Okay. Good. The source of that is the
10 FERC Form 60.

11 Q. That was Exhibit 1, right, that you were
12 referring to?

13 A. Let me --

14 Q. No?

15 A. -- just -- no.
16 Exhibit 1 is --

17 Q. Okay.

18 A. -- a different exhibit.

19 Q. Okay. Then the one you were just
20 referring to.

21 A. It's Exhibit 2.

22 Q. Okay.

23 A. The source of that is the FERC form 60.
24 It's an annual report that -- that utilities who are
25 subject to FERC regulations that have service

1 companies have to file with the FERC every -- every
2 year. And it's primarily a financial report, but
3 there is some operational, organizational-type
4 information, information on cost allocations. And
5 that's where I get the information from. I've -- I
6 rely on the FERC form 60 a great deal. It has some
7 very useful information I use for my comparisons.

8 COMMISSIONER COLEMAN: We're real familiar
9 with FERC. Thank you.

10 THE WITNESS: Okay.

11 COMMISSIONER COLEMAN: Thank you, Judge.

12 JUDGE SEYER: Commission Kolkmeyer.

13 COMMISSIONER KOLKMEYER: Yes. Thank you,
14 Judge.

15 QUESTIONS

16 BY COMMISSIONER KOLKMEYER:

17 Q. Good afternoon, sir.

18 A. Good afternoon.

19 Q. Thanks for your testimony today. How many
20 employees does the Company have in employee
21 relation -- investor relations?

22 A. Your Honor, I -- I don't know that number.
23 What -- what I deal with are primarily the dollars,
24 the dollars that are recorded on the books of
25 Missouri-American Water company, the charges. And

1 the head count, I'm not sure how that breaks down. I
2 never have to ask about that in conjunction with my
3 work.

4 Q. Okay. Is it all right to ask the dollars,
5 the dollar figure?

6 A. Let me check where I have that.

7 Q. Is that public -- is that public record --

8 A. Yeah. I --

9 Q. -- or confidential?

10 A. I have it in here, in my report. It's --
11 it's on page 21 of 44.

12 Q. Okay.

13 A. And what I've done is I break the -- the
14 charges from the service company down to the
15 functions that they're related to. And that's based
16 on the departments that are performing the work. And
17 if -- let me just describe what this -- what the
18 dollar amounts are for you.

19 Q. Okay.

20 A. External affairs was -- and again, these
21 the charges from the service company to Missouri-
22 American -- is around \$3,000 for 2023. Business
23 development was listed as 431,000 approximately.
24 External affairs -- I'm sorry, the amount I gave you
25 was from corporate. External affairs from both

1 corporate and regional offices is around 115,000.
2 Business development is approximately -- is
3 approximately \$435 -- 435,000. So those are the
4 amounts that -- of the total service company charges
5 that break down into those categories.

6 COMMISSIONER KOLKMEYER: Okay. Thank you,
7 sir. Thank you, Judge.

8 JUDGE SEYER: All right. I've got a few
9 questions kind of in that same neighborhood from your
10 prefiled testimony.

11 QUESTIONS

12 BY JUDGE SEYER:

13 Q. If we go to Exhibit 1 which is the
14 description of the service company services that
15 begins on page 11 of 44 of your schedule PLB-2, there
16 at the bottom, which would be on page 13 of 44 --
17 oops, yes, page 13 of 44, it cites the source as
18 American Water Works Service Company Cost Allocation
19 manual. Was there -- and that's correct?

20 A. Yes.

21 Q. Okay. Was -- did you supplement that?

22 A. No, I didn't. I used the description from
23 the Company. I thought this was of -- in sufficient
24 detail, and that's why I just used their description.

25 JUDGE SEYER: Okay. I don't believe I

1 have any further questions. All right. Does Staff
2 have any recross? Mr. Clizer?

3 MR. CLIZER: Yes.

4 RECROSS-EXAMINATION

5 BY MR. CLIZER:

6 Q. Good morning.

7 A. **Good morning. Afternoon.**

8 Q. Afternoon, I'm sorry. Force of habit. I
9 want to make sure I pronounce your name correctly.
10 Baryenbruch? How do I say that?

11 A. **Well, it's Baryenbruch.**

12 Q. Baryenbruch.

13 A. **Think of a bear in a brook.**

14 Q. Gotcha.

15 A. **I'm originally from northeast Wisconsin
16 where there are a lot of Germans and Poles and Czechs
17 immigrated through so everybody has a crazy name.**

18 Q. Baryenbruch?

19 A. **Baryenbruch.**

20 Q. All right. Thank you so much. Okay. So
21 kind of started off in response to a question posed
22 to you by Chair Hahn regarding the exhibit, this
23 page 14 where you had this table.

24 A. **Yes.**

25 Q. And I want to make sure. I think there

1 might be a breakdown in communication, so I want to
2 make sure this is clear. This table is showing that
3 these utilities provide that service. Correct?

4 **A. Yes.**

5 Q. But this table doesn't show that the --
6 who pays, whether it's ratepayers or shareholders who
7 pay for each of these utilities?

8 **A. No. It does not show that.**

9 Q. Right. And let's take lobbying as an
10 example. You would, I would assume, agree with me
11 that a shareholder would be okay with a utility
12 company lobbying to benefit itself. Right?

13 **A. I'm not the witness to ask that.**

14 Q. You know what --

15 **A. I've just -- I don't -- I typically don't**
16 **handle those specific type issues. I deal with**
17 **service company charges in toto and perform cost**
18 **comparisons that help the regulators and other**
19 **parties to the case put into perspective the -- the**
20 **charges from affiliates to the operating company.**
21 **But I typically don't drill down into specific**
22 **details associated with -- with the charges. That's**
23 **usually a company witness.**

24 MR. CLIZER: All right. That's perfectly
25 fair. I won't have any further questions then.

1 Thank you very much for your time, sir.

2 **THE WITNESS: Okay.**

3 JUDGE SEYER: Is there any recross by the
4 other parties? Redirect by the Company?

5 MR. COOPER: No, thank you, your Honor.

6 JUDGE SEYER: All right. All right.

7 Mr. Baryenbruch, thank you for your testimony.

8 Mr. Cooper, call your next witness.

9 MR. COOPER: We would call Manuel
10 Cifuentes.

11 JUDGE SEYER: Would you raise your right
12 hand please. Thank you.

13 (Witness sworn.)

14 MANUEL CIFUENTES JR.,
15 the witness, having been first duly sworn,
16 testified as follows:

17 JUDGE SEYER: All right. Thank you. Go
18 ahead, Mr. Cooper.

19 MR. COOPER: Thank you.

20 DIRECT EXAMINATION

21 BY MR. COOPER:

22 Q. Please state your name.

23 **A. My name is Manuel Cifuentes Jr.**

24 Q. And by whom are you employed and in what
25 capacity?

1 **A. I'm employed by American Water Service**
2 **Corporation. I am a senior principal regulatory**
3 **analyst.**

4 Q. And you're appearing today on behalf of
5 Missouri-American?

6 **A. That's correct.**

7 Q. Have you caused to be prepared for the
8 purposes of this proceeding certain direct testimony
9 and rebuttal/surrebuttal/sur-surrebuttal testimony in
10 question-and-answer form?

11 **A. Yes.**

12 Q. Is it your understanding that those two
13 pieces of testimony have been marked as Exhibits 6
14 and 7 for identification?

15 **A. Yes.**

16 Q. Do you have any changes that you would
17 like to make to that testimony at this time?

18 **A. Yes, I do. I have one correction to state**
19 **on page 15, line 9.**

20 Q. Of which -- of which piece of testimony?

21 **A. Of my rebuttal testimony.**

22 Q. Okay.

23 **A. It should state MAWC versus TAWC. And**
24 **that's all of the corrections I have.**

25 Q. If I were to ask you the questions that

1 are contained in Exhibit 6 and 7 today, would your
2 answers as now amended be the same?

3 **A. Yes.**

4 Q. And are those answers true and correct to
5 the best of your information, knowledge, and belief?

6 **A. Yes, that's correct.**

7 MR. COOPER: Your Honor, I would offer
8 Exhibits 6 and 7 into evidence and tender the witness
9 for cross-examination.

10 JUDGE SEYER: Are there any objections?
11 Exhibits 6 and 7 are admitted.

12 (Company Exhibits 6 and 7 were admitted
13 and made a part of this record.)

14 JUDGE SEYER: Ms. Johnson, any cross?

15 MS. JOHNSON: No cross from Staff, thank
16 you.

17 JUDGE SEYER: Mr. Clizer?

18 MR. CLIZER: No, thank you, your Honor.

19 JUDGE SEYER: Any other party have
20 questions on cross-examination? All right. Hearing
21 none. Do the commissioners have any questions? Yes,
22 Commissioner Coleman.

23 COMMISSIONER COLEMAN: Just one.

24 QUESTIONS

25 BY COMMISSIONER COLEMAN:

1 Q. In your rebuttal and surrebuttal/sur-
2 surrebuttal testimony you mention that the State of
3 Missouri has excluded lobbying expenses from this
4 rate case. Is that the case in all of the states
5 American Water is located in?

6 A. For Missouri-American Water I can state
7 that is the correct answer. And for the other
8 states, American Water does their best to make sure
9 that there's no lobbying expenses included for rate
10 recovery purposes.

11 COMMISSIONER COLEMAN: All right. Thank
12 you. Thank you, Judge.

13 JUDGE SEYER: Chair Hahn.

14 QUESTIONS

15 BY CHAIR HAHN:

16 Q. But it is -- is it correct that it is in
17 Missouri-American's request before us now to include
18 external affairs and public policy positions for rate
19 recovery? And that's, in fact, what Staff and OPC
20 are asking to exclude?

21 A. Chair Hahn, American Water has included
22 those positions pertaining to external affairs and
23 business development, but all lobbying expenses have
24 been excluded to the extent.

25 Q. So how did you bifurcate, for example, the

1 position for director of government and external
2 affairs for purposes of rate recovery if you say that
3 you're excluding lobbying? Part of that positions's
4 purpose is in-house lobbying. So how did you go
5 about bifurcating the amount that's external affairs
6 versus government affairs?

7 **A. Yes. Chair Hahn, in the preparation of**
8 **the case a detailed analysis was performed on a**
9 **general ledger based in looking at, reviewing a lot**
10 **of expenses and making sure that nothing pertaining**
11 **to lobbying or, you know, any sort of expenses that**
12 **would, you know, give the appearance that this is**
13 **not, you know, just and reasonable to be recovered**
14 **through rates. So the base year amount was used as**
15 **of 12/31/2023 and the analysts and the individuals**
16 **that reviewed the schedule made sure on a detailed**
17 **level to exclude any expenses that would, you know,**
18 **give the -- the appearance that it should not be**
19 **recovered.**

20 **Q. So an analysis was done somewhere and it**
21 **does have some calculation about this amount that**
22 **should be excluded and that wasn't asked for rate?**
23 **Like, I'm trying to understand.**

24 **A. Yes. I believe in one of our discovery**
25 **requests or one that was provided to either OPC or**

1 Staff we provided sort of a -- a detailed breakout
2 of all expenses for the historic test year or
3 the 12/31/2023 test year. Within that -- those
4 general ledger expense accounts items that would
5 typically be associated with lobbying would be
6 removed. So if, for instance, if we started out with
7 let's say \$20,000 and we noticed that this is
8 pertaining to lobbying or -- or a fee that should not
9 be included, it was removed immediately. And if
10 there's something missed, then obviously Staff -- I
11 mean obviously the Company would have adjusted that.

12 CHAIR HAHN: Okay. Thank you. I'll
13 follow up with Staff. Thank you.

14 JUDGE SEYER: Commissioner Kolkmeyer.

15 COMMISSIONER KOLKMEYER: Thank you,
16 Judge.

17 QUESTIONS

18 BY COMMISSIONER KOLKMEYER:

19 Q. So was investor relations included in that
20 as well? Was that questioned and removed?

21 A. In terms of the expenses pertaining to
22 lobbying?

23 Q. Yes.

24 A. Lobbying expenses were removed, but in
25 terms of -- I guess for the -- the position that

1 you're stating for investor relations?

2 Q. Yes.

3 A. The Company has included that since
4 it's -- we deemed it as prudent and recoverable for
5 this rate case.

6 Q. Okay. So I'll ask you the same question I
7 asked Baryenbruch.

8 A. Yes.

9 Q. How many employees does the Company employ
10 in investor relations?

11 A. I can say within my rebuttal testimony and
12 my attachment schedule, I believe it's MCJ, dash, 1,
13 there's a listing of employees that's -- that's
14 identified as investor relations. There's a total of
15 about maybe 38 employees within that -- that
16 attachment, but within that 38 there's a certain
17 number of investor relations that I do not have on
18 the top of my head, but it's in an attachment to
19 my -- my rebuttal schedule.

20 COMMISSIONER KOLKMEYER: Okay. Thank you.
21 Thank you, Judge.

22 JUDGE SEYER: All right. Any recross by
23 Staff?

24 MS. JOHNSON: Just one second, Judge.
25 No, Judge, nothing from Staff, thank you.

1 JUDGE SEYER: Public Counsel?

2 MR. CLIZER: Nothing from Public Counsel,
3 thank you.

4 JUDGE SEYER: Recross from any of the
5 other parties? All right. Mr. Cooper, redirect?

6 MR. COOPER: Thank you, your Honor.

7 REDIRECT EXAMINATION

8 BY MR. COOPER:

9 Q. Let's start with that last subject. You
10 had indicated that there would be approximately 38
11 employees related to investor relations. Correct?

12 **A. Correction. It was about 30 employees**
13 **that are identified in total by staff, but within**
14 **that 38 there's probably maybe 5 or so. But I don't**
15 **have that specific number. It's within the schedule.**

16 Q. Who else -- we were just kind of -- well,
17 let me get at it this way. Whatever employees there
18 are at the service company, their costs ultimately
19 are allocated amongst all of the operating companies.
20 Correct?

21 **A. Correct.**

22 Q. And let's go back to the -- to the
23 lobbying a little bit. I think you made some
24 statements that really before the Company filed this
25 case, that it went through costs and made its own

1 attempt at removing those expenses associated with
2 lobbying. Correct?

3 **A. Yes, that is correct.**

4 Q. And that could be a person's entire
5 salary, it could be a person's -- a portion of the
6 person's salary depending upon their duties. Would
7 that be accurate?

8 **A. Yes, that would be correct.**

9 Q. And if -- if you remember, and if not,
10 we'll ask one of the Staff witnesses either in this
11 issue or the next one, but to your knowledge, did
12 Staff agree with -- that the Company had removed
13 lobbying expense from this case?

14 **A. Yes, that is correct.**

15 Q. Okay. And then I think you also started
16 to talk about some of other positions that had been
17 removed initially by Staff. Correct?

18 **A. Yes.**

19 Q. And in your rebuttal testimony you have an
20 exhibit or a schedule, don't you, that represents a
21 data request response from Staff?

22 **A. Yes, that's correct. DR 265, our
23 schedule MCJ-1.**

24 Q. Okay. And what is the significance of
25 that schedule to this question?

1 **A.** **The significance of that schedule, it**
2 **shows that a line-by-line detail of the positions**
3 **that's been included or agreed upon with Staff up to**
4 **either including a hundred percent of the salaries or**
5 **up to a certain extent of the salaries.**

6 **Q.** **And did that DR response from Staff**
7 **represent movement from its last testimony position?**

8 **A.** **Yes, It has.**

9 **Q.** **Okay. In terms of investor relations, in**
10 **your testimony, you do allege that you believe that**
11 **it has been benefits for Missouri-American. Correct?**

12 **A.** **Yes, It does.**

13 **Q.** **And what are those benefits?**

14 **A.** **For investor relations, they -- they**
15 **comprise say, for instance, SEC compliance. They**
16 **also do sort of coordination with investors outside**
17 **of American Water. They help, you know, raise the --**
18 **raise -- I'm sorry. They mitigate or attract more**
19 **investors to the Company which ultimately lowers the**
20 **risk of the company which also helps lower the rates.**
21 **And in other ways, if it lowers the rates, it also**
22 **benefits the customer because customers benefit from**
23 **that. If there's lower rates, if -- you know, the**
24 **utility has a higher, I guess a higher profile.**

25 **Q.** **Well, let's get at it this way. They --**

1 they're largely in charge of working with the folks
2 that ultimately provide equity capital. Is that it?

