

Exhibit No. 5

Missouri-American Water Company – Exhibit 5
Testimony of Jody L. Carlson
Rebuttal/Surrebuttal/Sur-Surrebuttal
File No. WR-2024-0320

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|-------------------|---|
| Exhibit No.: | |
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| Witness: | Jody L. Carlson, P.E. |
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| Date: | January 24, 2025 |

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2024-0320

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

OF

JODY L. CARLSON, P.E.

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Jody L. Carlson, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am the Vice President of Operations for Missouri American Water Company, Inc., that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.


Jody L. Carlson

January 21, 2025
Dated

REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY
JODY L. CARLSON, P.E.
MISSOURI AMERICAN WATER COMPANY
CASE NO.: WR-2024-0320

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REBUTTAL/SURREBUTTAL/SUR-SURREBUTTAL TESTIMONY

JODY L. CARLSON, P.E.

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Jody L. Carlson, and my business address is 727 Craig Road, St. Louis, MO, 63141.

Q. Are you the same Jody L. Carlson who previously submitted Direct Testimony in this proceeding before the Missouri Public Service Commission (Commission)?

A. Yes.

Q. What is the purpose of this testimony?

A. I will respond to the Direct/Rebuttal Testimony and Cross-Rebuttal Testimony of the Staff of the Commission (Staff) and Office of the Public Counsel (OPC) in regard to Employee Levels, Market Based Total Compensation, Resource Planning, Water Loss Reports, Proposed Tariff Changes, Call Center, and Paperless Billing. I have not attempted to respond to every argument made by the other parties in this case. The fact that I may not have responded to any specific argument or statement does not indicate my agreement with that argument or statement.

II. EMPLOYEE LEVELS

Q. What adjustments does Staff witness Lesmes propose to MAWC's Employee Levels?

A. Staff witness Lesmes performs a series of adjustments to MAWC's labor: (1) removes 59 currently vacant positions identified as of March 31, 2024; (2) removes portion of wages for employees involved in lobbying activities based on the percentage of lobbying activities; (3) removes labor costs for employees that were in job positions that Staff

1 believed “did not directly relate to providing safe and adequate utility service to ratepayers
2 based on job descriptions”; and (4) determined the Staff union employee overtime
3 adjustment by multiplying Staff’s calculated overtime percentage by Staff’s annualized
4 labor.¹ Ms. Lesmes states that “Staff will continue to review this issue through December
5 31, 2024, as part of its update period.” The Company’s response to these recommendations
6 is primarily found in the Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony of MAWC
7 witness Cifuentes. However, I would like to address one of the recommendations in more
8 detail.

9 **Q. Staff recommends removing 100% of the payroll expense for the 59 vacancies that**
10 **were part of MAWC’s seven hundred sixty-three (763) full-time employees included**
11 **in its revenue requirement. Do you agree with this recommendation?**

12 A. No, I do not. The Company’s work must be completed with available resources (full-time
13 employees, overtime, temporary employees or contract employees). Vacancies are the
14 result of employees retiring or otherwise leaving the business, but these positions continue
15 to be critical, skilled positions that must be timely filled. MAWC has two methods by
16 which it can present the cost structure to accomplish its work: (1) assume no vacancies and
17 adjust overtime, temporary employee and contractor expenses accordingly, or (2) assume
18 a vacancy rate and include increased expenses for overtime, temporary employee and
19 contractor expenses to complete the work. The Company chose the first methodology and
20 presented its cost structure accordingly in the revenue request. This methodology is
21 appropriate as the Company is actively filling its current vacancies.

22 **Q. Why do you disagree with Staff witness Lesmes’s vacancy payroll expense**

¹ Lesmes DT/RT, p. 7, line: 20 through page 8, line 3.

1 **adjustment?**

2 A. Ms. Lesmes disagreed with the Company's approach and chose only a portion of the second
3 methodology, a reduction for employee vacancies. She did not provide for the
4 corresponding increased overtime, temporary or contract labor costs that would be incurred
5 to accomplish the same level of work, as contemplated by the Company's proposed
6 employee level. Therefore, this proposed reduction is incomplete and insufficient to
7 address the costs required to perform the work.

8 As discussed in my Direct Testimony, the number of employees is based upon each
9 department and functional area's plans to continue providing safe, clean, reliable, and
10 affordable service to our customers. Service needs and related resource requirements are
11 consistent with meeting regulatory requirements, tariff requirements, industry standards,
12 service requests, customer needs, and providing support to the business operations in the
13 most cost-effective way to best serve the long-term interests of our customers. As I
14 explained, MAWC's request includes new positions to support the Company's increased
15 capital investment program, SCADA operations and cross-connection program, as well as
16 the Company's continued efforts to bring safe, reliable and affordable service to additional
17 Missourians across the state. There are also additional positions related to the Company's
18 four acquisitions since the last rate case.²

19 Further, the volume of work is going to continue to expand due to increased regulatory
20 requirements, and the need to maintain proper system maintenance to extend asset life and
21 avoid costly repairs or replacement due to unplanned asset failure. Applying the statement

² Carlson DT, page 33.

1 above, if the amount of required work in order to continue to provide adequate service to
2 our customers increases, the available resources must increase as well to accommodate.

