

Exhibit No.:

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CAM; Affiliated Transactions;
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Shared Services and
Severance Costs*

Witness: John P. Cassidy

Sponsoring Party: MoPSC Staff

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(Consolidated)*

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

JOHN P. CASSIDY

MISSOURI-AMERICAN WATER COMPANY

**CASE NOS. WR-2003-0500 and WC-2004-0168
(Consolidated)**

*Jefferson City, Missouri
December 2003*

****Denotes Highly Confidential Information****

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ALLOCATION OF BELLEVILLE LABS COSTS TO MAWC	3
COMPENSATION FOR SERVICES PROVIDED BY MAWC TO AWR	13
COST ALLOCATION MANUAL (CAM)	18
AFFILIATED TRANSACTION RULE	22
NATIONAL CALL CENTER	24
NATIONAL CALL CENTER TRANSITION COSTS	45
NATIONAL SHARED SERVICES TRANSITION COSTS	50
SEVERANCE COSTS	52

(Consolidated)

A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of Company witness Edward J. Grubb with regard to the following areas: compensation for services provided by Missouri-American Water Company (MAWC or Company) to American Water Resources Inc. (AWR), Cost Allocation Manual (CAM) and Affiliated Transactions. My surrebuttal testimony will also address the rebuttal testimony of Company witnesses Patrick L. Baryenbruch, Eric W. Thornburg and Mr. Grubb regarding the issue of Allocation of Belleville Labs Costs to MAWC. This surrebuttal testimony will also address the rebuttal testimony of Company witnesses A. Joseph Van den Berg,

1 James M. Jenkins and Mr. Thornburg regarding proposed additional expenses and recovery of
2 one-time non-recurring transition costs that were incurred in connection with MAWC's
3 decision to join an affiliated National Call Center. This surrebuttal testimony will also
4 address Mr. Van den Berg's, Mr. Jenkins' and Mr. Thornburg's rebuttal testimony with regard
5 to recovery of one time non-recurring transition costs associated with MAWC's decision to
6 join an affiliated National Shared Services Center.

7 The Staff will explain additional adjustments regarding the Call Center since its direct
8 filing. The Staff will explain a correction to the Call Center transition cost adjustment based
9 on additional information supplied by the Company subsequent to the Staff's filing of direct
10 testimony and a correction to the posting of the transition cost adjustment related to National
11 Shared Services. The Staff will explain two additional depreciation reserve adjustments,
12 which relate to both the Call Center and National Shared Services transition cost adjustments.
13 The Staff will also explain a change to the severance cost adjustment based on additional
14 information supplied by the Company. Lastly, the Staff will propose a change in the current
15 payment arrangement that exists between MAWC and the Service Company.

16 Q. What is your response to the rebuttal testimony of Company witnesses Grubb,
17 Baryenbruch, Van den Berg, Jenkins and Thornburg regarding the issues of the Allocation of
18 Belleville Labs Costs to MAWC, Compensation for MAWC Services Provided to AWR,
19 CAM, Affiliated Transactions, Call Center and Transition Costs related to the Call Center and
20 the National Shared Services Center?

21 A. The Staff disagrees with the reasoning stated in the rebuttal testimonies of all
22 of these witnesses regarding their proposed ratemaking treatment of these areas of dispute.

1 The Staff will address the rebuttal testimony of each Company witness and will also respond
2 to some specific comments made by each witness in their respective rebuttal testimony.

3 **ALLOCATION OF BELLEVILLE LABS COSTS TO MAWC**

4 Q. In his rebuttal testimony on page 3, lines 3-4, Company witness Baryenbruch
5 claims that Staff recommends “that Belleville Lab expenses not directly charged to operating
6 companies be allocated on the basis of the number of samples tested.” Is this entirely
7 accurate?

8 A. No. The Staff has recommended that Belleville Lab expense not directly
9 charged to operating companies be allocated on the basis of the number of test analysis
10 performed on those samples. The Staff wants to be entirely clear on this point.

11 Q. What is the distinction between the “number of samples tested” and the
12 “number of test analysis performed on those samples?”