3 **A. Yes, they do.**

4 MR. COOPER: That's all the questions I
5 have, your Honor.

6 JUDGE SEYER: All right.

7 MR. COOPER: I think we're finished with
8 this witness, your Honor. Are we -- or are there
9 more things going on at the bench?

10 JUDGE SEYER: We are finished with this
11 witness.

12 MR. COOPER: Okay.

13 JUDGE SEYER: Thank you, sir.

14 **THE WITNESS: Thank you, Commissioners.**
15 **Thank you, Judge. Thank you, Chair.**

16 JUDGE SEYER: And looking at the schedule
17 my understanding is that there are no further
18 witnesses from the Company on this issue.

19 MR. COOPER: That is correct.

20 JUDGE SEYER: Then let's go ahead with
21 Staff's first witness.

22 MS. JOHNSON: Thank you, Judge. We'll
23 call Ashley Sarver.

24 JUDGE SEYER: Ms. Sarver, you have your
25 right hand raised. Thank you.

1 (Witness sworn.)

2 ASHLEY SARVER,

3 the witness, having been first duly sworn,

4 testified as follows:

5 JUDGE SEYER: Thank you. Go ahead.

6 MS. JOHNSON: Thank you, Judge.

7 DIRECT EXAMINATION

8 BY MS. JOHNSON:

9 Q. Good afternoon, Ashley. Can you state and
10 spell your name for the record please.

11 A. I'm Ashley, A-s-h-l-e-y, Sarver,
12 S-a-r-v-e-r.

13 Q. And by whom and in what capacity are you
14 employed?

15 A. Missouri Public Service Commission,
16 utility regulatory audit supervisor.

17 Q. And are you the same Ashley Sarver who
18 caused to be filed certain testimony in this case
19 specifically marked as Staff's Exhibit 212 and 225?

20 A. Yes.

21 Q. Do you have any changes or corrections to
22 your filed testimony?

23 A. No.

24 Q. If you were asked the same questions
25 that's in that testimony today, would your answers be

1 the same or substantially similar?

2 **A. Yes.**

3 Q. And they're correct to the truest and best
4 of your knowledge and ability?

5 **A. Yes.**

6 MS. JOHNSON: At this time I'd moved to
7 admit Exhibits 212 and 225. Neither one of them have
8 confidential or highly confidential designation.

9 JUDGE SEYER: All right. Are there any
10 objections to the admission of Exhibit 212 and 225?
11 All right. Those two exhibits are admitted.

12 (Staff Exhibits 212 and 225 were admitted
13 and made a part of this record.)

14 MS. JOHNSON: Thank you, Judge. We
15 consider this witness tendered for cross.

16 JUDGE SEYER: All right. Mr. Cooper, do
17 you have questions on cross-examination?

18 MR. COOPER: I do not.

19 JUDGE SEYER: Public Counsel?

20 MR. CLIZER: Yes, your Honor.

21 CROSS-EXAMINATION

22 BY MR. CLIZER:

23 Q. And I'll start by marking two exhibits
24 which should be I believe 316 and 317. There's one.
25 There's two.

1 **A. Can I say something?**

2 Q. Uh-huh.

3 **A. I'm not the person for labor. You have**
4 **labor questions or incentive comp questions?**

5 Q. Well, I'm going to just try and get them
6 through here. There's no real question on it other
7 than laying the foundation for -- it's a Staff DR, so
8 I'm just going to put it in now.

9 Okay. Good afternoon. I got it right
10 that time.

11 **A. Yes.**

12 Q. Staff issues a lot of DRs in these cases.
13 Right?

14 **A. Correct.**

15 Q. Right. So I've handed out what should be
16 a copy of the Staff-issued DRs 0243 and 0243.1 or
17 rather the Company's response to those two DRS.
18 Would you agree with me that that's what those are?

19 **A. That's what it looks like.**

20 Q. And you would agree with me that, you
21 know, that as far as 0243 goes, the response mentions
22 an attachment, and the remainder of what I've handed
23 you is the Excel file, purports to be the Excel file
24 attached to the Company response?

25 **A. This is, but I'm not the person that did**

1 **the payroll part of it.**

2 MR. CLIZER: I'm going to still go ahead
3 and move for the admittance. It's effectively a
4 Staff DR. And if necessary, I can wait for another
5 Staff witness take the stand for it, but hopefully
6 there's not objection to a Staff DR.

7 JUDGE SEYER: Just so I have them
8 straight, would DR 0243 be Exhibit 316?

9 MR. CLIZER: That's -- yes.

10 JUDGE SEYER: Okay. And then 0243.1
11 would be 317. Correct?

12 MR. CLIZER: Yes.

13 JUDGE SEYER: Okay. Is there any
14 objection to those being admitted?

15 MR. COOPER: I --

16 JUDGE SEYER: Mr. Cooper.

17 MR. COOPER: Maybe not. I guess I'm a
18 little curious why Ms. Sarver's being used to put
19 them in since Mr. Cifuentes provided the underlying
20 information.

21 MR. CLIZER: That's actually a good
22 point. I thought that I would use the Staff because
23 it was a Staff DR. I mean, if you want to have him
24 retake the stand and confirm that those are his
25 responses, I guess -- I'm not asking any additional

1 questions other than laying the foundation for their
2 admittance.

3 MR. COOPER: For their admission.

4 MR. CLIZER: Yeah.

5 MR. COOPER: We're okay, your Honor.

6 JUDGE SEYER: All right. Then
7 Exhibits 316 and 317 are admitted.

8 (Staff Exhibits 316 and 317 were admitted
9 and made a part of this record.)

10 MR. CLIZER: And as I already said, I'm
11 not asking about those. They will speak for
12 themselves in the briefing.

13 BY MR. CLIZER:

14 Q. All right. It's Ms. Sarver. Right?

15 **A. That's correct.**

16 Q. Okay. I'm very bad with names, so. I
17 want to have an understanding of how exactly Staff
18 performed the functions with regard to business
19 development and the external affairs department. So
20 it's my understanding, I want you to correct me if I
21 get this wrong, that Staff went through sort of
22 person by person with regard to the business
23 development and either excluded or included costs
24 related to each person's payroll. Is that accurate?

25 **A. I'm sorry to tell you but Sherrye Lesmes,**

1 the next person up, would be the person that does
2 payroll.

3 Q. Okay.

4 A. And then Angela Niemeier is the incentive
5 comp.

6 Q. Is she coming up for this issue? And the
7 reason we have this -- like, the labor relations is
8 next.

9 A. Labor relations is next, they'll be coming
10 up.

11 Q. Okay. Bit of an awkward situation.

12 I'm sorry, Judge, give me one second here.

13 I guess I'll just ask this: With regard
14 to the question of lobbying expense that's been
15 brought up, you would agree with me that there's
16 lobbying expenses that are incurred that aren't
17 directly related to payroll which are sort of
18 incurred separately for the Company?

19 A. Yes.

20 Q. Right.

21 A. Generally, yes.

22 Q. So it's impossible for the Company to
23 exclude payroll -- sorry -- to exclude lobbying
24 expenses that wouldn't necessarily mean excluding
25 payroll costs associated with individuals working to

1 service the Company who was potentially performing
2 lobbying functions?

3 **A. Can you restate that question again?**

4 Q. You would agree with me that it's possible
5 that the Company might have excluded lobbying
6 expenses but didn't exclude payroll expense
7 associated with individuals who might be performing
8 lobbying functions working for the shared services
9 company?

10 **A. I think I'm going to have to defer that**
11 **question to Sherrye. Sorry.**

12 MR. CLIZER: No, that's okay. So I'm okay
13 basically not asking any further questions on this
14 issue with the clear understanding that as Sherrye
15 comes up for the, I think Labor and Relations portion
16 of it, I will be asking issues germane to this
17 subject, if that makes sense. I think there was just
18 a, maybe a bit of a -- skewed in the way that we kind
19 of drafted the list of issues. But clearly I'm being
20 redirected on these issues, so I would like to
21 address these same kind of questions to the witness
22 I'm being directed to which is as I'm going to take
23 it, take the stand in relationship to the next issue.
24 If that's acceptable, then I have no further
25 questions at this time.

1 JUDGE SEYER: Okay. It is. And I do
2 have some questions myself though.

3 MR. CLIZER: Go right ahead.

4 JUDGE SEYER: All right.

5 QUESTIONS

6 BY JUDGE SEYER:

7 Q. I'm going to direct your attention to your
8 direct, slash, rebuttal testimony.

9 **A. Yes.**

10 Q. Beginning on page 7. What -- and correct
11 me if I'm wrong about this, but to me this pages 7
12 through 10 really are explanations of the allocation
13 of the parent company, Missouri Water Works -- or not
14 the parent company, but the services company
15 allocation of its costs to its affiliates. Is that
16 --

17 **A. More the background information, yes.**

18 Q. Okay. On page -- on page 10, on page 10
19 you state, Staff is not proposing any changes to
20 American Water Work Company's method for allocating
21 the service company's expenses to Missouri-American.
22 However, other Staff witnesses have recommended
23 adjustments to some service company costs allocated
24 to Missouri-American which are addressed in their
25 direct, slash, rebuttal testimony.

1 Can you provide a list of the adjustments,
2 adjustment amounts of other Staff witnesses and the
3 USOA accounts, the adjustment's effect? Is that
4 possible?

5 **A. Yes. We can get that information for you.**

6 Q. Okay. I'm going to shift gears a little
7 bit and ask you a few questions about reconciliation.

8 **A. Uh-huh.**

9 Q. And now the reconciliation filed by Staff
10 shows a difference from Missouri-American support
11 services cost of 11.5 million. Do you know what
12 adjustments Staff made that make up that \$11.5
13 million difference?

14 **A. Is that the May 31st, 2025? It looks like**
15 **it is.**

16 Q. Okay.

17 **A. Yes. We can get that information to you.**
18 **We have it. It's -- I mean, we can get that**
19 **information to you if you would like it to be broke**
20 **down even more.**

21 Q. All right. Do you have that
22 reconciliation in front of you, the one that was
23 filed on the -- I'm sorry, filed on February 11th?

24 **A. Yes, I do.**

25 Q. Okay. It includes a heading in the -- I

1 need probably need to get that in front of me myself,
2 so give me a second to try to get that accomplished.
3 There's a heading Reconciliation
4 Cross-rebuttal/surrebuttal. Or actually this is in
5 the reconciliation cross-rebuttal/surrebuttal filing.
6 There is -- well, there is the one that has
7 December 31st, 2024 date and then there's the
8 May 31st, 2025 date. From what filings did Staff
9 pull the Missouri-American amounts used in the
10 reconciliation?

11 **A. We -- for Missouri-American numbers?**

12 **Q. Yes.**

13 **A. That came from their -- from their work**
14 **papers. The -- I'm trying to think. The true-up**
15 **direct work papers had these numbers in there.**

16 **Q. And where did the Staff amounts come from?**

17 **A. The EMS run that we provided in EFIS on**
18 **February 18th.**

19 **Q. Okay. Are they -- are the Staff amounts**
20 **used in reconciliation based on 12/31/23 at the end**
21 **of the test year; 6/30/24, the end of the update**
22 **period; or 12/31/24, the end of the true-up period?**

23 **A. I'm just checking my dates. It looks like**
24 **this one because I know we -- this one I believe, but**
25 **I'd like to check with Amanda McMellen too. I think**

1 **it's supposed to be 6/30/2024.**

2 Q. Okay.

3 **A. So it would be our update period.**

4 Q. Okay. I'd like to now kind of redirect
5 you to what actually -- let's see -- what OPC
6 actually filed as their reconciliation on
7 February 14th. In that document, and it includes
8 both Staff and OPC amounts, if -- if there are
9 figures in that document that are the same between
10 OPC and Staff, is that because OPC's position
11 statement filed on February 21st where they generally
12 agree with your positions?

13 **A. We got these numbers from OPC.**

14 Q. Okay.

15 **A. So, yes.**

16 Q. Okay. Were there any other filings where
17 you pulled the OPC amounts?

18 **A. They provided it to us and then we just
19 enter their numbers.**

20 JUDGE SEYER: Gotcha. All right. Those
21 are the only questions I had. Yes, Chair Hahn.

22 QUESTIONS

23 BY CHAIR HAHN:

24 Q. Hi. Good afternoon, Ms. Sarver.

25 **A. Yes.**

1 Q. Other companies have investor relations
2 teams. How have investor relations been recovered in
3 other cases? Have they ever been disallowed as
4 suggested here?

5 A. I didn't do this case with Missouri-
6 American, but I'm going to give you a general view.
7 I believe from what I've done payroll, I've noticed
8 we have not excluded, but.

9 Q. Have you ever compared the job
10 description -- have -- just when you've reviewed
11 investor relations in the past, these data requests
12 were by Staff on job descriptions and they do seem
13 heavily tilted toward ESG. Is that common amongst
14 other investor relations' job descriptions from other
15 utilities?

16 A. I -- I don't know.

17 CHAIR HAHN: Uh-huh. Okay. Thank you.

18 JUDGE SEYER: All right. Commissioner
19 Kolkmeier.

20 COMMISSIONER KOLKMEYER: Thank you,
21 Judge.

22 QUESTIONS

23 BY COMMISSIONER KOLKMEYER:

24 Q. I'm somewhat confused. I'm hoping you can
25 help me. Mr. Cifuentes, he said that the lobbying

1 was not included and Mr. Clizer says it is.

2 **A. Sherrye Lesmes would be better on this,**
3 **but I do -- in their testimony Missouri-American did**
4 **they say that they did remove all lobbying expense.**

5 Q. Okay. So --

6 **A. From my understanding.**

7 Q. So do you consider lobbying the external
8 affairs and public policy?

9 **A. You have to ask Sherrye Lesmes.**

10 Q. Okay. So was business development left in
11 in your calculations?

12 **A. In this case?**

13 Q. Yes.

14 **A. For payroll or for expense?**

15 Q. Yes. D, all the above.

16 **A. All the above. On my -- I did remove some**
17 **business ex -- or I did remove business expense.**
18 **This is not -- it's not related to payroll though.**

19 Q. Okay. What about investor relations?

20 **A. We did not. I did not on -- on the**
21 **expense side.**

22 Q. Okay. And maybe you can answer this. How
23 does other state PSC's treat these three items,
24 categories that we're talking about right now, do you
25 know?

1 **A. I know it's a case by case. I don't know.**
2 **Like on my -- in my past of doing payroll, we always**
3 **look on it case by case.**

4 COMMISSIONER KOLKMEYER: Okay. Thank you.
5 Thank you, judge.

6 JUDGE SEYER: All right. Mr. Cooper, do
7 you have recross?

8 MR. COOPER: I do not.

9 JUDGE SEYER: All right.

10 MR. CLIZER: I'm going to try very
11 briefly here.

12 REXCROSS-EXAMINATION

13 BY MR. CLIZER:

14 Q. I've been pondering this and I think I've
15 got it maybe worked out a little bit here. So you
16 worked on the business expense side, but not the
17 payroll side. That's how there was -- is that
18 accurate?

19 **A. I did the business expense, I removed that**
20 **from the support services but not related to payroll.**

21 Q. And as you're using that term right now
22 for the sake of the record, what exactly does the
23 term "business expense" mean so we're all on the same
24 page?

25 **A. Yes. They have some business -- in one of**

1 their work papers they have business development, an
2 expense, for example, like in vehicle -- in
3 insurance, vehicle, training, cell phones, and stuff
4 like that. So I removed the expenses in those.

5 Q. Let me -- look, I'm -- I'm really
6 struggling to understand. So I'm looking at a high,
7 high level. What exactly is a business expense that
8 is different from payroll? Like is it paper, like
9 pens? Like what does -- can you give me an example
10 of what constitutes a business expense?

11 A. On this work paper, so to me it would --
12 it is if it -- if it pertains to business development
13 like employees, like if they would use books,
14 software, then they labeled it underneath business
15 development.

16 Q. Okay. Is it accurate to say that the
17 things that you're removing as they relate to
18 business expense are basically the allocation of all
19 of the tools other than human resource -- like other
20 than actual human capital, like basically the rent
21 space, computer programs, if a vehicle is used for
22 example, are those all the things that we're putting
23 under the category of business expense?