3 **Q. Describe the increase in necessary workload.**

4 A. The EPA retained the 2021 Lead and Copper Rule Revisions (LCRR) October 16, 2024
5 compliance date for initial service line inventory, notification of service line material, Tier
6 1 public notification of lead action level exceedance, and associated reporting requirement.
7 Water systems will directly transition from the LCRR to the Lead and Copper Rule
8 Improvements (LCRI) for all other rule provisions by the LCRI compliance date of
9 November 1, 2027. The final rule establishes requirements to locate and replace lead
10 service lines within 10 years, improve tap sampling, lower the lead action level, strengthen
11 public health protection through filter requirements, and improve communication.

12 The work associated with expanded sampling includes the setup of additional sites to be
13 sampled which requires outreach to the customer, agreement to be a sample site, updates
14 to system records, maintaining appropriate inventory levels for sampling, and work
15 scheduling to conduct the sampling and associated travel time between sampling sites.
16 This work includes doubling the amount of current lead & copper sampling sites as well as
17 adding sampling for all day cares and schools in our service territories.

18 The work associated with lead service line inventory includes updating all unknown
19 material types on both the customer and company side of the service. When lead service
20 lines are identified, those services will be replaced. Customer outreach, record updating
21 and reviewing, canvassing, scheduling replacements with customers, re-tapping water
22 main and replacing service lines, maintaining proper inventory levels, pitcher/filter
23 distribution, and additional sampling are just a few of the additional tasks that will be

1 required of every lead service line replacement we complete with internal or contracted
2 crews.

3 **Q. How will these new requirements compare to MAWC's previously existing lead**
4 **service line replacement program?**

5 A. MAWC started replacing lead service lines in 2017, when such lines are identified during
6 water main replacement projects and when addressing leaking service lines. The LCRI
7 requires a more proactive approach to finding and replacing all lead service lines by 2037
8 across our entire footprint for over 500,000 customer connections and, as a result, will
9 require more resources.

10 **III. MARKET BASED TOTAL COMPENSATION**

11 **Q. Please summarize Staff and OPC's proposed adjustments to total direct**
12 **compensation.**

13 A. Neither Staff nor OPC challenge MAWC's total direct compensation amounts, or the
14 compensation market analysis presented by Company witness Robert Mustich in his Direct
15 Testimony.³ However, Staff recommends disallowance of 50% of the Annual Performance
16 Plan ("APP") paid to non-union MAWC employees, and a disallowance of 50% of APP
17 for the Service Company employees in the amount of \$1,500,900; Staff also recommends
18 a disallowance for the entirety of the Long-Term Performance Plan ("LTPP").⁴ Staff is
19 recommending 100% allowance of the APP for union employees as it is part of the National
20 Benefits Agreement.

³ Mustich DT, Schedule RVM-1

⁴ Niemeier DT/RT, p. 20-21 (recommending full disallowance asserting that the LTPP is primarily tied to financial performance and that it's not "actually paying any expense" because there is no cash outlay).

1 OPC recommends removing all expenses resulting from APP and LTPP from the revenue
2 requirement and states that “MAWC has not quantified how the operational metrics utilized
3 to develop their incentive compensation plans will benefit ratepayers.”⁵

4 Additionally, please note that Company witness Manuel Cifuentes addresses performance
5 compensation related issues specific to Service Company employees in his
6 Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony.

7 **Q. Do you agree with Staff and OPC’s adjustments to total direct compensation,**
8 **specifically performance compensation⁶?**

9 A. No, I do not. First, it is important to understand, as I explained in my Direct Testimony,
10 performance compensation is an integral part of the Company’s compensation program
11 and is structured to represent total market-based compensation. The Company’s total
12 compensation plan is designed to align the interests of all of MAWC’s stakeholders – its
13 employees, its customers, and its investors – and to encourage superior employee
14 performance. In this regard, performance is not measured by simply looking at dollars, but
15 on results that most directly influence customer satisfaction, health and safety, as well as
16 environmental and operational performance. Without the performance pay component, the
17 compensation offered to employees would not be competitive with utility and *non-utility*
18 companies with whom MAWC competes for a talented and experienced workforce.
19 Additionally, eliminating a portion of the Company’s overall target total direct
20 compensation puts the Company at a disadvantage for retaining its employees. Providing

⁵ Schaben DT/RT, p. 15, lines 26-27.

⁶ For purposes of this Testimony, “incentive compensation” or “performance compensation” refers to both the APP and LTPP plans unless otherwise stated; and “target total direct compensation” refers to base compensation and all performance-based compensation.

1 compensation that is competitive in the market is critical to retaining employees that are
2 key to the Company's mission to provide safe and reliable service to its customers. As Mr.
3 Mustich mentions in his Direct⁷ and Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony,⁸ the
4 Company avoids costs and inefficiencies associated with hiring and training new
5 employees when it retains a stable experienced workforce, which, in turn, benefits our
6 customers.

7 Finally, if the Company were to eliminate all or part of its performance-based
8 compensation, it would likely be forced to increase fixed pay above market competitive
9 levels to remain competitive in the talent market, as Mr. Mustich describes in his Direct
10 Testimony.⁹

11 **Q. OPC witness Schaben recommends removing all expenses resulting from APP and**
12 **LTPP from the revenue requirement, is there a Missouri statute applicable to**
13 **performance compensation in this situation¹⁰?**

14 A. Yes. As was recognized in MAWC's last rate case, Section 386.315.1, RSMo, provides, in
15 part, that "In establishing public utility rates, the commission shall not reduce or otherwise
16 change any wage rate, benefit, working condition, or other term or condition of
17 employment that is the subject of a collective bargaining agreement between the public
18 utility and a labor organization."

