Exhibit No.: _____
Issue(s): Transaction/Closing/Transition Costs/ Regulatory Assets
Witness/Type of Exhibit: Schaben/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: WA-2026-0072

SURREBUTTAL TESTIMONY

OF

ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

FILE NO. WA-2026-0072

** _____ **
Denotes Confidential Information that has been redacted.

May 29, 2026

PUBLIC

SURREBUTTAL TESTIMONY

OF

ANGELA SCHABEN

MISSOURI AMERICAN WATER COMPANY, INC.

CASE NO. WA-2026-0072

INTRODUCTION

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

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

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to Missouri American Water Company ("MAWC") witness Brian LaGrand and Staff of the Public Service Commission of the State of Missouri ("Staff" and "Commission," respectively) witness Ashley Sarver.

Q. How does MAWC witness Mr. LaGrand propose the Neosho Water and Sewer Systems' ("Neosho systems") transaction, closing, and transition ("acquisition costs") be recorded?

A. Referring to the Neosho systems' acquisition costs, Mr. LaGrand states that "[u]nder established practice, they would be allocated proportionally across the assets, and recorded in Utility Plant in Service (UPIS)".[1]

[1] Rebuttal Testimony of Brian LaGrand, page 3.

Q. How does Mr. LaGrand surmise that parties may determine the acquisition costs in a future rate case so that their reasonableness and prudency could be determined?

A. He asserts that "[b]y asking a data request, the prudency or reasonableness of any of these costs can be evaluated by any party in a general rate case"[2].

Q. Are there inefficiencies in the process Mr. LaGrand recommends for the purpose of determining acquisition costs?

A. Yes. If these costs are allocated proportionately across UPIS, and not in a regulatory asset, determining the reasonableness and prudence of any portion of the purchase in accordance with the Appraisal Statute would be unnecessarily burdensome, if the Commission allows the transaction. Without keeping this system purchase separate from MAWC's existing books and records, extracting the acquisition costs from the asset classes to which they've been allocated is less efficient than recording them in one regulatory asset. Additionally, the appraisal costs would take on the depreciation rates of the UPIS accounts to which they are allocated. Some UPIS accounts depreciate over a period of fifty years.

Q. Why would it be an issue if the acquisition costs depreciated over a longer period of time than necessary?

A. By prolonging the depreciable life, MAWC would earn a return over an extended period. If MAWC were allowed to allocate the acquisition costs to a plant account that depreciated over fifty years, MAWC would earn a return over that entire period of time. Earning a return over fifty years for acquisition costs seems excessive and unreasonable for something that doesn't have a useful life.

[2] Rebuttal Testimony of Brian LaGrand, page 3.

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Q. Aside from the potential inability to assess the prudency or reasonableness of the systems' acquisition costs, are there additional potential issues to note resulting from allocating these costs proportionally in UPIS?

A. Yes. Staff is recommending that MAWC establish a regulatory asset in the amount of ** _____ ** for inclusion in rate base, with an amortization period to be determined in MAWC's next general rate case.[3] Should the Commission authorize a regulatory asset in the amount of ** _____ ** with an amortization period decided later, then the acquisition costs associated with this proposed acquisition should be recorded similarly to ensure the amortization periods match. Matching amortization periods for both Neosho systems' regulatory assets ensures consistency.

Q. Are there other parts of Mr. LaGrand's rebuttal testimony that you would like to address?

A. Yes. Mr. LaGrand states "[f]or existing customers this will result in a lower revenue requirement on that rate base than it would be without the Neosho customers, all else being equal"[4]. Mr. LaGrand includes the following table in his rebuttal testimony:

[3] Rebuttal Testimony of Ashley Sarver, page 2.
[4] Rebuttal Testimony of Brian LaGrand, page 8.

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Table BWL-1

	Rate Base 5/31/25	Customers 5/31/25	Rate Base per Customer
STL County Water	$2,226,323,361	349,103	$6,377
Other MO Water	816,329,816	135,948	6,005
Arnold Sewer	19,610,498	7,102	2,761
Other MO Sewer	89,941,689	17,043	5,277
Total	**$3,152,205,364**	**509,196**	**$6,191**

	Neosho Rate Base	Neosho Customers	Rate Base per Customer
STL County Water	$0	0	$0
Other MO Water	17,400,000	5,783	3,000
Arnold Sewer	0	0	0
Other MO Sewer	17,100,000	5,700	3,000
Total	**$34,500,000**	**11,483**	**$3,000**