24 A. Business development expense.

25 Q. Okay. I think I'm getting this. I'm

1 trying. So it is my understanding that you have
2 developed a work paper that supports your
3 recommendations. Correct?

4 **A. Correct.**

5 Q. And this goes directly to -- you know,
6 Judge, you asked if there was a more definitive
7 breakdown I think; that was kind of one of the
8 questions that was posed by the Bench.

9 Is it accurate to say that that work paper
10 would give a more definitive breakdown of the
11 exclusions that you made?

12 **A. I made, but it's not going to cover all of**
13 **support services.**

14 Q. Okay. All right. But as far as the,
15 again, quote, unquote, business expenses, we can look
16 to that work paper and you can -- that would show
17 where you made deductions from the Company's case for
18 the exclusion of business expenses related to items
19 that you felt should not be included?

20 **A. That is correct. For the accounts. I**
21 **have the accounts in it, yes.**

22 Q. Okay. You had mentioned in response to
23 the judge's bench question about Staff providing
24 something. This is a bit unorthodox I understand.

25 Does Staff want to weigh in on how exactly

1 we propose doing that?

2 MS. JOHNSON: It's my understanding that
3 we would just submit the documentation that supports
4 her work papers and the creation of that. So it's an
5 Excel document that shows some of the changes that
6 were made.

7 MR. CLIZER: And is the Bench has -- the
8 Bench formally requested that?

9 JUDGE SEYER: Not formally, no.

10 MR. CLIZER: Okay. Was the Bench
11 intending to?

12 JUDGE SEYER: Yes, we -- we would very
13 much like that document.

14 MR. CLIZER: Okay. Then I will -- I will
15 pause that line of reasoning then and hope it gets
16 settled. And just -- nope. I'm going to leave it
17 there before I create an ever larger mess. I have no
18 further recross.

19 JUDGE SEYER: Any redirect?

20 MS. JOHNSON: Yes, please, just one. I
21 hope it'll help in addition to the documentation that
22 we'll provide.

23 REDIRECT EXAMINATION

24 BY MS. JOHNSON:

25 Q. So I want to be really clear that the

1 category is business development expense, the
2 development of the expense -- I mean of the business.
3 Correct?

4 **A. The one that I sponsored is the business**
5 **development expense. Anything related to business**
6 **development expense. It's just a small portion of**
7 **the support services. Supports services has many**
8 **accounts in there which includes payroll, incentive**
9 **comp.**

10 Q. So you -- we are not talking about what
11 sounds like a very broad category of businesses
12 expenses generally?

13 **A. No, not -- it's just business development**
14 **expense.**

15 Q. Okay. And in the category of business
16 development expenses, what did you exclude?

17 **A. Books, publications, software, employees,**
18 **yeah, insurance, training, transportation. Just a**
19 **few examples. That's probably most of them.**

20 Q. And what are these exclusions based on?
21 What's the underlying reasoning for those?

22 **A. Because business development employees are**
23 **being either removed or a portion of their salaries**
24 **are being removed. So we wanted to, on support**
25 **services, to make sure that we align with what they**

1 **did with the -- with payroll and the other expenses**
2 **pertaining to business development employees.**

3 Q. So truing up the two categories?

4 **A. Yes.**

5 MS. JOHNSON: Okay. That's all.

6 JUDGE SEYER: All right. And as far as
7 that breakdown, that work paper?

8 MS. JOHNSON: Yes. We can provide that.

9 JUDGE SEYER: All right. Okay. Thank
10 you, Ms. Sarver.

11 **THE WITNESS: Yep, thank you.**

12 JUDGE SEYER: And that's your only
13 witness on this topic, correct, this issue?

14 MS. JOHNSON: Yes, that's correct.

15 JUDGE SEYER: All right. And according
16 to the schedule, OPC -- OPC's witness is set to
17 testify.

18 MR. CLIZER: Yes. We would call Angela
19 Schaben.

20 JUDGE SEYER: Thank you. Is it Schaben
21 or Schaben?

22 MS. SCHABEN: It is Schaben.

23 JUDGE SEYER: Schaben. Okay. Would you
24 raise your right hand please.

25 (Witness sworn.)

1 ANGELA SCHABEN,
2 the witness, having been first duly sworn,
3 testified as follows:

4 JUDGE SEYER: All right. Thank you.

5 **THE WITNESS: Thank you.**

6 DIRECT EXAMINATION

7 BY MR. CLIZER:

8 Q. All right. Can you state and spell your
9 name for the court reporter.

10 **A. Angela Schaben, A-n-g-e-l-a, S-c-h-a-b as**
11 **in boy -e-n.**

12 Q. And by whom are you employed and in what
13 capacity?

14 **A. The Missouri Office of the Public Counsel**
15 **as a utility regulatory auditor.**

16 Q. And did you -- and did you prepare or
17 cause to be prepared testimony which has been
18 prefiled, OPC Exhibits 302, the direct/rebuttal
19 and 303 for the cross-rebuttal?

20 **A. Yes.**

21 Q. Do you have any changes you would like to
22 make to that testimony at this time?

23 **A. No.**

24 Q. And are the answers in those -- provided
25 in that testimony true and correct to the best of

1 your knowledge and belief?

2 **A. Yes.**

3 Q. And if I asked you the same questions
4 contained in that testimony today, would your answers
5 today be the same or substantially similar?

6 **A. Yes.**

7 MR. CLIZER: All right. Thank you. I
8 would move for the admission of 302 and 303 which is
9 respectfully -- respectively the direct/rebuttal
10 testimony of Angela Schaben, public and confidential,
11 and the cross-rebuttal testimony.

12 JUDGE SEYER: Any objections? All
13 right. 302 both public and confidential and 303 are
14 admitted.

15 (OPC Exhibits 302 and 303 were admitted
16 and made a part of this record.)

17 MR. CLIZER: I tender the witness for
18 cross-examination.

19 JUDGE SEYER: All right. Staff? No
20 cross-examination. The Company?

21 MR. COOPER: No questions.

22 JUDGE SEYER: All right. Any questions
23 from the commissioners?

24 CHAIR HAHN: Yes, thank you.

25 QUESTIONS

1 BY CHAIR HAHN:

2 Q. Ms. Schaben.

3 **A. Hello.**

4 Q. So I want to better understand OPC's
5 position based upon the opening from Mr. Clizer. We
6 were handed a -- several documents really, but at the
7 bottom of the opening document, it -- I'll just kind
8 of show you the picture. It has a chart and talks
9 about investor relations and it talks about the job
10 descriptions.

11 **A. Uh-huh. Yes.**

12 Q. The -- there's a paragraph at the very end
13 that says, Reason this primarily benefits
14 shareholders not customers which is -- there's a
15 discussion over ESG and it says, ESG schemes have
16 historically been driven by a vocal minority of
17 investors. The value of these initiatives are both
18 highly controversial and appear to be rapidly falling
19 out of favor in the current political environment.

20 Is that OPC's rationale for the exclusion
21 of investor relations, or is it also based on that it
22 doesn't have customer benefit?

23 **A. It's mostly that it does not have customer
24 benefit. Like, I don't see how these positions are
25 required to provide safe and adequate service at a**

1 **reasonable rate.**

2 Q. And is the only difference -- I just want
3 to make sure I understand. The only difference
4 between OPC's position and Staff's position is this
5 exclusion?

6 **A. Yes. This drives --**

7 Q. This particular --

8 **A. Yes.**

9 Q. -- exclusion on investor relations. Is
10 that right?

11 **A. That's true, uh-huh.**

12 CHAIR HAHN: Okay. That's all.

13 JUDGE SEYER: Commission Kolkmeyer.

14 COMMISSIONER KOLKMEYER: Yes. Thank you,
15 Judge.

16 QUESTIONS

17 BY COMMISSIONER KOLKMEYER:

18 Q. I was under the impression that -- good
19 afternoon, I'm sorry.

20 **A. Hello.**

21 Q. Started right off firing. I was under the
22 impression with Mr. Clizer's testimony that these
23 three items which are business development, external
24 affairs and public policy, and investor relations are
25 still included in here.

1 **A. There's a Staff adjustment related to the**
2 **business --**

3 Q. The business -- the business side of it.

4 **A. And -- and the external affairs and public**
5 **policy. The major difference between us, our**
6 **positions is the investor relations part.**

7 Q. Is just that one item?

8 **A. Uh-huh.**

9 COMMISSIONER KOLKMEYER: Okay. I'm
10 thinking whether I want to ask another question, but
11 I think I'll quit there. Thank you. Thank you,
12 Judge.

13 JUDGE SEYER: I've got a few questions
14 myself.

15 QUESTIONS

16 BY JUDGE SEYER:

17 Q. Missouri -- or I'm sorry, American Water
18 Works Company, Missouri-American's parent company,
19 are they required to prepare and distribute company
20 and fiduciary information to current and potential
21 holders of its financial securities, if you can
22 answer that question?

23 **A. That's a great question. That sounds more**
24 **like a Dave Murray question though. I don't know.**

25 Q. That's fair enough. All right. I'm going

1 to direct you to your direct testimony on page 19.

2 **A. Okay.**

3 Q. On line -- beginning on line 15.

4 **A. Does that start with, Additionally these**
5 **are costs?**

6 Q. Actually the sentence I'm going to ask you
7 about, it states, The external affairs, slash, public
8 policy costs incurred from the external affairs
9 department could range from charitable foundation
10 programs to lobbying and maintaining relationships
11 with government officials.

12 Were you able to review details of the
13 charges to distinguish specific lobbying or
14 charitable program costs?

15 **A. I reviewed, I can't recall the number of**
16 **the Staff DR, but I did go through Staff DRs that**
17 **asked for these expenditures and I reviewed those.**

18 Q. Okay.

19 **A. There are DRs out there. I just off the**
20 **top of my head cannot remember them.**

21 Q. And again, if you -- if you recall, what
22 USOA, uniform system of accounts -- accounts are your
23 adjustments to eliminate these American Water Works
24 Service Company costs posted to?

25 **A. That's a great question. I have an**

1 account in mind, but I don't know if I want to say it
2 in case it's wrong, you know what I mean. I --

3 Q. So you're not going to take the leap, huh?

4 A. Well, I mean, maybe 920. I -- maybe.

5 JUDGE SEYER: All right. Fair enough.

6 Those are my only questions. So does Staff have any
7 recross?

8 MS. JOHNSON: Just a few short follow
9 ups, please.

10 RECROSS-EXAMINATION

11 BY MS. JOHNSON:

12 Q. Hi, Ms. Schaben.

13 A. Hello.

14 Q. Okay. I want to make some clarifications
15 about the three categories and the difference between
16 Staff and OPC because I think that we may have gone
17 down a road and there's some confusion now and I want
18 to be clear.

19 A. Okay.

20 Q. So in the categories -- let's back up.
21 The categories are business development, external
22 affairs and public policy, and investor relations.
23 Is that correct?

24 A. That is correct.

25 Q. Okay. And which of those three categories

1 is OPC suggesting that the costs be removed for
2 entirely?

3 **A. Investor relations definitely and also the**
4 **other two, but as I was going through a lot of stuff,**
5 **work papers to determine the difference in our**
6 **adjustments and realized that a lot of the business**
7 **development and the external and governmental affairs**
8 **were already adjusted out. But the -- the major --**
9 **so the major difference is the investor relations**
10 **where Staff had no major adjustments.**

11 Q. Okay. So for business development and
12 external affairs and public policy, you mentioned in
13 response to one of the Commission questions that
14 Staff had adjustments to those. That doesn't involve
15 the removal of the entire category though. Right?

16 **A. Not the entire category.**

17 Q. And is the OPC's position that these two
18 categories, business development and external affairs
19 and public policy, should be disallowed to a greater
20 portion or -- than Staff or altogether?

21 **A. A greater portion than Staff. Well, to**
22 **the extent, altogether.**

23 Q. Okay. So would you agree with me that
24 there's a distinction here specifically in business
25 development and external affairs and public policy

1 between OPC's position and Staff's position that OPC
2 is saying they should be disallowed entirely and
3 Staff is making adjustments to them while allowing
4 some of those expenses to remain?

5 **A. Yes.**

6 MS. JOHNSON: Okay. I think that's all
7 for us.

8 JUDGE SEYER: All right. Mr. Cooper?

9 MR. COOPER: No questions, your Honor.

10 JUDGE SEYER: All right. And,
11 Mr. Clizer, any redirect?

12 REDIRECT EXAMINATION

13 BY MR. CLIZER:

14 Q. I think Staff counsel might have already
15 done this, but just to put some suspenders, going to
16 make sure we're very clear on this. The Company's
17 position in this case is to maintain all three of
18 these in costs. The Staff's position is to make
19 discrete adjustments to the business development and
20 the external affairs. And the OPC position is to
21 remove the entirety of all three categories. Is that
22 accurate?

23 **A. Yes.**

24 Q. Okay. So hopefully that cleared that up.
25 And then the only other thing is with regard to the

1 question just posed to you by Staff counsel, do you
2 have a rough -- rough estimation of about what
3 percentage of the business development or -- and the
4 external affairs was removed by Staff to the discrete
5 adjustments? Just an overall percentage of the cost
6 included.

7 **A. Well, I was going by the amounts that the**
8 **Company included in their case, so, which is on**
9 **page 18 of my direct testimony. And when I looked at**
10 **Staff adjustments like in business development, from**
11 **what I could see from Ashley's work paper, it's very**
12 **similar in my recommendation for the disallowance**
13 **there.**

14 **Q. So to be clear, you believe that Staff,**
15 **while it has made discrete adjustments on sort of**
16 **line-by-line basis, they have excluded the majority**
17 **of it. Is that accurate?**

18 **A. Yes. It -- from what I reviewed, their**
19 **adjustments were similar to what I had listed in**
20 **direct.**

21 **MR. CLIZER: All right. I have no further**
22 **redirect. Thank you.**

23 **JUDGE SEYER: All right. Thank you**
24 **Ms. Schaben.**

25 **THE WITNESS: Thank you.**

1 JUDGE SEYER: You may step down. Let's
2 go ahead and take a break and reconvene at 3:15.
3 Going off the record.

4 (Off the record.)

5 JUDGE SEYER: Let's go back on record.
6 We are now moving on to the issue of Labor and
7 Related. And we have new Staff counsel. If you
8 could enter your appearances.

9 MR. JOHNSON: Mark Johnson on behalf of
10 Staff counsel.

11 MS. HANSEN: Andrea Hansen on behalf of
12 Staff counsel.

13 JUDGE SEYER: And do the parties wish to
14 present opening statements on this issue?

15 MR. COOPER: Yes, your Honor.

16 MS. HANSEN: Yes, your Honor.

17 JUDGE SEYER: Mr. Cooper, I'm going to
18 lead off with you then.

19 MR. COOPER: Thank you, your Honor. I'm
20 afraid as we've all kind of talked about the last
21 hour, hour and a half or so that we're -- some of the
22 things we've talked about in the Support Services
23 section is going to bounce back up here and perhaps
24 make a little more sense, but I think a lot of this
25 is still going to kind of wind its way back and forth

1 amongst a variety of issues as we move forward.

2 But Labor and Related specifically has
3 six sub issues as of the issues list. Subpart D,
4 employee benefits, pensions, and OPEBs. That is a
5 part of the stipulation and agreement that has been
6 filed already. So I don't -- hopefully that will not
7 be a live issue. I don't view it as a live issue
8 today. Additionally, payroll taxes and employee
9 benefits, 6C and 6F I would view as largely roll-out
10 issues meaning once we decide what the appropriate
11 payroll is, we're going to do some math. There's
12 also some discrete adjustment piece that's built in
13 there, but again, those are things that would be
14 decided elsewhere.

15 That leaves us with most prominently --
16 well, three things: Performance compensation,
17 payroll, and the labor capitalization. MAWC takes
18 the position that a hundred percent of the
19 performance compensation should be included in its
20 cost to service. The Company offers compensation
21 that has allowed it to attract and retain customer-
22 committed, dedicated, and highly-qualified employees.
23 The Company's overall compensation philosophy is to
24 provide employees with a total compensation package
25 that is market based and competitive with those of

1 comparable organizations with jobs of similar
2 responsibility.