19 **Q. Do MAWC's Union employees participate in the APP?**

20 A. Yes, as Staff witness Niemeier recognizes, the National Benefits Agreement provides APP

⁷ Mustich DT, pp. 14-15, lines 17-23 and 1-4, respectively.

⁸ Mustich RT, p. 4.

⁹ Mustich DT, p. 13.

¹⁰ Schaben DT/RT, p. 1.

1 for union employees.¹¹ Thus, at a minimum, recovery of these amounts is required by
2 statute.

3 **Q. In her Cross-Rebuttal Testimony, Ms. Schaben quotes a portion of Section 386.315.1,**
4 **RSMo, and then suggests that her proposed disallowance of the recovery of APP**
5 **provided to union employees pursuant to a collective bargaining agreement would**
6 **not violate this statute.¹² While you are not an attorney, do you notice anything about**
7 **the portion of the statute quoted by Ms. Schaben?**

8 A. Yes. In her quote she neglects the first part of the statute, which requires Commission
9 conduct “In establishing public utility rates,” I will leave the significance of this
10 provision to the legal arguments.

11 **Q. Have Staff and OPC properly articulated MAWC’s APP and LTPP program goals?**

12 A. No. Staff Witness Niemeier states that APP has “four performance categories... ‘Growth’
13 ...‘safety’ ... ‘people’ ... and ‘customer’”¹³ However, as stated in my Direct
14 Testimony, MAWC’s APP is comprised of five categories: (1) Growth, (2) Customer, (3)
15 Safety, (4) People, and (5) *Environmental Leadership*.¹⁴

16 Both Witness Niemeier and OPC Staff Witness Schaben incorrectly state that LTPP is
17 100% based upon financial metrics and their success.¹⁵ As described in my Direct
18 Testimony MAWC’s LTPP provides two different types of stock units with different
19 vesting criteria.¹⁶ Restricted stock units (“RSUs”) are based on time-based vesting —

¹¹ Niemeier DT/RT, p. 20-21.

¹² Schaben C-RT, pp. 3-4.

¹³ Niemeier Confidential DT/RT, p. 18.

¹⁴ Carlson DT, p. 39.

¹⁵ Niemeier DT/RT, p. 20, lines 24-25; Schaben DT/RT, p. 2, lines 14-16.

¹⁶ Carlson DT, p. 39.

1 meaning they are vested in three equal installments. Performance stock units (“PSUs”) are
2 based on set performance vesting conditions, in addition to time.

3 **Q. Does Staff or OPC assert that MAWC’s total compensation plan results in imprudent**
4 **or unreasonable costs?**

5 A. No. Witness Niemeier does not take issue with the fact that the performance compensation
6 plans are offered as structured. Instead, she asserts 50% of APP costs and 100% of the
7 LTPP costs should not be included in rates because those costs are “tied to MAWC’s and
8 AWWC’s financial performance” and “there has been no connection found between the
9 financial results for which incentives are awarded and tangible benefits to ratepayers”
10 citing Commission decisions from more than thirty years ago.¹⁷ Ms. Niemeier has omitted
11 the following portion of the Commission’s position in *In re Union Electric Co.*, Case No.
12 EC-87-114: “The Commission believes that programs designed to improve management
13 performance should be *encouraged* and is not opposed ... to cost of service recovery of the
14 costs associated with such programs.” (emphasis added). Unlike the Commission’s finding
15 in the cited case, the Company has demonstrated that the Company’s performance
16 compensation does provide benefits to customers, and therefore, it is appropriate for “cost
17 of service recovery”.

18 Additionally, as Mr. Mustich discusses in his Rebuttal/Surrebuttal/Sur-Surrebuttal
19 Testimony, Ms. Niemeier’s viewpoint fails to recognize that compensation programs and
20 perspectives evolve over time and having holistic programs that align to customer,
21 employee and shareholder objectives are mutually beneficial and create sustainable, long

¹⁷ Niemeier DT/RT, p. 20.

1 term positive performance.¹⁸

2 While OPC Witness Schaben does not assert that costs of MAWC's total compensation
3 plan are imprudent or unreasonable, she states "MAWC has not quantified how the
4 operational metrics utilized to develop their incentive compensation plans will benefit
5 customers"¹⁹ and takes issue with the Company's goals related to Inclusion, Diversity, and
6 Equity ("ID&E"), safety, and environmental compliance metrics.²⁰

7 **Q. Would Staff and OPC's respective recommendations related to APP and LTPP from**
8 **recoverable costs be impacted by changing the Company's compensation structure?**

9 A. Maybe. It appears Staff and OPC would recommend complete recovery of the full market-
10 based compensation from customers if MAWC included the disputed portion of
11 compensation in employees' base pay rather than awarding it through APP and LTPP. No
12 testimony contradicts the Company's demonstration that its total market-based employee
13 compensation, including performance pay, is reasonable and prudent. The parties only
14 dispute the manner in which the Company pays part of the compensation. Changing the
15 manner of compensating employees to remove the disputed method (APP and LTPP) and
16 placing all of the compensation in base pay would likely result in recovering one hundred
17 percent (100%) of the higher base pay in the revenue requirement. However, making this
18 adjustment would not only be inconsistent with market practice, but it would also not be in
19 the long-term interest of our customers because it would remove the strong incentive APP
20 and LTPP provide employees to proactively work towards efficiency. In my experience,
21 the APP and LTPP operational and financial metrics focus employees on managing the

¹⁸ Mustich RT, p. 4.