	Pro-Forma Rate Base	Pro-Forma Customer	Pro-Forma RB/Customer
STL County Water	$2,226,323,361	349,103	$6,377
Other MO Water	833,729,816	141,731	5,882
Arnold Sewer	19,610,498	7,102	2,761
Other MO Sewer	107,041,689	22,743	4,707
Total	**$3,186,705,364**	**520,679**	**$6,120**

Q. Is there information missing from this table?

A. Yes. Mr. LaGrand fails to include the cost of major infrastructure upgrades the Neosho systems will require, as outlined in the Engineer's Report that accompanies the appraisal Valuation Report.[5]

[5] The Engineer's Report opines on the condition of the water and wastewater systems' infrastructure components. In fact, the appraiser's Valuation Report describes the Engineer's Report saying "The reference to the term "inspection" in the context of the appraisers' work should not be interpreted to suggest the appraisers have any expertise and/or qualifications in the assessment of the condition and functionality of any mechanical and non-mechanical components of the subject property water and wastewater systems. The appraisers refer the client and intended users of the attached appraisal report to the engineer's report for an assessment of the water and wastewater systems' infrastructure components. The three professional real estate appraisers co-signing the attached appraisal report are not qualified to independently detect and assess the condition and functionality of the water and wastewater systems' infrastructure components. However, the three professional real estate appraisers cosigning the attached appraisal report assume that the water and wastewaters systems' components are in proper working order and have been

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Q. What level of infrastructure upgrades does the Neosho systems require?

A. Based on the Sewer Utility Replacement Schedule[6] found in the Engineer's Report MAWC submitted, Neosho's sewer system will need approximately $21,500,000.00 in sewer upgrades over 20 years. Likewise, the Water Utility Replacement Schedule[7] approximates $25,455,835.00 in water system estimated upgrades over 20 years. According to the Utility Replacement Schedule, "[t]he projected replacements over the next 20 years exceed the major capital improvements made in the past 40 years".[8]

Q. Has MAWC indicated it will spend over $35 million in improvements on the Neosho systems within the first five years of ownership?

A. Yes. Page six of MAWC's application, states the following:

> If this application is approved, MAWC plans on completing **over $35 million** of improvements to the water and sewer systems within the first five years of ownership. These improvements will include, but not be limited to, the following:
>
> • Reducing the water loss within the distribution system by creating new metering zones that can be monitored and targeted for main replacement
>
> • Continuing Neosho's Lead and Copper compliance program
>
> • Replacement of water mains that are aged or in high frequency break zones
>
> • Installation of monitoring and control systems that will improve operational efficiency at both the water and sewer treatment plants

maintained adequately to meet all pertinent codes and regulatory requirements."; Footnote 1 – Appendix C in MAWC's application to purchase the Neosho systems.

[6] Pages 112-114 of 162 - Appendix C in MAWC's application to purchase the Neosho systems.

[7] Pages 110-111 of 162 - Appendix C in MAWC's application to purchase the Neosho systems.

[8] Pages 109 of 162 - Appendix C in MAWC's application to purchase the Neosho systems.

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• Lining and point repairs of sewer mains that have been targeted for Inflow & Infiltration removal[9]

Q. Does including the cost of infrastructure upgrades outlined in the Engineer's Report change Mr. LaGrand's Table BWL-1?

A. Yes. By including both the purchase price of the Neosho systems and the estimated cost of system infrastructure upgrades, the amount of rate base per customer increases from Mr. LaGrand's BWL-1 table showing MAWC's rate base dollars and customer counts as of May 31, 2025. The difference is shown in Table ADS-1 below: [10]

Table ADS-1:

Category	Pro-Forma Rate Base	Pro-Forma Customers	Rate Base per Customer	Increase from Table BWL-1
STL County Water	$ 2,226,323,361	349,103	$ 6,377	$ 0
Other MO Water	$ 859,185,651	141,731	$ 6,062	**$ 57**
Arnold Sewer	$ 19,610,498	7,102	$ 2,761	$ 0
Other MO Sewer	$ 128,541,689	22,743	$ 5,652	**$ 375**
TOTAL	$ 3,233,661,199	520,679	$ 6,210	

Q. Does factoring in impending upgrades support Mr. LaGrand's assertion that MAWC's purchase of the Neosho systems will "result in a lower revenue requirement" for existing customers?

A. It doesn't appear so. Table ADS-1 shows that MAWC's existing customers will subsidize the Neosho systems' infrastructure upgrades outlined in the Engineer's Report. MAWC's existing customers will actually pay *more* on a rate base per customer basis after the Neosho systems acquisition, which directly contradicts Mr. LaGrand's position and is also shown in Table 2 below:

[9] Neosho - Application - Final For Filing.pdf; page 6
[10] The differences shown in Table ADS-1 above is derived from the third table Mr. LaGrand includes in his rebuttal testimony, labeled BWL-1.