3 As part of its compensation philosophy,
4 the Company has chosen to place a portion of its
5 compensation at risk driving continued performance
6 across the enterprise. Specifically the Company
7 targets its total direct compensation inclusive of
8 base and at-risk compensation for each role near the
9 market median, the 50th percentile. By using a
10 combination of fixed base and at-risk compensation,
11 the Company ensures competitive market-based
12 compensation for all employees while continuing to
13 motivate employees to achieve goals that will improve
14 performance and efficiency for the benefit of
15 customers.

16 Our first witness on this issue will be
17 Mr. Mustich who has performed an analysis, and he has
18 concluded that Missouri-American Water's compensation
19 philosophy and performance compensation plan design
20 are in accord with utilities specifically and
21 industry generally and that the levels of total
22 direct compensation are reasonable and consistent
23 with market-based total compensation levels both on a
24 regional and national level, albeit at levels
25 slightly below the market median.

1 Employee compensation in the Company's
2 view is a cost of providing utility service, not
3 unlike any other prudently incurred cost of service
4 recoverable in rates. Employee compensation must
5 therefore be assessed, we think, through the same
6 lens as other elements of the cost of service. That
7 is that because the total direct compensation expense
8 is reasonably and prudently incurred, it should be
9 recoverable like any number of other costs within
10 this case.

11 There is a, sort of a side issue within
12 the performance compensation subject and that relates
13 to a statute that's particular to the state of
14 Missouri, section 386.315.1 which provides that in
15 establishing public utility rates, the Commission
16 shall not reduce or otherwise change any wage, rate,
17 benefit, working condition, or other term or
18 condition of employment that is the subject of a
19 collective bargaining agreement between the public
20 utility and a labor organization.

21 Staff has taken the position that there
22 should be a hundred percent allowance of the annual
23 performance plan amounts paid to union employees
24 because those are paid in accordance with the
25 national benefits agreement. Missouri-American

1 agrees that at a minimum this treatment of union APP
2 is required by statute.

3 As to payroll, one of the differences
4 between Missouri-American and Staff concerns the
5 level of employees to assume for purposes of payroll
6 expense. MAWC's number of employees is based upon
7 each department and functional area's plants to
8 continue providing safe, clean, reliable, and
9 affordable service to its customers. This includes
10 new positions to support the Company's increased
11 capital investment program, SCADA operations, and
12 cross-connection program. You'll hear -- well, those
13 numbers are 763 full-time employees, 28 temporary
14 summer employees, and 10 interns.

15 Lastly, the difference between Staff and
16 Company is the capitalization rate concerns the
17 method used to develop that rate or rates. Staff
18 uses, as I understand it, one year of labor and
19 labor-related costs and applies one percentage to all
20 categories of expense. Missouri-American uses a
21 three-year average of labor and labor-related costs
22 on a category-by-category base. Using an average in
23 this situation we believe provides a more accurate
24 method to mitigate variability year over year which
25 smoothes out uncertainty while setting costs to the

1 appropriate level that are reasonably predicted to
2 occur. That's all I have.

3 JUDGE SEYER: Do the commissioners have
4 any questions? Thank you. Would Staff like to make
5 an opening?

6 MS. HANSEN: Yes. Thank you,
7 Commissioner. Thank you, Judge.

8 All right. May it please the Commission.
9 Good afternoon. My name is Andrea Hansen. I'm a
10 staff attorney for the Missouri Public Service
11 Commission Staff counsel's office. And before I
12 begin, I do want to warn you that it's a lengthy
13 opening statement, so please bear with me.

14 I'm here on the issue of Labor and Labor
15 Related which contains, as Mr. Cooper alluded to,
16 originally it contained six subparts, but it is also
17 our understanding that the six -- or one of the
18 subparts was eliminated in the stip, so we are only
19 going to be talking about five subparts today. So
20 these five are incentive performance compensation,
21 payroll expense, payroll taxes; operations and
22 maintenance or O&M for short. Four, labor and
23 capitalization. Five, employee benefits related to
24 group insurance, 401Ks, decline contribution plans or
25 DCPs, et cetera. I ask that you order the reasonable

1 recommendations put forward by the Commission on
2 these issues.

3 Let's get to sub issue one. Sub issue
4 one again is incentive performance compensation.
5 Three parties have taken positions on this issue.
6 They are MAWC, Commission Staff, and Office of the
7 Public Counsel or OPC for short. We are here to
8 examine MAWC's request to include the entirety of its
9 incentive compensation expenses in its revenue
10 requirement. Incentive compensation, also referred
11 to as performance compensation, is designed to reward
12 employees for achieving specific performance metrics.
13 However, it is imperative to scrutinize whether these
14 incentives align with the interest of ratepayers and
15 contribute to operational efficiencies.

16 MAWC has three incentive compensation
17 plans available to its employees. The first is the
18 annual performance plan or APB; the long-term
19 performance, LTPP; and the employee stock purchase
20 plan or ESPP for short. MAWC asserts that these
21 plans drive operational efficiencies benefiting
22 customers through improved services and cost
23 management. However, upon a thorough examination it
24 becomes evident that the primary metrics influencing
25 these incentive payouts are financial in nature,

1 particularly the earnings per share or EPS growth of
2 the parent company, American Water Works Company.
3 This focus raises concerns about the direct
4 correlation between incentive compensation and
5 tangible benefits to MAWC's customers.

6 Staff's position is that the incentive
7 compensation based upon earnings metrics should be
8 disallowed from cost of service. The Office of the
9 Public Counsel agrees. Its witness, Ms. Angela
10 Schaben, highlights that MAWC has not demonstrated a
11 direct link between its incentive compensation plans
12 and operational efficiencies. She notes that the
13 Company's assumption that EPS growth is driven by
14 cost control or efficiency gains is unfounded.
15 Instead EPS growth can result from various factors
16 unrelated to the Company's operational performance in
17 Missouri such as broader corporate strategies or
18 market conditions.

19 Furthermore, the emphasis on EPS growth
20 primarily benefits shareholders, not necessarily
21 ratepayers. Incentive plans that prioritize
22 financial metrics like EPS may encourage behaviors
23 that enhance shareholder value without guaranteeing
24 improvements in customer service or operational
25 efficiency. This misalignment suggests that

1 ratepayers should not bear the cost of incentive
2 compensation plans that do not demonstrably serve
3 their interest.

4 In light of these considerations and
5 because the Commission has consistently disallowed
6 incentive compensation based upon earnings metrics,
7 most recently in GR-2021-0108. The Staff of the
8 Commission recommended disallowing 50 percent of
9 MAWC's APP for nonunion employees and the entirety of
10 MAWC's LTPP and ESPP plans from MAWC's revenue
11 requirement. This position ensures that ratepayers
12 are not burdened with costs that do not directly
13 correlate with major role benefits to their service
14 or the utility's operational efficiency. It is
15 crucial for any compensation plan included in the
16 revenue requirement to have clear, demonstrable ties
17 to customer benefits and operational improvements.
18 Absent such evidence, it would be unjust to require
19 ratepayers to fund these incentive programs. Angela
20 Niemeier is Commission Staff's witness on this issue
21 and Ms. Niemeier is here today to answer any
22 additional questions you may have on that.

23 The next sub issue is payroll expense.
24 Two parties have taken positions on this issue:
25 Commission Staff and MAWC. Commission Staff's

1 position is that the appropriate amount of payroll
2 expense to be included in MAWC's cost of service as
3 of June 30th, 2024 is \$46,720,634. Ms. Sherrye
4 Lesmes, the Commission Staff's witness on this issue,
5 and Ms. Lesmes is here today to answer any additional
6 questions on this issue.

7 It is MAWC's position that the
8 appropriate amount of payroll expense to include in
9 MAWC's cost of service is an amount that includes
10 the 763 full-time employees, 28 temporary summer
11 employees, and 10 interns that represent the
12 appropriate staffing level for MAWC's water and
13 wastewater operations.

14 Commission Staff's position is the result
15 of its analysis of data as of June 30th, 2024. In
16 short, Staff's position relies on what is known and
17 measurable. MAWC's argument relies on its assertion
18 that it should be compensated for vacant positions
19 because it is actively filling its current vacancies.
20 However, MAWC's efforts to fill its vacancies is not
21 relevant to the analysis.

22 It has been traditional practice in
23 Missouri to rely on a historic test year and the
24 principles of used and useful and known and
25 measurable. So as laudable as MAWC's efforts to

1 maintain -- or to staff its company are, if a
2 position is vacant during a relevant past testing
3 period, and so I'm talking about the test year, the
4 update period, and the true-up, if a position is
5 vacant during that relevant past testing period, it
6 is outside the scope of what is known and measurable.
7 And if the Commission were to compensate MAWC for
8 these vacant positions, it would be compensating MAWC
9 for something that is not known and measurable. In
10 short, the Commission would be compensating MAWC for
11 something that is speculative.

12 The next issue is payroll tax. Two
13 parties have taken positions on this issue:
14 Commission Staff and MAWC. Commission Staff's
15 position is that the appropriate amount of payroll
16 tax expense to be included in MAWC's cost of service
17 as of June 30, 2024 is \$3,529,250. Payroll taxes are
18 tied to salaries and wages. Thus this issue, the
19 issue of payroll taxes is tied to the MAWC vacancies
20 at issue in the payroll expense issue.

21 Staff is of the opinion that if the
22 Commission allows MAWC to be compensated for payroll
23 taxes for vacant positions, the Commission would be
24 allowing MAWC to collect money for taxes that MAWC
25 may not actually pay. Ms. Sherrye Lesmes is Staff's

1 witness on this issue and Ms. Lesmes is here today
2 again to answer any questions that you have.

3 In its position statement on this issue
4 MAWC states that proforma payroll taxes were
5 calculated on a position-by-position basis using
6 current 2024 tax rates and proforma wages for true-up
7 period ending December 31, 2024 and the discrete
8 adjustment applied to the period ending May 31, 2025.

9 The next issue, the second-to-last issue
10 is O&M for labor and capitalization. Two parties
11 have taken positions on this issue: Commission Staff
12 and MAWC. On O&M for labor and capitalization and
13 the question of what is the appropriate amount of
14 operations and maintenance for labor and
15 capitalization to include in the cost of service.
16 Staff's position or Commission Staff's position is
17 that the O&M percentage expense is 53.78 percent and
18 capitalized at 46.22 percent. Staff determined this
19 percentage usage using the capital and expense
20 totals given by MAWC in response to a Staff data
21 request which comprised the 12 months ending
22 December 31, 2023. Alexis Branson is Commission
23 Staff's witness on this issue, and Ms. Branson is
24 here today to ask -- to answer any additional
25 questions.

1 MAWC's position is that the O&M expense
2 percentage should use a three-year average of labor
3 and labor-related cost as proposed by MAWC.

4 Employee benefits such as group
5 insurance, 401ks, et cetera is going to be our last
6 issue. Two parties filed testimony regarding this
7 issue; Commission Staff and MAWC. Commission
8 Staff's position is that the amount of employee
9 benefits to be included in MAWC's cost of service
10 as of June 30, 2024, is \$8,256,148 for group
11 insurance; 1,353,677 for 401K; \$1,582,968 for MAWC's
12 defined contribution plan or DCP; \$32,659 for
13 retiring medical trust contributions or VEBA
14 and 880 -- \$880,838 for other benefits. Ms. Sherrye
15 Lesmes is Staff -- Staff's witness on this issue, and
16 Ms. Lesmes is here today to answer any additional
17 questions you have on this issue.

18 MAWC believes the 401K benefit expense
19 should be calculated multiplying the employee's base
20 pay by the Company's applicable matching percentage
21 factor. An expense in the amount of \$1,289,816
22 should be included in MAWC's cost service for 401K
23 according -- and this is according to MAWC.

24 Regarding the issue of DCPs, MAWC
25 explains that under the DCP -- and let's see -- DCP,

1 Missouri-American contributes an amount to equal
2 to 5.25 percent of an employee's base pay into a
3 retirement account. MAWC believes an expense in the
4 amount of \$1,360,396 should be included in MAWC's
5 cost service for DCPs. MAWC has set up a trust
6 referred to as the Voluntary Employee Benefits
7 Association or VEBA which I have referred to earlier,
8 to fund this benefit in the amount of \$600 per
9 eligible employee. MAWC believes an expense in the
10 amount of \$148,646 should be included in MAWC's cost
11 of service for VEBA.

12 Lastly, MAWC believes that its cost of
13 service should include \$121,307 for the cost of the
14 ASPP.

15 So to recap, you'll now be hearing
16 witness questioning on the issue of Labor and Labor
17 Related. This issue contains five subparts:
18 Incentive performance -- incentive and performance
19 compensation; payroll expense; payroll taxes; O&M for
20 labor and capitalization; and employee benefits
21 relating to group insurance, 401ks, defined
22 contribution plans, et cetera.

23 I thank you for your time and I ask that
24 you order the reasonable recommendations put forwards
25 by Commission Staff. Thank you.

1 JUDGE SEYER: Any questions,
2 Commissioners? All right. Thank you. Mr. Coffman's
3 indicated he's not going to give an opening statement
4 on this topic, so Mr. Clizer.

5 MR. CLIZER: Good news. I promise I'm
6 going to be a lot shorter. So again, John Clizer,
7 you know who I am, Office of Public Counsel.

8 This issue right now -- well, first of
9 all, you're going to hear the follow over from the
10 last issue we just discussed because evidently part
11 of that Support Services kind of bleeds into this
12 one. But as far as the rest of issues up that are
13 right now, the OPC's only position is on the
14 incentive compensation so that's the only thing I'm
15 going to talk about. And for what it's worth, I
16 think that Staff counsel did just a wonderful job of
17 really summarizing and so I'm just going to try and
18 keep myself at a really high level.

19 There's two incentive compensation
20 programs out there. You have the APP, and that's the
21 thing that you have in front of you. That's the
22 handout; I'm going to go over that in a second. And
23 the other one is called the LTPP. The LTPP is really
24 kind of mostly focused I think at higher-level
25 individuals within the Missouri-American Water

1 business, so really kind of more your board
2 executives kind of situation. And it really is based
3 almost a hundred percent off of financial success.
4 It uses a combination of earnings per share, relative
5 total shareholder return, and return on equity to
6 establish returns. That kind of incentive
7 compensation program has routinely been denied by the
8 Commission because it's really only there to benefit
9 shareholders. And if you've giving people a bonus
10 because they're able to earn a better return for
11 their shareholders, that's fine, but shareholders are
12 the ones who should be paying for that, not
13 ratepayers.

14 So what's the APP. Well, it breaks down
15 in this handy table, and this is taken, I believe I
16 want to say, from the testimony of Mr. Carlson on
17 behalf of American Water; I believe it's in his
18 testimony. But it sort of breaks you down on how the
19 APP is weighted. And you see that the first 50
20 percent of it is again based on earnings per share.
21 So it's that same exact logic again. We are awarding
22 Missouri-American Water employees for being able to
23 produce better returns for their shareholders.
24 Which, I want to clarify, the OPC has no problem with
25 this performance program. Our problem is who pays

1 for it. If shareholders are getting the benefit,
2 shareholders should be the to pay for it.

3 Now, the other 50 percent kind of breaks
4 down a little bit. And you might be looking at some
5 of these things and saying, John, don't you want to
6 encourage, you know, avoiding OSHA violations, don't
7 you want to encourage avoiding drinking water
8 violations. And honestly, the simply answer to you
9 is that we feel that all of these things that are
10 included in here are things that they should just be
11 doing regardless. We believe it's part of their
12 mandate to provide safe and adequate service and that
13 we don't need to be offering an incentive
14 compensation program to benefit employees from -- for
15 avoiding like an OSHA violation. It's just something
16 that should naturally be occurring.

17 It reminds me, and I don't know, there's
18 this old -- this old joke, right. You have a guy
19 that's walking, that's traveling, walking through a
20 market and he sees a man selling rock for an
21 exorbitant price. And he goes up and when he says,
22 Well, why's this rock so expensive, and the -- the
23 man, the seller says, Oh, this is the Brock. It was
24 enchanted by a wizard. It keeps away tigers. You
25 know, it protects you from being attacked by tigers.

1 And the guy goes, How on earth can you tell that's
2 the case. And the man says, Well, look around. Do
3 you see any tigers. Right. It's kind of like that.