¹⁹ Schaben DT/RT, p. 15.

²⁰ Schaben DT/RT. pp. 12-13.

1 business more efficiently, improving customer service, and incentivize efficiency of
2 production and field operations.

3 **Q. Staff Witness Niemeier challenges the Company's request to recover a portion of APP**
4 **and all of LTPP that is tied to financial goals due to lack of a nexus between financial**
5 **results and benefits to customers.²¹ How do you respond?**

6 A. On pages 39 – 43 of my Direct Testimony, I have described several APP and LTPP
7 objectives designed specifically for, and ultimately benefiting, customers that Staff
8 completely ignores.

9 As I stated in my Direct Testimony, the Company's performance compensation plans align
10 the interests of our stakeholders – customers, employees, and investors alike. The Company
11 designs the plans to emphasize customer service, environmental compliance, a safe work
12 environment, and other operational goals, as well as certain financial goals. All of the APP
13 and LTPP objectives – both operational and financial – focus employees' efforts in ways
14 that ultimately benefit MAWC's customers.

15 **Q. Can MAWC demonstrate the financial metrics in its total compensation plan resulted**
16 **in tangible benefits that have benefited customers?**

17 A. Yes. Since the financial metrics are macro indicators of the Company's successful
18 management, it is appropriate to look for similar macro benefits. By looking over time, the
19 Company has identified aggregate benefits to MAWC customers in the Company's ability
20 to hold O&M expense per customer increases below rates of inflation and we are
21 continuing our cost mitigation efforts. OPC Witness Schaben attacks MAWC performance

²¹ Niemeier DT/RT, p. 20.

1 compensation by stating it creates “positive regulatory lag,”²² however, any benefit derived
2 on behalf of the Company is short-lived. While the Company may derive a short-term
3 benefit from the gained efficiencies between rate cases, the Company’s ability to prudently
4 manage operating costs and become more efficient is in the long-term best interests of our
5 customers who will continue to benefit from those efficiencies into the future. As I explain
6 within my Direct Testimony, since 2013, for more than a decade, the Company has been
7 able to keep its expenses per customer in line with the rate of inflation.²³ Had the
8 Company’s O&M expense simply grown at CPI from 2014 through 2023, and the 3-year
9 average CPI through the test year in this case, the Company’s revenue requirement in this
10 case would have been more than \$12.8 million higher.²⁴

11 Financial goal-based performance pay helps ensure that employees at all levels of the
12 organization, and not just the upper ranks, remain focused on increasing efficiency,
13 decreasing waste, and boosting overall productivity. Incentivizing employees to control
14 operating costs benefits customers, because doing so mitigates increases in costs ultimately
15 collected in rates. Consequently, when financial performance is achieved through
16 efficiency, as is the case for the Company, the interests of customers, employees, and
17 investors are aligned.

18 **Q. Has focus on these financial metrics led to other tangible benefits to customers?**

19 **A.** Yes. Focusing on financial metrics incentivizes Company employees to make capital
20 investments in new and renewed infrastructure to the benefit of MAWC customers. As

²² Schaben DT/RT, p. 13-14.

²³ Carlson DT, p. 18.

²⁴ Carlson DT, p. 19.

1 detailed by Company witness Derek Linam in his Direct Testimony, proactive replacement
2 of infrastructure is less costly than repairing after a failure.²⁵ In this way, Company
3 employees are driving cost-effectiveness which saves customers unnecessary expenses and
4 boosts customer service levels through improved reliability. MAWC's customers have also
5 benefitted from the Company's access to capital at favorable rates.

6 **Q. OPC Witness Schaben recommends the disallowance of all performance**
7 **compensation because she believes that the plans only benefit shareholders,²⁶ and that**
8 **MAWC has not “quantified” how operational metrics benefit customers.²⁷ How do**
9 **you respond?**

10 A. I disagree. While it is unclear where Ms. Schaben has derived her stated standard as it does
11 not appear rooted in any prior Commission decision, MAWC has provided several
12 examples of how each metric, operational and financial alike, have provided savings and
13 benefits to customers specifically.

14 Secondly, Ms. Schaben wrongfully assumes that customers will not benefit alongside
15 shareholders and that an employee's performance can only benefit shareholders, not
16 customers. This is illogical. To disallow performance compensation simply because Ms.
17 Schaben believes that two things cannot be true at once is arbitrary and would constitute a
18 substantial departure from the essential requirements of sound regulatory policy. For
19 example, Witness Linam describes a capital project entitled “MO River Xing to STC
20 (Daniel Boone) (I17-020041)” that installed a new 36” transmission main from the St.
21 Louis County system into St. Charles. This project added a second source of supply for the

²⁵ Linam DT, p. 9, lines 16-19.

²⁶ Schaben DT/RT, p. 15, lines 26-27.

²⁷ *Id.*, p. 14.

1 St. Charles distribution system—helping to minimize risk of shut down of water supply,
2 minimize reliance on neighboring supply, and helping to increase system reliability for our
3 St. Charles County customers by elimination of a single source of potential failure.²⁸ In
4 this example through increased capital investment, MAWC increased system reliability,
5 and therefore minimizing operational risk, providing benefits to both MAWC customers
6 and shareholders alike.