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Table ADS-2:

Category	Rate Base per Customer without Neosho[1]	Rate Base per Customer with Neosho Total Rate Base[2]	Difference
STL County Water	6,377	6,377	0
Other MO Water	6,005	6,062	**57**
Arnold Sewer	2,761	2,761	0
Other MO Sewer	5,277	5,652	**375**

[1] Derived from the first table of BWL-1 and does not include Neosho customers, or the systems purchase price.
[2] Derived from Table ADS-1, which is based on the third table of BWL-1, and includes the Neosho customers and systems purchase price plus approximately $47 Million in upgrades outlined in the Appraisal and Engineering Report.

Q. Are there additional factors to consider regarding the estimated $21,500,000 in sewer system upgrades and $25,455,835 in water system upgrades outlined in the Engineer's Report?

A. Yes. According to the report, "[t]he replacement dates and costs shown are estimates; the actual replacement dates and costs could be significantly different from those shown."[11] Given the trend of rising construction costs and the deteriorated condition of the Neosho systems, the systems' replacement costs could greatly exceed estimates provided in the report. The Neosho water system has experienced water loss of 60% at times. The Neosho wastewater plant's permit expired 4 years ago and is unlikely to meet future regulations without system changes[12]. Due to the age and condition of the Neosho systems, once infrastructure upgrades begin, additional and currently unidentified repairs may be necessary.

[11] Pages 110 of 162 - Appendix C in MAWC's application to purchase the Neosho systems.
[12] Pages 109 of 162 - Appendix C in MAWC's application to purchase the Neosho systems.

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Q. Is there anything else you would like to add?

A. Yes. The Engineer's Report provides several disclosures regarding the current state of the Neosho systems and the associated risks. Some disclosures are provided below:

The following disclosures are made:

1) The water loss percentage is much higher than normal. A buyer would make downward adjustments to the cost approach to align with normal water system characteristics.
2) The WTP[13] is a composite of outdated components, components that would normally have been replaced, and newer components supplementing the above. A buyer would assess the present inefficiencies, future non -compliance with promulgated regulations, and the source protection needs.
3) The water distribution system and customer services require significant renewals and replacements, as shown herein, or more, as it is difficult to assess the needs
accurately.
4) The Crowder trickling filter WWTP[14] will most likely be decommissioned. If the parties agree to this need, the wastewater RCNLD[15] would likely be reduced by approximately $10 million.
5) There are likely many future costs that may or may not be approved into the rate base. A downward adjustment for this risk would be a major consideration.[16]

Q. What is your recommendation?

A. I recommend establishing a regulatory asset for the Neosho systems appraisal costs. I also support Staff's recommendation of establishing a regulatory asset for the difference between the appraised value and the net book value. Establishing a regulatory asset for appraisal costs results in cleaner record keeping for costs associated with the Neosho system purchase. In addition to these reasons, it also allows parties to the rate case to more easily determine the reasonableness and prudency of these costs as required by statute. Additionally, the

[13] Water Treatment Plant
[14] Wastewater Treatment Plant
[15] Replacement Cost New Less Depreciation
[16] Pages 134 of 162 - Appendix C in MAWC's application to purchase the Neosho systems

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amortization period should align with the amortization period of Staff's proposed regulatory asset.

Further, Tables ADS-1 and ADS-2 show that MAWC's existing customers would not be better off if MAWC goes through with the Neosho systems acquisition. MAWC stated in its Application that it will spend over $35 million in system upgrades within five years of ownership, yet it did not include this number in Mr. LaGrand's Table BWL-1 to offer a complete picture of the cost to its existing ratepayers, should MAWC acquire the Neosho systems. If the necessary Neosho system upgrades are included with the purchase price, the numbers show that MAWC's existing customers will end up subsidizing the Neosho systems and paying more on a rate base per customer basis.

Q. Does this conclude your testimony?

A. Yes.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American Water Company for a Certificate of Convenience and Necessity Authorizing it to Install, Own, Acquire, Construct, Operate, Control, Manage and Maintain a Water System and Sewer System in and around the City of Neosho, Missouri	))))))	Case No. WA-2026-0072

AFFIDAVIT OF ANGELA SCHABEN

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Angela Schaben, of lawful age and being first duly sworn, deposes and states:

1. My name is Angela Schaben. I am a Utility Regulatory Auditor for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Angela Schaben
Utility Regulatory Auditor

Subscribed and sworn to me this 28th day of May 2026.

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

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.