4 You have these programs that say, well,
5 we're going to try to avoid OSHA violations. Well,
6 the only evidence that the Company has is basically
7 to just point to the number of OSHA violations. But
8 you have to ask yourself, if you took away this
9 incentive compensation program, do you really think
10 they would suddenly have a spike in OSHA violations.
11 I personally don't. And that's really kind of the
12 basis for our argument. We don't need to be running
13 incentive compensation programs to encourage this
14 behavior. It should be built into the Company's
15 basic nature of operations.

16 And to really just close on that point,
17 I'm going to quote to you the Illinois-American Water
18 case, Docket P-2022-0210. Again, this was the
19 Illinois commission stated, Incentive compensation
20 programs related to financial goals primarily benefit
21 shareholders and those not costs should not be
22 recovered by the utility ratepayers. And then they
23 go on to say American -- sorry -- Illinois-American
24 Water Company argues that it's performance pay
25 programs provide customer benefits through reduced

1 expenses and greater efficiencies. However, Amer --
2 Illinois-American Water Company has not shown that
3 these customer benefits were caused by the
4 performance metrics related to the financial goals
5 rather than the Company's operational goals.

6 And that's really at the heart of this.
7 The benefits that would supposedly come from this
8 should be drawn from the Company's operation goals,
9 not from these actual metrics. So providing them is
10 unnecessary and customers shouldn't be paying for
11 them. All right. That concludes my thoughts and
12 I'll take any questions.

13 QUESTIONS

14 BY CHAIR HAHN:

15 Q. Mr. Clizer, just so I can understand OPC's
16 position, your -- OPC's position is to disallow all
17 of cost associated with the annual performance plan?

18 A. Correct. And I do want to make sure this
19 is very clear because it reminds me of another point
20 that was brought up. At no point are we saying that
21 they shouldn't have the plan. We are just saying
22 that customers should not be the ones paying for it;
23 they should be recovered from shareholders. And the
24 reason I want to stress that is because one of the
25 other issues that was mentioned was this regard to

1 union workers, right. There is a law out there.
2 What the law says is that this Commission cannot
3 interfere with the agreements reached between the
4 union and the Company. We are not asking you to do
5 that. We are not asking you to change the terms of
6 the agreement between the union and the company. All
7 that we're asking you to do is say that shareholders
8 bear the responsibility of paying that incentive
9 compensation program.

10 Nothing in the law says who has to pay for
11 it. It just says you all can't change it. And we're
12 not asking you to change it. We're just asking you
13 to determine that shareholders should bear the cost
14 of paying for incentive compensation program designed
15 to benefit shareholders. I know that was more than
16 you asked, I apologize, but that reminded me of that
17 point.

18 Q. That's okay. And then also I'm assuming
19 that OPC would share the same positions then -- I'm
20 just clarifying -- that long-term performance plan
21 and the employee stock purchase plan should also be
22 excluded?

23 A. Yes. And those two are even more so very
24 clearly drawn exclusively on promoting earnings per
25 share and total shareholder returns. Those are the

1 **exclusive reason, metrics by which those are gained.**

2 Q. And I think you mentioned that those have
3 historically been excluded by the Commission, similar
4 stock and -- similar stock compensation had been --

5 **A. It is my belief that the Commission in the**
6 **past has excluded incentive compensation programs**
7 **where it found the incentive compensation --**
8 **compensation program primarily benefited**
9 **shareholders.**

10 CHAIR HAHN: Okay.

11 MR. CLIZER: I gotta slow down. The court
12 reporter's going to get really mad at me.

13 CHAIR HAHN: Thank you.

14 JUDGE SEYER: All right. Thank you,
15 Mr. Clizer. If the Company will call their first
16 witness.

17 MR. COOPER: Yes, your Honor. We would
18 call Robert Mustich.

19 JUDGE SEYER: Good afternoon. Would you
20 raise -- you do have your right hand raised. Thank
21 you.

22 (Witness sworn.)

23 ROBERT MUSTICH,
24 the witness, having been first duly sworn,
25 testified as follows:

1 JUDGE SEYER: Thank you. Go ahead,
2 Mr. Cooper.

3 DIRECT EXAMINATION

4 BY MR. COOPER:

5 Q. Would you please state your name.

6 A. **Roberts Mustich.**

7 Q. And by whom are you employed and in what
8 capacity?

9 A. **Willis Towers Watson. I'm a managing**
10 **director of our rewards practice for east region.**

11 Q. And you are appearing on behalf of
12 Missouri-American Water Company today?

13 A. **Yes, I am.**

14 Q. Have you caused to be prepared for
15 purposes of this proceeding certain direct testimony
16 in public and confidential versions and certain
17 rebuttal/surrebuttal/sur-surrebuttal testimony both
18 in question-and-answer form?

19 A. **Yes, I have.**

20 Q. Is it your understanding that that
21 testimony's been marked as Exhibits 20P, 20C and 21
22 for identification?

23 A. **Yes, I do.**

24 Q. Do you have any changes that you need to
25 make to that testimony at this time?

1 **A. No, I don't.**

2 Q. If I asked you the questions which are
3 contained in Exhibits 20P, 20C and 21 today, would
4 your answers be the same?

5 **A. Yes, they would.**

6 Q. Are those answers true and correct to the
7 best of your information, knowledge, and belief?

8 **A. Yes, they are.**

9 MR. COOPER: Your Honor, I would offer
10 Exhibits 20P, 20C, and 21 into evidence and tender
11 the witness for cross-examination.

12 JUDGE SEYER: Are there any objections to
13 those exhibits coming into evidence?

14 MR. JOHNSON: No objections.

15 JUDGE SEYER: All right. Exhibits 20,
16 the public and confidential versions, and 21 are
17 admitted into evidence.

18 (Company Exhibits 20P, 20C, and 21 were
19 admitted and made a part of this record.)

20 JUDGE SEYER: And, Staff, your witness.

21 MR. JOHNSON: I have no questions at this
22 time.

23 JUDGE SEYER: All right.

24 MR. CLIZER: No questions, your Honor.

25 JUDGE SEYER: Mr. Coffman?

1 MR. COFFMAN: No questions.

2 JUDGE SEYER: All right. Are there
3 questions from the commissioners? Yes, Commissioner
4 Coleman.

5 COMMISSIONER COLEMAN: Thank you, Judge.

6 QUESTIONS

7 BY COMMISSIONER COLEMAN:

8 Q. Is it Mustich?

9 A. **It's Mustich.**

10 Q. Mustich?

11 A. **Yeah.**

12 Q. Like --

13 A. **Like a K on the end. The H always makes**
14 **it sound kind of different.**

15 Q. Oh, that makes a difference. Like a
16 stick.

17 A. **Yes.**

18 Q. Okay. Thank you. So who determines the
19 performance compensation goals or criteria for the
20 awards that are included in the compensation packages
21 for American -- for Missouri-American?

22 A. **The Company does, the parent company.**

23 Q. And parent company, make sure I get it
24 right. That's the AWW? Does that make sense?

25 A. **Yes. American Water, uh-huh.**

1 Q. All right. I couldn't get the whole thing
2 out, so I decided I better try to get the acronym
3 which there are 18 million.

4 **A. Yes.**

5 Q. Is there any requirement that performance
6 compensation goals be based on the financial
7 performance of Missouri-American or even the parent
8 company?

9 **A. It's the parents, the overall team, those
10 goals are set both financial and operational.**

11 COMMISSIONER COLEMAN: Okay. Thank you,
12 Judge. Thank you.

13 **THE WITNESS: Thank you.**

14 COMMISSIONER MITCHELL: Judge, if I may.

15 JUDGE SEYER: Yes, Commissioner Mitchell.

16 QUESTIONS

17 BY COMMISSIONER MITCHELL:

18 Q. Would you just at a high level just walk
19 us through the three programs, what the performance
20 metrics are and then how the payout works?

21 **A. Yes. You have the annual performance plan
22 and that is a series of metrics. 50 percent is on
23 earnings per share and 50 percent are on operational
24 metrics which will include like customer service,
25 environmental compliance, those -- those customer --**

1 customer service safety. So there's a, what is
2 considered a balanced score card which the majority
3 of peers have, industry in general has when you look
4 at annual incentive plans. You want to have a
5 balance between being financially viable and then
6 also having good, you know, operational performance
7 so that the AA -- the annual performance plan's sort
8 of balanced and set that way.

9 Then there's the long-term incentive plan
10 which is for the senior executives. And there are,
11 you know, two main components there. There's
12 performance shares which are tied to the stock of the
13 company plus total shareholder return and earnings
14 per share and return on equity. And those metrics
15 determine whether -- whether those awards are -- are
16 awarded. And it's over a three-year period. So
17 while there are financial metrics tied to that
18 portion of the plan, the real benefit also to
19 customers is ensuring that executives are retained.
20 Those plans are they have three-year vesting. If
21 they leave before the three years, they don't get the
22 full award. So it's also a retention component.

23 And then there's also restricted stock
24 which is just stock that's tied to a three-year
25 vesting also which is really focused on retention.

1 Those plans are again, you know, mutually beneficial
2 for shareholders, employees, and customers.

3 Again I heard, you know, earlier about the
4 plan sort of being, you know, parsed out to
5 shareholders or customers or employees. They're
6 typically designed to be mutually beneficial because
7 they're impacting all -- all three.

8 And the employee stock purchase plan, I
9 didn't study that as part of this because I don't
10 consider that a compensation program. It's more of a
11 benefits type of program where the employee is able
12 to purchase stock at a discounted rate. So it's not
13 part of the compensation study that I've done for the
14 company. It's not considered like part of total
15 direct compensation which would be base salary, the
16 annual incentive, and the long-term incentive.

17 Q. Okay. So the stock purchase is strictly
18 an expense to the employee who might elect to
19 purchase that stock?

20 A. Yes. That's my understanding of the
21 program that American Water has.

22 Q. Okay. And could you drill down a little
23 bit to Missouri specifically. If, for example, if
24 Missouri were to -- or those employees in the
25 Missouri organization were to meet their goals and

1 the Company as a whole did not, then they wouldn't
2 get compensated? Is that fair to say or?

3 A. Correct. As part of the overall --
4 overall team in terms of the incentive programs. The
5 Company made those changes about, I think about three
6 years ago where it's more of an overall team
7 incentive program or performance-based program.

8 Q. Okay. So I just want to make sure I
9 understand. It's the -- if the parent company and
10 all its subsidiaries meet their goals, collectively
11 than the -- then the performance payouts occur?

12 A. Correct. And, you know, the way this
13 program is set up also where sometimes there's always
14 like a misunderstanding. It's not like an add-on
15 bonus program where if you don't have the annual and
16 the long-term incentive planning, you're still paid
17 competitively. You're actually not because the
18 programs, like the majority of the other companies
19 that we compare to, it's an integrated program. You
20 have to have both programs included for the -- for
21 the compensation to be competitive. You couldn't
22 say, well, base salary alone they'll be competitive.
23 If they don't receive that performance compensation,
24 then they're actually below the competitive rate of
25 pay.

1 That's why -- you know, it was -- what was
2 mentioned earlier about the Illinois case. West
3 Virginia recently, much more recent than the Illinois
4 case came out and said, you know, overall
5 compensation is reasonable and it's tough to, like,
6 arbitrarily take a portion of compensation and say,
7 well, it goes to shareholders and a portion goes to
8 customers because it's -- you know, it's mutually
9 beneficial. I actually state that in my rebuttal
10 testimony.

11 Q. And can you help me understand how the
12 financial performance of the Company and that being a
13 part of some of the incentive programs, how do
14 benefits from that flow to the consumer?

15 A. Well, I think like with any incentive
16 plan, even like a not -- you know, not-for-profit
17 incentive plan or incentive plan for charities, you
18 know, being a financially viable organization is
19 important to customers, an organization that's, you
20 know, efficiently run. You know, the plans sends
21 very strong messages to employees to be, you know,
22 productive and efficient in terms of doing their
23 jobs. So there's not like a, you know, a one-to-one
24 necessarily correlation, but there's a real strong
25 message that financial performance is also important.

1 And that's why it's balanced, right. We have
2 financial and then we also have, you know, the
3 customer -- customer service, we've got, you know,
4 operational metrics. There's a balance across the --
5 across the metrics that are communicated to
6 employees.

7 Q. And can you discuss, if this isn't
8 confidential, about what percentage of the total
9 compensation is at risk in these programs?

10 A. It varies by, you know, by position. So
11 if you're at the, you know, the union level, it might
12 be, you know, 3 percent of base pay say is the -- is
13 the amount that goes toward the annual performance
14 plan. If you're more, you know, senior in the
15 organization, it may be, you know, 20 or 25 percent.
16 I sort of detail that in my report without, you know,
17 going over like the individual positions for
18 confidentiality. But there's a variance, you know,
19 across the positions. And we looked at that against
20 what the market does and it's -- the amount that's
21 provided to Missouri-American Water employees is, you
22 know, very consistent with other companies provide in
23 the market.

24 COMMISSIONER MITCHELL: Thank you. That
25 helps me understand.

1 **THE WITNESS: Thank you.**

2 JUDGE SEYER: All right. Recross by
3 Staff?

4 MR. JOHNSON: Just very briefly I think.

5 RE CROSS-EXAMINATION

6 BY MR. JOHNSON:

7 Q. Good afternoon, Mr. Mustich.

8 A. Hi.

9 Q. I think you mentioned earlier that the
10 earnings-based performance incentive was tied to the
11 earnings per share of the parent company, American
12 Water Works Company. Is that correct?

13 A. Correct.

14 Q. Is there anything within Missouri-
15 American's performance plans that tie to earnings or
16 efficiencies directly with Missouri-American?

17 A. No. I mean, they all sort of roll -- roll
18 up to the overall company, but it's not like a
19 specific component of the incentive program.

20 Q. So would it be correct to assume that
21 employees could earn incentive pay based on
22 essentially performance of other affiliates driving
23 up share price of the parent company?

24 A. I wouldn't say necessarily share price. I
25 mean, it's earnings per share, so all the companies

1 are -- are -- you know, are tied to that, so it's
2 sort of a team, especially when you have like shared
3 resources across the different affiliates. They're
4 all sort of sharing, you know, resources rather than
5 just, you know, being in their own particular silo.
6 That's why the plans tend to be broader. So there's
7 collaboration, you know, across the organization.

8 Q. But would it be hypothetically possible
9 for earnings per share driven by other affiliates to
10 provide employees of Missouri-American
11 performance-based pay?

12 A. Well, it's part of the program, so it
13 would --

14 Q. So would that be a yes?

15 A. Yes.

16 MR. JOHNSON: Okay. Thank you. No
17 further questions.

18 JUDGE SEYER: Public Counsel?

19 MR. CLIZER: Yes.

20 RECROSS-EXAMINATION

21 BY MR. CLIZER:

22 Q. Good afternoon.

23 A. Good afternoon.

24 Q. You were asked a question by Commissioner
25 Mitchell about the consumer benefits that might flow

1 from earnings per share and I want to kind of drill
2 down on that. First of all, do you remember that
3 line of questioning?

4 **A. Yes, I do.**

5 Q. Okay. So we're sitting in a rate case
6 right now and as part of a rate case, you would agree
7 with me, the Company -- sorry -- the Commission's
8 going to set rates that will include an expected cost
9 for the Company to meet its continued operations.
10 Right?

11 **A. Correct.**

12 Q. Right. And so, for example, they might
13 have expense side, and let's pick one at random, say
14 like chemicals, right. The Commission's going to set
15 rates based on what it thinks the cost of chemicals
16 is going to be moving forward. Is that right?

17 **A. I would assume, yeah.**

18 Q. Right. So if a -- if an employee, after
19 rates are set, manages to find a way to reduce the
20 cost of chemicals, that's going to produce a benefit
21 for the Company because then they're going to have
22 money in the rates. Let's say they put a million
23 dollars in rates to pay for chemicals. Now if
24 they've reduced the cost, it's \$900,000. That
25 hundred thousand dollars is something that's retained

1 by the Company. Is that correct?

2 **A. I guess so, correct.**

3 Q. And that's what's going to a boost that
4 earnings for share. Right? Or rather it's going to
5 boost their overall revenue which should boost their
6 earnings per share?

7 **A. I would assume.**

8 Q. Right. And that hundred thousand dollars,
9 it doesn't flow back to customers because rates have
10 already been set. Until the next rate case occurs,
11 basically the Company's just earning that money.