7 **Q. Please respond to Witness Schaben’s contention that MAWC assumes that earnings**
8 **per share (“EPS”) growth must be driven by controlling costs or capturing**
9 **efficiencies and actually has no long-term benefits for customers.²⁹**

10 A. Contrary to Ms. Schaben’s assertion, MAWC can demonstrate such efficiencies and
11 benefits on behalf of its customers. As I’ve discussed, MAWC has prudently managed its
12 O&M expense, holding per customer increases below rates of inflation, and investing in
13 ways that have been for the long-term benefit of our customers as demonstrated by the fact
14 that the Company’s water and wastewater service has been, is, and is expected to continue
15 to be affordable for the majority of its residential customers, as discussed by Company
16 witness Charles Rea.³⁰

17 **Q. Is EPS primarily driven by MAWC’s “increase in business operations,”³¹ and not by**
18 **cost control or efficiency measures as Witness Schaben asserts?³²**

19 A. While I am not sure how Ms. Schaben is using the phrase, “increase in business
20 operations,” EPS is guided by various drivers and achieving a targeted EPS requires

²⁸ Linam DT, p. 17.

²⁹ Schaben DT/RT, p. 2, lines 21-23.

³⁰ Rea DT, pp. 4-5, 22.

³¹ Schaben DT/RT, p. 3, lines 8-9.

³² Schaben DT/RT, p. 3.

1 attention to operating efficiency and cost control regardless. Unless the utility controls its
2 operating costs, it likely will not achieve a targeted EPS because operational efficiency,
3 cost control practices, and net income are correlative. If a company does not have high
4 operational efficiency and strong cost control practices, its net income will suffer.
5 Consequently, growth through acquisition and rate base investment, without operating
6 efficiency and cost control, would ultimately increase costs collected in customer rates.

7 **Q. What is the problem with Ms. Schaben's line of reasoning concerning shareholder**
8 **funding³³ of the portion of performance-based compensation tied to financial metrics**
9 **as a component of total market based compensation?**

10 A, First, as explained in my Direct Testimony, it completely ignores that performance based
11 compensation, including portions tied to financial metrics, is a critical component of the
12 Company's overall total market-based compensation that is both a reasonable and
13 prudently incurred expense. As discussed in Mr. Mustich's Rebuttal/Surrebuttal/Sur-
14 Surrebuttal Testimony, the removal of 50% of APP costs and 100% of the LTPP costs
15 would cause the overall program to be below competitive levels (12% below market
16 median).³⁴

17 Second, performance-based compensation tied to the Company's financial performance
18 does not simply benefit shareholders but incentivizes actions that directly benefit Missouri-
19 American's customers. In my Direct Testimony, I demonstrated that the structure of the
20 total market-based compensation program utilized by MAWC serves the interests of
21 Missouri-American's customers.³⁵

³³ Schaben DT/RT, p. 14, lines 23-25.

³⁴ Mustich RT, p. 3.

³⁵ Carlson DT, pp. 39-41.

1 Third, requiring shareholders to pay for performance-based compensation tied to financial
2 metrics out of the return authorized by the Commission eliminates their opportunity to be
3 appropriately compensated for their investment, unless the return were increased to
4 recognize the additional risk imposed on investors.

5 Finally, shareholders *do pay* performance compensation to employees for performance
6 levels beyond what is established in the performance compensation goals. When American
7 Water exceeds its goals, shareholders cover the cost of performance compensation that is
8 beyond what is included in the market-based compensation levels assessed by Company
9 Witness Mustich. In this way, shareholders bear the costs for performance above and
10 beyond the normal benchmarks set by Company management.

11 **Q. Are there any other benefits that customers derive from performance compensation?**

12 A. Yes. I believe there are several other benefits customers derive from performance
13 compensation. As Mr. Mustich explains in his Direct Testimony, customers benefit from a
14 stable, talented workforce, because the utility avoids the costs of hiring and training new
15 employees.³⁶ Repeated turnover from low compensation packages requires time and
16 involvement from supervisors, trainers, and peer employees alike. Our water and
17 wastewater operations require many of our employees to gain and maintain specialized
18 certifications and licenses. If our total direct compensation packages are not competitive,
19 after employees go through our training, they will be inclined to seek other employment
20 after licensure. The Company must then locate a replacement, and supervisors, trainers and
21 peer employees would repeat the entire cycle again.

22 Additionally, MAWC's environmental compliance performance is another indicator that

³⁶ Mustich DT, *supra* note 5.

1 providing competitive compensation to attract and retain skilled and knowledgeable
2 employees benefits the customers. MAWC has received the Partnership for Safe Water
3 award recognizing water quality at all our surface water facilities. We also received the
4 Challenge Champions Award from the St. Louis Green Business Challenge in 2018, 2019,
5 2020, 2021, and 2023.

6 Further, reducing OSHA incidents increases safety—customer safety and employee safety.
7 No one can credibly dispute the benefits of improved safety. Further, reduced accidents
8 reduce the attendant costs—workers’ compensation, damage repair, etc.—which mitigates
9 the operating costs that customers pay through rates. MAWC has gone from 70+ recordable
10 injuries per year in the 2006-2008 timeframe to fewer than 10 injuries per year in the 2022-
11 2024 timeframe. MAWC continues to improve its performance in reporting near misses,
12 another illustration of the Company’s high-performing safety culture. In 2024, MAWC
13 employees identified and reported 1,534 near miss conditions, 99% of which were
14 addressed within 30 days. Exceptional safety performance reflects an engaged workforce
15 that is focused on providing safe, reliable, and affordable service to MAWC’s customers.

16 MAWC’s environmental compliance performance is another indicator that providing
17 competitive compensation to attract and retain skilled and knowledgeable experts benefits
18 the customers.

19 Lastly, the Company’s ID&E efforts are an important tool for enabling the Company to
20 recruit and retain the workforce servicing MAWC’s customers, and as further discussed by
21 Company Witness Manuel Cifuentes, Jr., a diverse workforce brings multiple perspectives
22 to meet the evolving needs of our customers, other stakeholders, and the communities
23 where we operate.

1 **Q. OPC Witness Schaben states that MAWC customers are not satisfied with the quality**
2 **of service received from MAWC and cites several customer comments received**
3 **during the pendency of this case,³⁷ how do you respond?**

4 A. Maintaining and improving high quality customer satisfaction and service quality
5 comprises a major metric of APP. MAWC's customer satisfaction performance goals
6 measure customer contacts at MAWC's call centers and in the field. They are benchmarked
7 against other utilities' performance, as reported by third-party customer satisfaction
8 surveys. As discussed in MAWC Witness Derek Tarcza's Rebuttal/Surrebuttal/Sur-
9 Surrebuttal Testimony, based on J.D. Power's U.S. Water Utility Residential Customer
10 Satisfaction Study, MAWC's customer satisfaction score has remained consistently in the
11 top half of its peer group for the last 5 years. J.D. Power's Overall Water Utility Satisfaction
12 Index measures key performance indicators in eight core areas: information provided;
13 quality and reliability; level of trust; ease of doing business; total monthly costs, people;
14 resolving problems or complaints; and digital channels.

15 Additionally, Ms. Schaben inappropriately conflates service quality with affordability. Ms.
16 Schaben's only source of evidence that customers are not satisfied with their service are
17 those comments received in this rate proceeding from customers. She admits, "... in several
18 cases, diminished customer satisfaction is related to affordability...."³⁸ Price is just one of
19 the metrics used to measure customer satisfaction. Just because customers complain about
20 a rate increase, does not mean that they are dissatisfied with the service from the Company.
21 It is erroneous to conclude that MAWC customers as a whole are dissatisfied with their

³⁷ Schaben DT/RT, pp. 5-12.

³⁸ Schaben DT, p. 5, line 6.

1 service solely based upon the comments received in this rate case regarding the rate
2 increase.

3 Moreover, MAWC takes seriously its commitment to provide safe, reliable and affordable
4 water and wastewater service. We know our water and wastewater service is critical, and
5 we know how important it is for that service to remain affordable. That is why the
6 Company proactively conducted a detailed analysis of the affordability of historical and
7 proposed rates for the Company, and it is also why the Company has proposed a Universal
8 Affordability Tariff, which would provide discounted rates to participating customers that
9 would assist with the affordability of water service for lower income customers as
10 demonstrated in the Direct Testimony of Witness Rea.³⁹

11 **Q. Is OPC Witness Schaben correct that MAWC customers would pay a premium for**
12 **safe and environmentally compliant services through the inclusion of performance**
13 **compensation in rates?**⁴⁰

14 A. No, our customers would not. MAWC provides, and is statutorily required to provide, safe,
15 adequate, and reliable service to its customers. Again, MAWC's performance
16 compensation is not a premium, but is instead part of the Company's total market-based
17 compensation program. The program places a portion of individual employees'
18 compensation at risk and payout is entirely based, and contingent upon, achievement of
19 certain parameters that support Company goals. Further, as discussed above, shareholders
20 cover the cost of performance compensation associated with performance levels beyond
21 the target established in the performance compensation goals. In this way, shareholders

³⁹ Rea DT, p. 22-38.

⁴⁰ Schaben DT/RT, p. 13.

1 bear the costs for performance above and beyond the normal benchmarks set by Company
2 management.

3 As Mr. Mustich discusses in his Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony, these
4 goals are deemed by management to be important to the success of the business and send
5 powerful messages to employees because their compensation is contingent on these
6 important customer-oriented goals.

7 **Q. How are “employees tasked with the day-to-day operation of MAWC”⁴¹ involved with**
8 **the Company’s ID&E goals?**

9 A. As further discussed by MAWC Witness Cifuentes, the Company’s ID&E efforts are part
10 of the Company’s employment recruitment and retention efforts. ID&E efforts help attract
11 and retain talented employees because these efforts build and strengthen a company’s
12 reputation and employees’ sense of belonging.

13 **Q. Please summarize your position on the Company’s total compensation proposal.**

14 A. As stated in my Direct Testimony and above, the Company’s performance compensation
15 plans align the interests of our customers, employees, and investors. All of the APP and
16 LTPP objectives – both operational and financial – focus employees’ efforts in ways that
17 ultimately benefit customers. The operational components include goals that can most
18 directly influence customer satisfaction, health and safety, and environmental leadership.
19 Further, the plans’ well-grounded financial measures keep the organization focused on
20 improved performance at all levels, particularly in increasing efficiency, decreasing waste,
21 and boosting overall productivity.

⁴¹ Schaben DT/RT, p. 13, lines 11-12.

1 Secondly, the market-based compensation philosophy that MAWC has adopted allows it
2 to attract and retain the workforce needed to continue to provide safe and reliable service.
3 The undisputed evidence in this case demonstrates that the Company’s overall employee
4 compensation costs – including performance pay – is in line with market levels and thus
5 are a reasonable and prudently incurred cost of service that is appropriately included in
6 rates.