12 **A. Okay.**

13 Q. Would you agree with me on that?

14 **A. Yeah.**

15 MR. CLIZER: Yeah. Okay. That was it.
16 No further questions.

17 JUDGE SEYER: Mr. Coffman, any questions?

18 MR. COFFMAN: No questions, your Honor.

19 JUDGE SEYER: All right. Mr. Cooper,
20 redirect?

21 REDIRECT EXAMINATION

22 BY MR. COOPER:

23 Q. Couple things. Let's continue your
24 conversation a little bit that you just had with
25 Mr. Clizer. In his example about chemical prices,

1 does it also sort of highlight the fact when you talk
2 earnings per share, there's many ways to get -- to
3 increase earnings per share. Right?

4 **A. Correct.**

5 Q. And I think in answer to Commissioner
6 Mitchell's questions, you talked about efficiencies.
7 Could you expand a little bit on that, on how that
8 might impact earnings per share and be to the benefit
9 of customers as well?

10 **A. Yeah. You know, the customers -- if the**
11 **employees are being, you know, more efficient and**
12 **more productive, that's going to benefit the --**
13 **benefit the customers.**

14 Q. And that can have an impact on earnings
15 per share?

16 **A. Correct, cost containment.**

17 Q. You made the point earlier that the wages
18 weren't necessarily competitive without the
19 performance incentives. Correct?

20 **A. Correct.**

21 Q. Could -- and this is probably asking you
22 for a bit of a summary of your testimony, but given
23 that -- thinking exactly how to ask this. But given
24 that, if the Company does not -- well, if those
25 performance incentives were put into base pay, would

1 your study say that that base pay would continue to
2 be reasonable and prudent for the Company?

3 A. Well, if the -- the base pay would be
4 higher as one component, so it would be probably
5 above the competitive rate. But when you look at the
6 total program, it would be competitive. So we're --
7 and we're seeing some companies do that in order to
8 get full -- because again, when you look at the total
9 package, it's competitive. It's just a delivery
10 right now that's being, I guess that's being disputed
11 of how it's being provided to the employees. But if
12 it was all on base pay, the total package would be
13 competitive and management would lose an important
14 tool. You lose important communication to employees
15 in terms of what's important which again is a balance
16 scorecard of, you know, financial, customer, safety,
17 operational metrics.

18 MR. COOPER: That's all the questions I
19 have, your Honor.

20 JUDGE SEYER: All right. Thank you,
21 Mr. Mustich.

22 **THE WITNESS: Thank you.**

23 JUDGE SEYER: You may step down.

24 **THE WITNESS: Thank you very much.**

25 MR. COOPER: Your Honor, Mr. Mustich, if

1 you'll recall, was one of the people with some travel
2 issues. May he be excused?

3 JUDGE SEYER: Yes. As far as I'm
4 concerned, yes.

5 **THE WITNESS: Okay. Thank you.**

6 JUDGE SEYER: And then you may call your
7 next witness.

8 MR. COOPER: We would called Mr. Jody
9 Carlson.

10 JUDGE SEYER: Would you raise your right
11 hand. Thank you.

12 (Witness sworn.)

13 JODY CARLSON,

14 the witness, having been first duly sworn,
15 testified as follows:

16 JUDGE SEYER: All right. Thank you.

17 DIRECT EXAMINATION

18 BY MR. COOPER:

19 Q. Please state your name.

20 **A. Jody Carlson. That's J-o-d-y**
21 **C-a-r-l-s-o-n.**

22 Q. By whom are you employed and in what
23 capacity?

24 **A. Missouri-American Water. I'm the vice**
25 **president of operations.**

1 Q. Have you caused to be prepared for
2 purposes of this proceeding certain direct -- I want
3 to make sure we don't have any confidentiality
4 associated here. Cert -- we do not. Certain direct
5 testimony and certain rebuttal/surrebuttal/sur-
6 surrebuttal testimony in question-and-answer form?

7 **A. I have.**

8 Q. Is it your understanding that that
9 testimony has been marked as Exhibits 4 and 5 for
10 identification?

11 **A. It is.**

12 Q. Do you have any changes that you would
13 like to make to that testimony at this time?

14 **A. I have one small clarification from my**
15 **direct testimony. It's in the rebuttal testimony on**
16 **page 30, lines 3 through 5 where we make the**
17 **statement, we corrected it there, that needed to be**
18 **corrected to reflect that we will only verify the**
19 **email was delivered, not that it had been opened.**
20 **But that's in my rebuttal testimony.**

21 Q. Well, let's -- let's back up a little bit.
22 I'm -- do you have your testimony in front of you?

23 **A. I do.**

24 Q. Okay. Turn to your direct testimony.

25 **A. Yes.**

1 Q. And page 48 of that.

2 **A. Yes.**

3 Q. And so the correction that, this is kind
4 of circular, but that you referred to in your
5 rebuttal testimony that would result from that is
6 found on lines 16 and 17. Correct?

7 **A. That's correct, yes.**

8 Q. And in both instances on those lines where
9 the words "and opening" appear, those would be
10 deleted. Correct?

11 **A. Correct. Thank you.**

12 Q. If I were to ask you the questions
13 contained in Exhibits 4 and 5 today, would your
14 answers as now amended be the same?

15 **A. They would.**

16 Q. Are those answers true and correct to the
17 best of your information, knowledge, and belief?

18 **A. They are.**

19 MR. COOPER: Your Honor, I would offer
20 Exhibits 4 and 5 into evidence and tender the witness
21 for cross-examination.

22 JUDGE SEYER: Are there any objections to
23 the admission of those exhibits?

24 MR. JOHNSON: No, Judge.

25 JUDGE SEYER: Exhibits 4 and 5 are

1 admitted.

2 (Company Exhibits 4 and 5 were admitted
3 and made a part of this record.)

4 JUDGE SEYER: Go ahead, Mr. Johnson.

5 CROSS-EXAMINATION

6 BY MR. JOHNSON:

7 Q. Hopefully it'll be very brief. Good
8 afternoon, Mr. Carlson.

9 **A. Good afternoon.**

10 Q. I have just a few questions for you.
11 We've gone over the performance plans for Missouri-
12 American. I believe they're the annual performance
13 plan and the long-term performance plan. Is that
14 correct?

15 **A. Correct.**

16 Q. It is Missouri-American's position that
17 the entirety of the costs associated with those plans
18 should be included in Missouri-American's cost of
19 service. Is that correct?

20 **A. Correct.**

21 Q. And each of those plans incorporate, I'll
22 refer to it as earnings-based incentives within that
23 plan. Is that correct?

24 **A. That's correct, just as Witness Mustich**
25 **referenced.**

1 Q. Okay. Thank you. And I believe you state
2 in your, I think it's rebuttal/surrebuttal and
3 sur-surrebuttal testimony, I think on page 13,
4 lines 15 through 17, that it's your belief or maybe
5 the Company's belief that when financial performance
6 is achieved through efficiency, the interest of
7 customers, employees, and investors are aligned.

8 Did I state that correctly?

9 **A. You did.**

10 Q. Now, did Missouri-American's performance
11 plans include any specific goals relating to
12 increasing efficiencies?

13 **A. They are broke out into 50 percent on the**
14 **performance side and then 50 percent on the financial**
15 **side.**

16 Q. Okay. Well, the 50 percent on the
17 performance side, I see customer related, and I think
18 that involves customer satisfaction. Is that
19 correct?

20 **A. Is that in my testimony?**

21 Q. Yes, it is. I apologize. Let me get the
22 correct page. This would be on page 39 of your
23 direct testimony.

24 **A. Thank you. Appreciate it.**

25 Q. Absolutely. So I see is that in that

1 performance portion that you referred to, we have
2 customer related, which I believe is customer
3 satisfaction. Correct?

4 **A. That's 15 percent, yes.**

5 Q. And you have safety related which would be
6 OSHA-recordable injury rates and days away restricted
7 and transfer severity rate?

8 **A. Correct, which is 15, yes.**

9 Q. And then lastly there are environmental
10 safety provisions related really to notices of
11 violation for drinking water compliance and water
12 quality?

13 **A. Correct, at 15.**

14 Q. And finally there's some I'll say
15 employment initiative.

16 **A. Correct.**

17 Q. Correct? Do any of those pertain
18 specifically to increasing efficiencies?

19 **A. I would say that all of those on the**
20 **performance side, customer satisfaction. I mean, we**
21 **could go through, you know, a lot of those, but it**
22 **really goes back to our employees that are working in**
23 **the field, that are interacting with our customers.**
24 **It could be someone in the field, it could be our**
25 **call center, or it could be those that interact. And**

1 how they handle those individuals is tied directly to
2 their performance in making those customer
3 satisfaction results.

4 Those record -- recordables on our safety
5 performance as well, making sure that we are doing
6 the things in the field that need to be done to drive
7 that safety. So they're all -- all of these, I would
8 say yes.

9 Q. And are those efficiencies different than
10 the efficiencies you were referring to when
11 discussing financial performance?

12 A. Are you -- if -- are you referring to the
13 growth on the earnings per share?

14 Q. I am, yes.

15 A. I would -- I personally would say that a
16 lot of the performance metrics that we iterate and
17 drive towards impact the financial side of that
18 equation. That was 50 percent as well, so the
19 performance metrics drive the financial for the --
20 for the business.

21 Q. So the perform -- I want to get this
22 correct -- the performance metrics that are outlined
23 in the APP plan drive the financial aspects of the
24 plan?

25 A. A lot of these performance items that we

1 do in the key metrics that we measure across the
2 business, whether that's going out and turning
3 valves, the things that our folks in the field
4 continue to do to drive performance efficiencies.

5 Q. Okay. So are you -- are you -- am I
6 hearing correctly that at least the APP plan rewards
7 employees for efficiencies, operational efficiencies
8 within the 50 percent related to customer safety
9 environmental leadership --

10 A. That's part of their, yeah, their
11 compensation package.

12 Q. And then they are also rewarded for growth
13 and earnings per share that could be created by the
14 efficiencies they are already being rewarded for?

15 A. All part of their entire package,
16 compensation package.

17 Q. Okay. Would you agree with me that
18 increased financial performance of the utility could
19 be due to actions that may not align with the best
20 interest of ratepayers?

21 A. I don't understand the -- can you rephrase
22 that again?

23 Q. Sure. Fifty percent of the APP and I
24 believe the majority of the LTPP tie performance
25 payments to growth and earnings per share.

1 **A. Correct.**

2 Q. Correct?

3 **A. Yes.**

4 Q. Would you agree with me that there are
5 actions that a utility could take to increase
6 earnings per share that may not be in the best
7 interest of its ratepayers?

8 **A. No.**

9 Q. No, okay. Thank you. Hypothetically
10 could a utility increase its earnings by cutting
11 staff or perhaps outsourcing critical services like
12 customer service?

13 **A. Hypothetically? I believe that these --**

14 Q. Mr. Carlson, that was a yes or no
15 question.

16 **A. Hypothetically, yes.**

17 Q. Could postponing necessary upgrades or
18 maintenance increase short-term earnings at least?

19 **A. Hypothetically, yes.**

20 Q. Could seeking aggressive cost recovery
21 mechanisms like riders, surcharges, or trackers
22 increase earnings for the utilities?

23 **A. We could probably go through a lot of
24 things hypothetically.**

25 Q. Right. But you understand my point.

1 Thank you. Mr. Carlson, could a -- in your opinion
2 could a performance or incentive plan be designed
3 that includes specific goals or metrics for creating
4 efficiencies -- pardon me, sorry, I lost my place --
5 decreasing waste, or boosting productivity? And if
6 you need me to repeat that --

7 **A. If you would, that would be great.**

8 **Thanks.**

9 Q. In your opinion could an incentive or
10 performance plan be designed that includes goals or
11 metrics specifically relating to efficiencies,
12 decreasing waste, or boosting productivity?

13 **A. Or decreasing productivity?**

14 Q. Boosting.

15 **A. Oh, boosting. Sure, yes.**

16 Q. I have no further questions. Well, I'm
17 sorry. I do have one further question. My mistake.

18 I'm going to go in a little bit different
19 direction. In your rebuttal/surrebuttal/sur-
20 surrebuttal testimony on page 3, lines 13 through 14,
21 you state, Vacancies are the result of employees
22 retiring or otherwise leaving the business, but these
23 position continued to be critical skilled positions
24 that must be timely filled.

25 Did I get that correct?

1 **A. That's correct, yes.**

2 Q. And on the same page on line 21 you state
3 that Missouri-American is actively filling its
4 current vacancies. As you sit here today, do you
5 know how many vacant positions Missouri-American had
6 as of the update period in this case?

7 **A. As of the update period, I -- I don't know**
8 **exactly.**

9 Q. And do you happen to know how many
10 vacancies there were as of the true-up period in this
11 case?

12 **A. I do not.**

13 Q. Do you know how many vacant positions
14 there are today?

15 **A. I do not.**

16 MR. JOHNSON: Thank you, Mr. Carlson.
17 Those all the questions I have.

18 **THE WITNESS: Thank you.**

19 JUDGE SEYER: Mr. Clizer, do you have
20 questions?

21 MR. CLIZER: No, your Honor. Thank
22 you.

23 JUDGE SEYER: Mr. Coffman?

24 MR. COFFMAN: No questions.

25 JUDGE SEYER: Thank you. Do any of the

1 commissioners have questions? All right.

2 QUESTIONS

3 BY JUDGE SEYER:

4 Q. Mr. Carlson, I have just one question and
5 I don't know if you can answer this question, but you
6 were here earlier I believe when Mr. Mustich
7 testified that these performance goals were set at
8 the -- at the American Water Works level. Correct?

9 **A. Yes, sir.**

10 Q. Do you know if those people that are
11 setting these performance goals for the Company as a
12 whole are aware of the Commission's historical
13 treatment of financial-related goals and customer
14 benefit-related goals being recovered as part of
15 employee compensation?

16 **A. I don't know if they know that or not.**

17 JUDGE SEYER: All right. That's my only
18 question. Is there -- well, is there any recross on
19 that question? Mr. Johnson?

20 MR. JOHNSON: No questions, thank you.

21 JUDGE SEYER: All right. And then,
22 Mr. Cooper, is there any redirect?

23 MR. COOPER: Yes, your Honor.

24 REDIRECT EXAMINATION

25 BY MR. COOPER:

1 Q. Mr. Carlson, you were asked some
2 hypotheticals by Staff counsel about ways to increase
3 earnings per share short term. I think one of the --
4 one of the hypotheticals was cutting staff might
5 possibly increase earnings per share short term. Do
6 you remember that?

7 A. Yes.

8 Q. What would be the consequences of those
9 sort of actions on a long-term basis?

10 A. Our customer satisfaction would go down,
11 long-term repairs, investments would also be
12 challenged. That would not be anything that we would
13 want to do.

14 Q. Okay. You were asked various questions
15 about vacancies as they exist today, but you are
16 involved somewhat on the hiring side, aren't you?

17 A. Yes.

18 Q. Are you aware of how many offers the
19 Company has out as of today?

20 A. As of yesterday I know there were ten.

21 Q. And are there other positions actively
22 being advertised?

23 A. Yes. As of yesterday I know there was I
24 believe 35 to 40 that were still posted.

25 Q. Okay. You were asked at the end by the

1 RLJ a question about whether you were aware of what
2 the knowledge might be at the American Water level in
3 terms of historic treatment of performance incentive
4 plans. But let me -- let me kind of get back at this
5 a little bit. You -- you worked -- prior to coming
6 to work for Missouri-American, you worked many years
7 for other employers. Correct?

8 **A. Yes.**

9 Q. And when you worked for those other
10 employers, were there performance plans in those
11 positions?

12 **A. I've been an engineer for over 30 years,**
13 **worked at different places. Different locations had**
14 **goals for us, but they were not tied to our entire**
15 **package pay, pay-for-performance package. And it was**
16 **notably difference in the direction that the**
17 **companies that I worked for went. Having that part**
18 **of our entire package drives employees where we want**
19 **to focus at. And that's efficiencies and doing the**
20 **best we can.**

21 Q. So your experience would be that in terms
22 of your ability to get work done, the performance of
23 the Company, it's -- it's been much improved in the
24 environment where you have these performance
25 incentives place -- in place?

1 **A. Absolutely, yes.**

2 MR. COOPER: That's all the questions I
3 have, your Honor.

4 JUDGE SEYER: All right. Thank you,
5 Mr. Carlson.

6 **THE WITNESS: Thank you.**

7 JUDGE SEYER: And Mr. Cooper, you can
8 call your next witness.

9 MR. COOPER: We would recall -- excuse
10 me. We would recall Mr. Cifuentes.

11 (Witness previously sworn.)

12 MANUEL CIFUENTES JR.,
13 the witness, having been first duly sworn,
14 testified as follows:

15 JUDGE SEYER: You may have a seat.
16 You've already been sworn in, so, Mr. Cooper, go
17 ahead.

18 MR. COOPER: We would tender
19 Mr. Cifuentes for cross-examination.

20 JUDGE SEYER: All right. Staff?

21 MS. HANSEN: I do have one question for
22 Mr. Cifuentes.

23 CROSS-EXAMINATION

24 BY MS. HANSEN:

25 Q. Mr. Cifuentes, in your rebuttal test -- or

1 your rebuttal testimony/surrebuttal/sur-surrebuttal
2 testimony on page 8, lines 4 through 9 you say -- and
3 I'm only going to read part of this passage -- but it
4 says, MAWC has two methods by which it can present
5 the cost structure to accomplish its work. And when
6 I say accomplish its work, I am talking about
7 staffing and payroll expense. So again, MAWC has two
8 methods by which it can present the cost structure to
9 accomplish its work. Number one, assume no vacancies
10 and adjust over time temporary employee and
11 contractor expenses accordingly, or two, assume a
12 vacancy rate and include increased expenses for
13 overtime, temporary employee, and contractor expenses
14 to complete the work.

15 The Company chose the first methodology
16 and presented its cost structure accordingly in its
17 revenue request. Mr. Cifuentes, is this correct?
18 Did you -- did MAWC choose the first method?

19 **A. Yes, that is correct.**

20 Q. Correct? All right. So I'm going to
21 repeat this, make sure that I wrap my head around it.
22 So method number one says assume no vacancies and
23 adjust overtime, temporary employee, and contractor
24 expenses accordingly. Mr. Cifuentes, were there
25 vacancies during this time?

1 **A. At what time period are you specifying?**

2 Q. When you formed this cost structure.

3 **A. If you're referring to it as in terms of**
4 **the initial filing, the Company started with a full**
5 **head count of 704 employees, including 59 vacancies**
6 **and included 28 interns and 10 -- 10 summer -- 10**
7 **summer interns. Not summer intern, but 10 other --**
8 **let me see. Summer -- 28 summer temporary employees.**

9 Q. So you're saying that there were vacancies
10 at this time. Is that correct?

11 **A. We're including that re -- there are --**
12 **there's empty positions that we're including into the**
13 **revenue requirement for labor and benefits.**

14 Q. But here you say that you're assuming,
15 that your first method assumes that there are no
16 vacancies.

17 **A. Yes. We're assuming that those positions**
18 **will be filled.**

19 Q. That they will be filled, but they were
20 not actually filled at that time. Is that right?

21 **A. That is correct.**

22 Q. That is correct?

23 **A. As Jody Carlson has mentioned, that**
24 **there --**

25 Q. Sir, I'm sorry. One moment. So you're

1 saying that they are not actually -- that these
2 positions are not actually staffed, that you were
3 doing or that you were assuming no vacancies on
4 the -- on the presumption or on the -- I guess the
5 effort that you were actively filling current
6 vacancies. So my question to you, and it's a yes or
7 no question, is is that assumption that there is no
8 vacancies, is that based on known information?

9 **A. Could you -- could you state the question**
10 **again?**

11 Q. So you assume that there are no vacancies.
12 Is that based on the information that you knew at
13 that time?

14 **A. We're assuming that there's 704 employees**
15 **starting off and then we're assuming that we're going**
16 **to include a full head count to do the necessary work**
17 **for the state of Missouri as -- as witness Jody**
18 **Carlson --**

19 Q. Thank you. I do -- I appreciate what you
20 said, but you also said that there were 59 vacancies
21 at that time. Is that correct?

22 **A. Yes. Fifty-nine vacancies that we're**
23 **trying to hire for.**

24 Q. That you were trying to hire for, that's
25 correct. But your methodology or the method you used

1 was to assume that there were no vacancies. So what
2 I'm trying to say is that it was -- there is a
3 disconnect between your assumption of no vacancies
4 and the known information that you had, that there
5 are 59 vacancies at that time. So my question to you
6 is is the assumption that there are no vacancies, is
7 that based upon known information?

8 **A. Yes. Yes. We do know that there are**
9 **positions that we're trying to hire for.**

10 Q. That was not my question. My question
11 was --

12 MR. COOPER: Objection. I think he has
13 answered the question.

14 JUDGE SEYER: I'll sustain the objection.

15 MS. HANSEN: Thank you.

16 **THE WITNESS: You're welcome.**

17 JUDGE SEYER: All right. Mr. Clizer, do
18 you have questions on cross-examination?

19 MR. CLIZER: No cross-examination
20 questions. Thank you, your Honor.

21 JUDGE SEYER: Do the commissioner have
22 questions? Hearing none. I -- I have a few
23 questions.

24 QUESTIONS

25 BY JUDGE SEYER:

1 Q. And they -- and they're along the same
2 lines but I'm going to take you first to your direct,
3 slash, rebuttal testimony, page 9. Around line 19
4 you state, MAWC's proposed labor and labor-related
5 expenses begins with the starting point of 704
6 full-time positions as of March 31st, 2024, with 97
7 positions layered in for the proforma period.

8 What is -- what is the proforma period
9 first of all?

10 **A. The period would be that 5 --**
11 **the 5/31/2025 period.**

12 Q. Okay. How many annual hours are included
13 in your labor and labor-related expense calculation
14 for each summer intern and the other interns?

15 **A. For the annual hours that would be**
16 **included in the Company schedules KS-13 and KS-9.**
17 **The annual hours, I'd have to review the schedule,**
18 **but it's -- it's done on a prorated basis, and I'd**
19 **have -- I'll verify that.**

20 Q. Okay. But -- but that information can be
21 found in that schedule?

22 **A. That is correct.**

23 Q. Okay. Do you know how many full-time
24 positions were vacant as of December 31st, 2024?

25 **A. That would be approximately, as of**

1 December 31st, 2024, that would be approximately
2 around 58 or 59. So during that time period there
3 were hires and then there was also with the normal
4 course of business, you know, people come and go
5 within the business. So it might have went up, might
6 have went down, but it stayed around maybe 58, 59.

7 Q. So same as March 31st?

8 A. Yes.

9 Q. Okay. And now I'll take you back to
10 page 8 of your rebuttal/surrebuttal/sur-surrebuttal.
11 And in that same statement that Ms. Hansen was asking
12 you about why would it be necessary to increase
13 overtime hours if the actual labor costs reflected a
14 reduced workforce where overtime is already included
15 to compensate for that reduced workforce?

16 A. I can say that the necessary hours are --
17 are included because the work has to get performed to
18 provide safe -- safe, reliable service for the
19 communities in Missouri-American Water. If we don't
20 have those employees, then obviously we will have to
21 go through contracted services. If we're not going
22 through contracted services, the current existing
23 employees would have to, you know, incur additional
24 overtime.

25 JUDGE SEYER: All right. Thank you.

1 Does Staff have any recross?

2 MS. HANSEN: No, thank you.

3 MR. CLIZER: No, thank you, your Honor.

4 JUDGE SEYER: Okay. And then Mr. Cooper,
5 any redirect for the Company?

6 MR. COOPER: No questions.

7 JUDGE SEYER: All right. Then you're
8 free to go. Appreciate your testimony.

9 **THE WITNESS: Thank you, Judge. Thank**
10 **you, Commissioners.**

11 JUDGE SEYER: And if I'm reading the
12 schedule correctly, there are no further Missouri-
13 American witnesses on this issue?

14 MR. COOPER: That's correct, your Honor.

15 JUDGE SEYER: Then Staff, call your first
16 witness.

17 MR. JOHNSON: Thank you, Judge. Staff
18 calls Alexis Branson.

19 JUDGE SEYER: Ms. Branson, will you raise
20 your right hand. Thank you.

21 (Witness sworn.)

22 ALEXIS BRANSON,
23 the witness, having been first duly sworn,
24 testified as follows:

25 JUDGE SEYER: Thank you. And you may sit

1 down. Ms. Klaus, will that be you?

2 MS. KLAUS: Alexandra Klaus on behalf of
3 Staff.

4 DIRECT EXAMINATION

5 BY MS. KLAUS:

6 Q. Good afternoon, Alexis.

7 A. **Good afternoon.**

8 Q. Can you please state and spell your name
9 for the record.

10 A. **My name is Alexis Branson, A-l-e-x-i-s,**
11 **B-r-a-n-s-o-n.**

12 Q. By whom are you employed and in what
13 capacity?

14 A. **I'm employed by the Missouri Public**
15 **Service Commission as a utility regulatory auditor.**

16 Q. Are you the same Alexis Branson who filed
17 direct, slash, rebuttal testimony that has been
18 marked as Staff's Exhibit 204?

19 A. **I am.**

20 Q. Do you have any changes or corrections to
21 your testimony?

22 A. **No.**

23 Q. Your testimony is true and correct to the
24 best of your knowledge and belief?

25 A. **Yes.**

1 Q. If I asked you those same questions today,
2 would your answers be the same or substantially
3 similar?

4 A. They would be.

5 MS. KLAUS: Judge, I move for the
6 admission of Staff's Exhibit 204 and tender the
7 witness for cross-examination.

8 JUDGE SEYER: All right. Thank you. Is
9 there any objection to the admission of Exhibit 204?
10 All right. Hearing none, Exhibit 204 is admitted.

11 (Staff Exhibit 204 was admitted and made
12 a part of this record.)

13 JUDGE SEYER: All right. Mr. Cooper?

14 MR. COOPER: No questions.

15 JUDGE SEYER: All right.

16 MR. CLIZER: No questions, your Honor,
17 thank you.

18 JUDGE SEYER: All right. Yes,
19 Commissioner Kolkmeyer.

20 COMMISSIONER KOLKMEYER: Yes, I have a
21 quick question. Thank you, Judge.

22 QUESTIONS

23 BY COMMISSIONER KOLKMEYER:

24 Q. Good afternoon.

25 A. Good afternoon.

1 Q. I'll make it quick because it's getting
2 late in the day. But when you audit the books, are
3 you auditing the actual payroll expenses, or are you
4 auditing the projected full staffing numbers?

5 **A. Actually my responsibility was solely on**
6 **the O&M capitalization factor. I did not personally**
7 **touch payroll. That would be a question for**
8 **Ms. Sherrye Lesmes.**

9 COMMISSIONER KOLKMEYER: Okay. Thank you.

10 JUDGE SEYER: All right. And I have a
11 quick question.

12 QUESTIONS

13 BY JUDGE SEYER:

14 Q. Will Staff be updating their labor-related
15 capitalization percentages and expense amounts
16 through December 31st, 2024 in true-up testimony?

17 **A. We had not planned to. It was not one of**
18 **the things that was labeled as something that was**
19 **going to true-up in Kim Bolin's testimony.**

20 JUDGE SEYER: Okay. Any recross by any
21 of the parties? Any redirect?

22 MS. KLAUS: No, thank you, Judge.

23 JUDGE SEYER: All right. All right.

24 Ms. Branson, you're free to go. Thank you. And
25 Staff may call their next witness.

1 MR. JOHNSON: Thank you. Staff calls
2 Ms. Sherrye Lesmes.

3 JUDGE SEYER: Good afternoon, Ms. Lesmes.
4 Would you raise your right hand please.

5 (Witness sworn.)

6 SHERRYE LESMES,
7 the witness, having been first duly sworn,
8 testified as follows:

9 JUDGE SEYER: Thank you.

10 DIRECT EXAMINATION

11 BY MS. HANSEN:

12 Q. Ms. Lesmes, can you please state your name
13 for the record, spell and -- spell your last name
14 please.

15 A. **Sherrye Lesmes, S-h-e-r-r-y-e L-e-s-m-e-s.**

16 Q. By whom are you employed and what is your
17 position?

18 A. **The Missouri Public Service Commission as**
19 **a utility regulatory auditor.**

20 Q. Have you prepared and filed testimony in
21 this proceeding, specifically direct testimony on --
22 direct testimony and surrebuttal testimony which have
23 been premarked as Exhibits 207 and 220 respectively?

24 A. **Yes.**

25 Q. Do you have any changes or corrections to

1 make to any of these documents?

2 **A. No.**

3 Q. If I were to ask you the same questions in
4 those documents today, would your answers be the same
5 or substantially the same?

6 **A. Yes.**

7 Q. And are those same answers true and
8 correct to the best of your knowledge and belief?

9 **A. Yes.**

10 MS. HANSEN: I offer Exhibits 207 and 220
11 into evidence and tender the witness for cross.

12 JUDGE SEYER: All right. Now, the list
13 that I was provided has 220 as
14 cross-rebuttal/surrebuttal for Ms. Malki.

15 MS. HANSEN: I apologize. That's 219.

16 JUDGE SEYER: Okay. So is there any
17 objection to Exhibit 207 or 219? All right. Then I
18 will admit Exhibit 207, both public and confidential
19 versions, and 219.

20 (Staff Exhibits 207 and 219 were admitted
21 and made a part of this record.)

22 JUDGE SEYER: And, Mr. Cooper, do you
23 have questions?

24 MR. COOPER: I do. Thank you.

25 CROSS-EXAMINATION

1 BY MR. COOPER:

2 Q. Ms. Lesmes, were you here earlier -- well,
3 let me back up. Are you familiar with DR 265 to
4 which Staff responded in this case?

5 A. Yes.

6 Q. And that was a DR that you were
7 responsible for. Correct?

8 A. Yes.

9 Q. And it concerned, as I understand it, a
10 recounting of Staff's sort of relook at various job
11 positions. Correct?

12 A. Yes.

13 Q. And the -- sort of the explanation of that
14 is an attachment or the spreadsheet associated with
15 DR 265 is a schedule to Mr. Cifuentes'
16 rebuttal/surrebuttal/sur-surrebuttal. Correct?

17 A. I believe so, yes.

18 Q. Okay. And within that response, that
19 spreadsheet, you go through and you position by
20 position explain the Staff, as I understand it,
21 updated payroll position. Correct?

22 A. Yes.

23 Q. And most of those explanation start with
24 information Missouri-American provided in DR 243
25 and 243.1 correct?

1 **A. That's correct.**

2 Q. Okay. And does that represent a change in
3 position I guess after the filing of your
4 cross-rebuttal testimony?

5 **A. After my direct, yes.**

6 Q. Would it -- and I guess maybe there was no
7 calculation of payroll expense that shows up in the
8 cross-rebuttal. Is that correct?

9 **A. No. There was a correction after the**
10 **cross or at the cross, I apologize.**

11 Q. At the cross-rebuttal stage?

12 **A. Yes. That is correct.**

13 MR. COOPER: Okay. That's all the
14 questions I have at this time, your Honor.

15 JUDGE SEYER: All right. Thank you.
16 Mr. Clizer, any on behalf of the Public Counsel?

17 MR. CLIZER: Yes. I'll try and make it
18 brief.

19 CROSS-EXAMINATION

20 BY MR. CLIZER:

21 Q. Good evening, Ms. Lesmes. So again, I
22 don't know if you were here earlier, but Ms. Sarver
23 informed me that you were the person I needed to talk
24 to when it came to this whole support services
25 payroll component. So my questions today will focus

1 mainly on that. It is correct that you are the Staff
2 employee who effectively was going through and
3 determining whether or not support service payroll
4 and expenses should be included as part of the
5 Staff's recommendation. Is that accurate?

6 **A. Yes, that's correct.**

7 Q. And then you may have made disallowances
8 related to, for example, business development and
9 external affairs payroll. Correct?

10 **A. Correct.**

11 Q. And is it my understanding that for most
12 of the external affairs you were making the
13 disallowance because Staff concluded the jobs were
14 primarily focused on lobbying?

15 **A. And political activities, yes.**

16 Q. Okay. So to the extent that Staff claims
17 that it was removing the lobbying expenses, that
18 would include necessarily removing the external
19 affairs and policy payroll sort of obligated to this
20 support services?