7 These facts demonstrate that the Company’s employee compensation costs are reasonable.
8 For that reason alone, these are prudently incurred costs that MAWC should recover in
9 rates. It is also clear, however, that the performance plans have produced demonstrable
10 benefits for customers, and as such, disallowance of those costs is not justified. For all
11 these reasons, the adjustments to employee compensation costs proposed by OPC and Staff
12 should be denied.

13 **IV. RESOURCE PLANNING**

14 **Q. Staff witness Abbott describes “Staff’s call for water corporations to develop or**
15 **expand, maintain, and implement activities and measurable actions for the**
16 **improvement of drought resiliency.”⁴² What is MAWC’s approach to drought**
17 **resiliency?**

18 **A.** MAWC reviews for drought risk and resiliency as a component of long-term system
19 planning. Where notable risks are identified, mitigation measures are recommended and
20 adopted, which may include: capital investments in new sources of supply, conservation
21 plans, emergency response plans, or combinations of these approaches. These plans and
22 recommendations are periodically reviewed, as appropriate, to keep the response current

⁴² Abbott DT/RT, pp. 1-2.

1 and appropriate to changing conditions.

2 **Q. Do you agree with Mr. Abbott's position that while Missouri generally has an**
3 **abundant supply of water, there are regions of Missouri, such as the Southwest**
4 **portion of the state, experiencing a slow and steady decline in groundwater levels⁴³?**

5 A. Yes, the U.S. Congress recently passed the Water Resources Development Act ("WRDA")
6 that improves the nation's inland waterway navigation, and other aspects of the nation's
7 water resources infrastructure, and boosts the federal cost-share for inland waterways
8 projects. The WRDA will assist in the implementation of a joint compromise for water
9 suppliers and hydrogeneration producers in Southwest Missouri on Stockton Lake in an
10 attempt to aid with this water availability decline.

11 **Q. What plans does MAWC have in place for drought resiliency?**

12 A. MAWC currently has drought resiliency plans in place for eight (8) of its forty (40)
13 drinking water service areas. This includes St. Louis, St. Charles, Eureka, St. Joseph,
14 Joplin, Warrensburg, Garden City, and Brunswick.

15 **Q. After a reference to Staff's review of plans, OPC witness Marke refers to the plan as**
16 **"deficient and incomplete" because "only 8 of a possible 40 water systems had**
17 **something in place".⁴⁴ Did Staff refer to MAWC's plans as deficient and incomplete?**

18 A. No. In fact, Staff witness Abbott stated that the eight (8) drought resiliency plans that are
19 in place were sufficient.⁴⁵

20 **Q. Based on customer counts, approximately what percentage of MAWC's water**

⁴³ Abbott DT/RT, p. 3.

⁴⁴ Marke, C-RT, p. 5.

⁴⁵ Abbott DT/RT, p. 6.

1 **customers are covered by those eight (8) drought resiliency plans that are in place?**

2 A. MAWC provides water service to approximately 486,000 customers. The drought
3 resiliency plans in place today cover approximately 451,000, or 93% of our water
4 customers.

5 **Q. Staff witness Abbott “recommends that MAWC provide drought resiliency plans**
6 **similar to existing plans for the remaining uncovered service areas and file such plans**
7 **in this case docket within one (1) year of the Commission Order for this rate case”**
8 **and that “the plans be updated, as MAWC deems necessary, and the updates be filed**
9 **with its subsequent rate cases.”⁴⁶ What is MAWC’s response to that**
10 **recommendation?**

11 A. Missouri American Water considers drought risk and impacts as a component of its long-
12 term planning program. Where droughts pose a risk to service in its systems, MAWC
13 develops and implements plans and solutions to improve resilience. Developing plans for
14 areas with no prior long-term history of concern would be non-judicious use of resources.
15 However, MAWC acknowledges the need to continue to monitor certain areas such as the
16 Joplin Service Area, where history has shown the necessity for such planning, and update
17 its plan if necessary.

18 **Q. OPC witness Marke also recommends that “OPC should be included in a dialogue**
19 **with MAWC, Staff, MO DNR and the Missouri State Emergency Management**
20 **Agency (“SEMA”) that includes at least two planned meetings around what MAWC’s**
21 **resource plans include, how often they are updated, and how the Company can**

⁴⁶ Abbott DT/RT, p. 6,

1 properly account for future resource demands” and that “the Commission order
2 MAWC be required to have uniformed, updated plans in place for each of its systems
3 based, in part, on feedback from the aforementioned state agencies. I also recommend
4 that these plans be filed in EFIS at least initially in this docket and subsequently
5 updated annually in Non-Case E-Filings.”⁴⁷ What is MAWC’s position as to these
6 recommendations?

7 A. As is stated above, MAWC has plans in place for approximately 93% of its customers, to
8 include the customers in the area of the state where known issues exist. Without some
9 indication that MAWC’s efforts are deficient, there does not appear to be a need to create
10 new meetings and administrative requirements for additional oversight of the actions
11 MAWC currently performs.

12 V. WATER LOSS REPORTS

13 Q. Staff witness Harris indicates that in Case No. WR-2020-0344, MAWC agreed to
14 conduct an annual review regarding water main breaks and water loss by district,
15 and, for systems in those districts in which water loss is greater than 20% in a service
16 area, to provide detail for items believed to be major contributors to such water loss.⁴⁸
17 Are you familiar with that agreement?

18 A. Yes, I am.

19 Q. Mr. Harris indicates that MAWC has filed reports related to Joplin, St. Louis County,
20 and Mexico each of the last three years and that the Company has identified actions
21 to take in those districts in regard to water loss.⁴⁹ What actions have been taken by

⁴⁷ Marke C-RT, pp. 6-7.

⁴⁸ Harris DT/RT, p. 2.

⁴⁹ *Id.* at 2-3.

1 **MAWC?**

2 A. As indicated by Staff witness Harris, MAWC has replaced meters and data is being
3 gathered to determine whether the reported water loss was accurate. Further, MAWC has
4 upgraded meters in Joplin and Mexico to advanced metering infrastructure (“AMI”). It is
5 anticipated that the expansion of the AMI rollouts will contribute to lower percentages of
6 reported water loss through a more timely comparison of system delivery and customer
7 usage.

8 **Q. What is the current status of those projects?**

9 A. These meters are currently being upgraded to AMI through the natural length of service
10 timeline and/or if meters break and need to be replaced. The approximate status of these
11 replacements is identified in the following table:

| AREA | TOTAL METERS | METERS UPGRADED | PERCENTAGE UPGRADED |
|------------------|--------------|--------------------|------------------------|
| St. Louis County | 353,290 | 351,536 | 99.50% |
| Joplin | 27,835 | 9,625 | 35% |
| Mexico | 5,230 | 2,565 | 49% |

12
13 **Q. Mr. Harris recommends the Commission order MAWC to continue to study and**
14 **report efforts for the Jefferson City and St. Joseph service areas, with a report due**
15 **for each, in either order, with a report filed for one in 2025 and the other in 2026.⁵⁰**

16 **What is MAWC’s response to that recommendation?**

17 A. The study and reporting efforts for the Jefferson City and St. Joseph service areas are
18 planned as listed, with Jefferson City planned for 2025 completion and St. Joseph planned

⁵⁰ Harris DT/RT, p. 3.

for 2026 completion.

VI. PROPOSED RULE 3E TARIFF REVISION

Q. Staff witness David Spratt suggests that the Company’s tariff Rule 3E be removed.⁵¹

OPC witness Manzell Payne also takes this position.⁵² What does Rule 3E state?

A. Rule 3E states: “The Company shall not be liable for damages resulting to Customer or to third persons, unless due to contributory negligence on the part of the Company, and without any contributory negligence on the part of the Customer or such third party.”

Q. Is this a recent addition to MAWC’s tariff?

A. No. That language has been included in MAWC’s tariff for many, many years.

Q. Mr. Spratt alleges that “‘contributory negligence’ is no longer a legal defense to a damage claim in Missouri, and it should not be allowed to be used as a defense through a tariff sheet.”⁵³ Do you take a position on this allegation?

A. I am not an attorney. However, I have been advised that MAWC agrees that the word “contributory” is no longer appropriate and Rule 3E should be revised to “The Company shall not be liable for damages resulting to Customer or to third persons unless its due to the negligence on the part of the Company.”

Q. Staff witness Spratt asserts that where a “water main breaks on its own” (“accidental breaks of water mains”), “MAWC should be responsible for the water coming out of the mains that it owns and maintains” and for any property damage caused by the

⁵¹ Spratt DT/RT, pp.1-3.

⁵² Payne C-RT, pp. 2-3.

⁵³ Spratt DT/RT, p. 2.

1 had been experienced prior to the COVID-19 pandemic (2020).⁵⁶

2 **Q. Has the third-party audit been completed?**

3 A. Yes. The audit was filed in Case No. WR-2022-0303 on October 22, 2024, and a meeting
4 was held thereafter with the audit firm, MAWC, Staff, and OPC to discuss the audit results
5 and recommendations.

6 **Q. Will MAWC adopt any of the recommendations?**

7 A. As mentioned above, the audit notes improvements during the time period evaluated. The
8 Company has focused on updating its call center technology as discussed in Company
9 witness Tarcza's Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony, as we believe this will
10 be the most effective way to improve call center performance. This aligns with the auditors'
11 recommendation to increase the IVR containment rate. MAWC continues to evaluate the
12 merits and cost-effectiveness of the proposed recommendations.

13 **VIII. PAPERLESS BILLING**

14 **Q. What was MAWC's proposal as to paperless billing?**

15 A. In my Direct Testimony⁵⁷, MAWC proposed a change to its tariff to allow for an opt-out
16 paperless billing program.

17 **Q. Are the Intervenor's supportive of the Company's paperless billing proposal ?**

18 A. No. They are not. Staff witness Thomason recommends that the Commission reject
19 MAWC's proposal in its entirety.⁵⁸ OPC Witness Manzell Payne agrees with Staff's

⁵⁶ Thomason DT/RT, p. 3.

⁵⁷ Carlson, DT, pp. 45-49.

⁵⁸ Thomason DT/RT, p. 25.

1 position.⁵⁹ Company witness Tarcza addresses paperless billing in more detail in his
2 Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony.

3 **Q. Mr. Thomason suggests that your Direct Testimony will need to be corrected to reflect**
4 **that MAWC will only verify the email was delivered (i.e., did not bounce), not**
5 **opened.⁶⁰ Is that correct?**

6 A. Yes. This was previously corrected in a data request response provided to Staff. However,
7 the testimony will also be corrected prior to a request to admit the testimony into evidence.

8 **Q. Does this conclude your Rebuttal/Surrebuttal/Sur-Surrebuttal Testimony?**

9 A. Yes.

⁵⁹ Payne DT/RT, p. 5.

⁶⁰ Thomason DT/RT, pp. 23-24.