21 **A. I need to clarify with you that what piece
22 we're talking about that I handled was support
23 services payroll only. The lobbying expenses were
24 part of miscellaneous expense. Separate issue.**

25 Q. I understand that, but I want to make sure

1 this is very clear. There were payroll expenses
2 included in support services related to external
3 affairs and policy that were disallowed because you
4 concluded they were effectively lobbying, that the
5 individuals were engaged in lobbying. Is that
6 accurate?

7 **A. Yes.**

8 Q. Okay. So part of the removal of the
9 payroll expenses for the external affair positions
10 were removed because they were associated with
11 lobbying?

12 **A. Correct.**

13 Q. All right. That's the part I needed to
14 make sure. And again, you also removed the business
15 development payroll expenses as well. Correct?

16 **A. Some of the positions that were classified
17 as business development were excluded.**

18 Q. All right. And is it correct to say that
19 the position of Staff with these costs were excluded
20 primarily because they were not -- they benefited
21 shareholders over ratepayers?

22 **A. That would be correct.**

23 Q. All right. And then one last thing, as
24 part of Staff's investigation when it reviewed the
25 investor relations component of this, how closely did

1 Staff consider the performance related to the
2 development of environmental sustainability --
3 environmental social and governance reports or ESG
4 reports?

5 **A. That was not a consideration in the**
6 **evaluation. It was more a matter of investor**
7 **relations was looked at from the viewpoint that it**
8 **benefited both the investor, the Company, and the**
9 **consumer.**

10 MR. CLIZER: Okay. No further questions.
11 Thank you for your time.

12 JUDGE SEYER: Any other cross? All
13 right. Hearing none. Commissioner Kolkmeyer.

14 COMMISSIONER KOLKMEYER: Thank you,
15 Judge.

16 QUESTIONS

17 BY COMMISSIONER KOLKMEYER:

18 Q. Good evening, Ms. Lesmes. I'm going to
19 ask you the same question I asked Ms. Branson about
20 where the -- did you take any of that payroll out.
21 Or no. Do you -- do you audit the actual numbers or
22 do you put in projected numbers or a budget number
23 for full staffing?

24 **A. Sure. Actual.**

25 Q. Actual?

1 **A. Correct.**

2 Q. Okay. Thank you. And you left all of the
3 investor relations in there?

4 **A. Correct.**

5 Q. Even -- even the expense side. But you
6 only deal with the payroll. Correct?

7 **A. Only the payroll.**

8 COMMISSIONER KOLKMEYER: Only the payroll.
9 Okay. Thank you. Thank you, Judge.

10 JUDGE SEYER: All right.

11 QUESTIONS

12 BY JUDGE SEYER:

13 Q. Ms. Lesmes, when it comes to the June 2024
14 amounts, will you make adjustments to those amounts
15 related to payroll to bring the cost of service out
16 to the December 31st, 2024 in your true-up testimony?

17 **A. The work product that I did was one as
18 of 6/30/2024. We did agree to do a true-up through
19 December 31, 2024, so that -- that will happen.**

20 JUDGE SEYER: Okay. That was my only
21 question. Would any of the parties like to recross
22 based on Commissioner's question or my question? I'm
23 seeing noes. Any redirect?

24 REDIRECT EXAMINATION

25 BY MS. HANSEN:

1 Q. Ms. Lesmes, MAWC referred a little bit to
2 the schedule attached to Mr. Cifuentes', I think it's
3 in his rebuttal/surrebuttal/sur-surrebuttal
4 testimony. Can you tell me a little bit more about
5 the -- these positions?

6 A. If I may clarify what we're -- and
7 identify the document. It is labeled schedule MCJ-1.
8 Is that correct?

9 Q. That is correct.

10 A. Okay. So this would be my response to
11 their DR request 265 asking what positions I was
12 going to be disallowing and the reason for that. So
13 that is the list that I have in front of me for this
14 schedule.

15 Q. All right. And then did you add positions
16 back in?

17 A. Yes.

18 Q. Okay. Can you tell me a little bit why
19 you added those positions back in?

20 A. At the time of our initial filing, our
21 direct filing, we did not have job descriptions or a
22 list of duties associated with job titles. And so we
23 excluded some job titles that were labeled and
24 classified as business development by the Company.
25 So when we received their response to our DR

1 requests 243 and 243.1, we had an opportunity to
2 re-review based on their information. And that is
3 what those add ins, add back ins were based on.

4 Q. Thank you. And I do have one more
5 question. Okay. And please tell me if I'm wrong,
6 but do the corrected accounting schedules filed on
7 February 18th reflects the changes discussed in
8 cross-rebuttal?

9 A. Yes.

10 MS. HANSEN: Okay. Thank you.

11 JUDGE SEYER: All right. All right.

12 Thank you, Ms. Lesmes, for your testimony. You're
13 free to go.

14 THE WITNESS: Thank you, Judge.

15 JUDGE SEYER: Mr. Clizer, I've got a
16 question for you. As I look at this hearing
17 schedule, I don't see another day when Ms. Schaben is
18 scheduled to testify. Is that correct?

19 MR. CLIZER: I think that might be right,
20 yes.

21 JUDGE SEYER: All right. So do we need
22 to take her out of order in case Ms. Niemeier's
23 testimony goes long?

24 MR. CLIZER: Unless Ms. Schaben taps me
25 on the shoulder here, I don't think that there's a

1 problem with taking her up next week. As long as
2 we're not trying to push things until tomorrow just
3 because tomorrow will be incredibly busy.

4 JUDGE SEYER: Okay. But is it -- is she
5 willing to stay late tonight?

6 MS. SCHABEN: I'm up for it, you know.

7 JUDGE SEYER: All right. Then, Staff, if
8 you'll go ahead and call your next witness then.

9 MR. JOHNSON: Thank you, Judge. I
10 call -- or excuse me. Staff calls Angela Niemeier.

11 JUDGE SEYER: All right. Ms. Niemeier,
12 would you raise your right hand please. Thank you.

13 (Witness sworn.)

14 ANGELA NIEMEIER,
15 the witness, having been first duly sworn,
16 testified as follows:

17 JUDGE SEYER: All right. Perfect. Thank
18 you.

19 DIRECT EXAMINATION

20 BY MR. JOHNSON:

21 Q. Would you please state your name and spell
22 your last name for the record.

23 A. Yeah. My name is Angela Niemeier,
24 A-n-g-e-l-a N-i-e-m-e-i-e-r.

25 Q. Thank you. And by whom are you employed

1 and in what capacity?

2 **A. I'm employed by the Missouri Public**
3 **Service Commission as a lead senior utility**
4 **regulatory auditor.**

5 Q. All right. Thank you, Ms. Niemeier. Have
6 you prepared or caused to be prepared testimony in
7 this proceeding marked as Exhibit 210, public and
8 confidential, direct -- or excuse me, direct and
9 rebuttal testimony marked as Exhibit 210, public and
10 confidential, and cross-rebuttal and surrebuttal
11 testimony which has been marked as Exhibit 223?

12 **A. Yes.**

13 Q. And do you have any changes or corrections
14 to that testimony?

15 **A. No.**

16 Q. And if I were to ask you the same
17 questions contained in those documents today, would
18 your answers be the same or substantially similar?

19 **A. Yes.**

20 Q. And are those same answers true and
21 correct to the best of your knowledge and belief?

22 **A. Yes.**

23 MR. JOHNSON: Judge, at this time I would
24 offer Exhibits 210, public and confidential, and 223
25 into evidence and tender the witness for cross.

1 JUDGE SEYER: All right. Are there any
2 objection to the admission of those exhibits?
3 Hearing none, Exhibit 210 and 223 are admitted.

4 (Staff Exhibits 210 and 223 were admitted
5 and made a part of this record.)

6 JUDGE SEYER: Any cross by the Company?

7 MR. COOPER: No questions.

8 JUDGE SEYER: Public Counsel?

9 MR. CLIZER: Yes, briefly.

10 CROSS-EXAMINATION

11 BY MR. CLIZER:

12 Q. Good evening, Ms. Niemeier. You were
13 responsible for providing testimony on the incentive
14 compensation program as Staff's position on it.
15 Correct?

16 **A. Yes.**

17 Q. And to verify, Staff's position is to
18 remove 50 percent of the APP for nonunion employees
19 and the entirety of the LTPP and then maintain a
20 hundred percent of it for union employees. Is that
21 accurate?

22 **A. Can you say that again?**

23 Q. I'll try to do it slower. Staff position
24 was to remove 50 percent of the APP for nonunion
25 employees. Let's break it down. Is that part

1 correct?

2 **A. Yes.**

3 Q. And then remove a hundred percent of the
4 LTPP?

5 **A. Yes.**

6 Q. And remove -- allow a hundred percent for
7 the union employees for the APP. Is that accurate?

8 **A. Yes.**

9 Q. Okay. So my question is simply this:
10 With regard to the union employees, Staff's position,
11 it was premised on its interpretation of the statute
12 that would, in Staff's opinion, require those costs
13 to be included. Is that accurate?

14 MR. JOHNSON: Judge, I'm going to object
15 to the extent that Mr. Clizer asking Ms. Niemeier for
16 a legal determination.

17 MR. CLIZER: I would actually like to make
18 sure this is very clear. I'm not asking her for a
19 legal determination. What I want to know
20 specifically is whether Staff's decision was premised
21 on that statute. Moreover to the point I actually
22 disagree with the position taken by Staff in
23 interpreting the statute; I just need to make sure
24 it's clear that that's what's driving their decision.

25 JUDGE SEYER: I think I'll allow that.

1 You may answer the question.

2 **THE WITNESS: Yes. But I would like to**
3 **know exactly which statute he's asking.**

4 BY MR. CLIZER:

5 Q. Do you have it off the top of your head?

6 **A. Yes.**

7 Q. Go for it.

8 **A. 386.315.1.**

9 Q. Right. And so my question then is in the
10 absence of that statute, would Staff have taken a
11 different position?

12 **A. Yes, I believe so.**

13 MR. CLIZER: All right. No further
14 questions. Thank you, your Honor.

15 JUDGE SEYER: Is there any other
16 cross-examination? Seeing none. Do the
17 commissioners have any questions? All right. And I
18 don't have any questions myself, so you're free to
19 go. Could you be done in five minutes, Mr. Clizer?

20 MR. CLIZER: My part takes about five
21 seconds. It's everyone else you have to worry about.

22 JUDGE SEYER: All right. Ms. Schaben,
23 would you retake the stand please.

24 (Witness previously sworn.)

25 ANGELA SCHABEN,

1 the witness, having been first duly sworn,
2 testified as follows:

3 JUDGE SEYER: Go ahead, Mr. Clizer.

4 MR. CLIZER: Ms. Schaben's testimony has
5 been offered and admitted. I therefore tender the
6 witness.

7 JUDGE SEYER: All right. Mr. Coffman,
8 any questions?

9 MR. COFFMAN: No questions, your Honor.

10 JUDGE SEYER: How about on behalf of
11 Staff?

12 MR. JOHNSON: I have no questions, Judge.

13 JUDGE SEYER: And on behalf of the
14 Company?

15 MR. COOPER: Yes, your Honor.

16 CROSS-EXAMINATION

17 BY MR. COOPER:

18 Q. Ms. Schaben, in your cross-rebuttal
19 testimony you have -- you discuss this
20 section 386.315.1 that was just mentioned, don't you?

21 **A. Can you tell me what page? Yeah.**

22 Q. Sure. On pages 3 to 4 and starting, oh,
23 about line 13 I believe on page 3.

24 **A. Thirteen on page 3. Oh, yes, I see it.**

25 Q. And you then go on to essentially opine as

1 to the meaning of that statute, don't you?

2 **A. My opinion on the statute is that it**
3 **doesn't say who should pay. It doesn't specify**
4 **whether ratepayers or shareholders should be**
5 **responsible. That's about the extent of my opining.**

6 Q. Okay. Still on page 3, lines 18
7 through 20, you've got, starting with Commission
8 shall, you've got quote marks there. And that's --
9 that's a portion of that statute, isn't it?

10 **A. That is a portion, yes.**

11 Q. Okay. And in the part that is also in the
12 statute that you didn't quote actually comes at the
13 beginning of that -- that section and says, In
14 establishing public utility rates, comma, the
15 Commission shall.

16 Correct? That would be a full reading of
17 the statute?

18 **A. Oh, I actually have a copy of it. In**
19 **establishing public utility rates the Commission**
20 **shall not reduce or otherwise change --**

21 Q. Okay.

22 **A. -- the rate.**

23 Q. So would you agree with me that the
24 statutory provisions relate specifically to the
25 establishment of public utility rates?

1 MR. CLIZER: I'm going to object to her
2 legal interpretation of that part.

3 MR. COOPER: I guess my response is is
4 that her testimony already opines as to the meaning
5 of this statute, so.

6 JUDGE SEYER: You can answer the
7 question. I'll overrule the objection. You can
8 answer the question.

9 THE WITNESS: Okay. Well, in reading the
10 statute what it says to me is that it -- the
11 Commission shall not change the rate, which they
12 wouldn't be because that's already defined in the
13 union contract.

14 BY MR. COOPER:

15 Q. But it also, it limits it to establishing
16 public utility rates. Correct? I mean, there's no
17 ignoring that that's at the beginning of that
18 statute. Correct?

19 MR. CLIZER: And I'm going to again
20 object. The statute reads for itself. The point
21 he's trying to make can be made in the briefing.

22 JUDGE SEYER: I'll sustain that
23 objection.

24 BY MR. COOPER:

25 Q. Well, let's -- let's try this then. Other

1 than how costs associated with these collected
2 bargaining agreements are reflected in public utility
3 rates, to your knowledge does the Missouri Public
4 Service Commission have any authority or jurisdiction
5 over a collective bargaining agreement?

6 **A. No.**

7 Q. Okay. Now, also in your cross-rebuttal
8 testimony you state, Illinois and Iowa have both
9 removed incentive compensation from revenue
10 requirement for both union and nonunion workers.
11 Correct?

12 **A. Where's that?**

13 Q. Page 5, lines 10 to 11.

14 **A. In reference to the -- the EPS portion,
15 the financially-based EPS, the 50 percent.**

16 Q. And only that 50 percent?

17 **A. Only that 50 percent.**

18 Q. Right. But you also make the distinction
19 between union and nonunion workers. Correct?

20 **A. Yes.**

21 Q. And would you agree that Illinois and Iowa
22 do not have a statute similar to 386.315.1?

23 **A. I mean, I'm not actually sure.**

24 Q. So you just don't know?

25 **A. No, I don't.**

1 Q. Okay. And is it also your understanding
2 that West Virginia-American, Indiana-American,
3 Pennsylvania-American and Virginia-American Water
4 Company all receive recovery of 100 percent of
5 performance pay in rates for both union and nonunion
6 employees?

7 A. Oh, are -- those are the only American
8 Water affiliates that do allow full compensation.
9 The other ones do not.

10 Q. But for those, it's a hundred percent.
11 Correct?

12 A. For those it's a hundred percent.

13 Q. That's all --

14 A. But not for all the others.

15 MR. COOPER: That's all the questions I
16 have, your Honor.

17 JUDGE SEYER: All right. Any questions
18 from the commissioners? All right. I don't have any
19 questions so you're free to go. Two minutes over.

20 MR. CLIZER: I am allowed redirect, but I
21 don't have anything, so. As long as I don't have
22 anything.

23 JUDGE SEYER: Trying to help you out,
24 trying to get you out under the wire.

25 MR. CLIZER: I don't -- I do not have

1 redirect.

2 JUDGE SEYER: Okay. You are free to go
3 and that was the last witness scheduled for today.
4 Correct? So we'll adjourn the hearing for today and
5 go off the record.

6 (Whereupon, the hearing was adjourned
7 at 5:02 p.m.)

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1 CERTIFICATE OF REPORTER

2 STATE OF MISSOURI)

3 COUNTY OF CALLAWAY)

4 I, Shelley L. Bartels, a Certified Court
5 Reporter, CCR No. 679, do hereby certify that I was
6 authorized to and did stenographically report the
7 transcript of proceedings; and that the foregoing
8 transcript, pages 1 through 308, is a true record of
9 my stenographic notes.

10 I FURTHER CERTIFY that I am not a relative,
11 employee, or attorney, or counsel of any of the
12 parties, nor am I a relative or employee of any of
13 the parties' attorney or counsel connected with the
14 action, nor am I financially interested in the
15 action.

16

17 DATED this 9th day of March, 2025.

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Shelley L. Bartels, CCR 679

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