13 A. The number of samples tested represents the number of physical samples that
14 are sent to Belleville Labs. The number of test analysis performed on those samples represents
15 the sum total of all the various types of test analysis performed on those samples. For
16 example, one test sample may be used to perform ten test analyses. Test analysis includes all
17 of the analysis work required of each sample based on Environmental Protection Agency
18 (EPA) requirements and in some cases additional state requirements. Test analysis is
19 therefore the better indicator of the work being performed in relation to those samples.
20 Throughout the remainder of this surrebuttal testimony related to Belleville Labs the Staff will
21 refer to its position of using test analysis versus Company’s method of using customer counts.

22 Q. In making its adjustment is the Staff suggesting that MAWC reduce the
23 amount of testing and sampling that is now performed at Belleville Labs?

1 A. No. On page 15, lines 33 and 34 of Company witness Thornburg's rebuttal
2 testimony he suggests that the Company "could...only do enough lab testing to meet the bare
3 minimum standards established by DNR." The Staff is in no way suggesting that the MAWC
4 reduce its level of testing and sampling that is required by EPA's federal water quality
5 standards that are duly enforced by the Missouri Department of Natural Resources. The Staff
6 encourages the Company to maintain strict adherence to all of its water quality testing
7 requirements. Staff's recommendation only addresses the allocation of cost among the
8 entities receiving service from Belleville Labs, not the performance or quantity of testing for
9 any specific entity.

10 Q. Why did the Staff propose its allocation methodology of distributing non-direct
11 Belleville Labs costs by using the actual test analysis performed for all operating companies
12 taking service from Belleville Labs?

13 A. The Staff's test analysis allocation methodology best represents the true nature
14 of work that is performed at Belleville Labs for MAWC and for all of American Water's other
15 operating companies. As will be explained later in this surrebuttal testimony, the Company's
16 proposed method of allocating Belleville Lab's costs using customer counts results in the
17 situation where Missouri ratepayers are forced to subsidize the testing work that is being
18 performed for customers residing in operating companies located in other states. The Staff's
19 methodology of allocating non-direct Belleville Lab costs using the actual test analysis for all
20 of the operating companies taking service from Belleville Labs results in a more accurate
21 assignment of cost to each operating company because it more appropriately reflects the work
22 that is performed at Belleville Labs.

1 Q. How does the Staff respond to Company witness Mr. Baryenbruch's claim that
2 Staff's method for allocating Belleville Labs non-direct costs to MAWC based on actual test
3 analysis is "wrong?"

4 A. The Staff disagrees with this claim made by Mr. Baryenbruch in his rebuttal
5 testimony filing. The Staff believes it is clearly more logical to assign Belleville Labs'
6 indirect costs to each of the operating companies based on actual test analysis performed by
7 Belleville Labs for each operating company rather than using the respective number of
8 customers of each operating company.

9 Test analysis represents the majority of the work actually being performed at
10 Belleville Labs. Using a measure of the work done is a more accurate measure of cost
11 causation than using customer counts which does not reflect the work being performed for a
12 given operating company at Belleville Labs. For example, during 2002, although Missouri
13 had more customers than California, Illinois, Indiana or New Jersey, all four of these states
14 had a higher number of test analysis performed at Belleville Labs than Missouri during the
15 same time frame.

16 Q. Mr. Baryenbruch expressed concern in his rebuttal testimony on page 3, lines
17 18-22, that the Staff's test analysis allocation methodology is incorrect due to the fact
18 Belleville Labs performs other work in addition to its role of performing testing of samples.
19 Please respond.

20 A. The Staff attended a tour of the Belleville Lab facility. The Staff also
21 interviewed the director of Belleville Labs, Ms. Cheryl Norton, on a previous occasion and
22 also after the tour. The purpose of these interviews and the tour was to gain an understanding
23 of the nature of the operations and work that is performed at Belleville Labs. Ms. Norton

1 indicated to the Staff that Belleville Labs generally is made up of two distinct work units.
2 The first unit involves the testing department that handles all of the testing requirements of all
3 the different operating companies of American Water. The second unit is the research
4 department. The research department is involved with a variety of microbiology research
5 projects that include developing new techniques or technologies to treat raw water more
6 effectively or to meet upcoming EPA water quality regulations. The research department also
7 performs specific projects that benefit a specific state or group of states. On such occasions
8 those states are directly charged for those projects.

9 Ms. Norton indicated to the Staff that the testing department performs 70% of the
10 work at Belleville Labs while the research department performs the remaining 30%.
11 Ms. Norton also indicated that 70% would also provide a fair representation of the number of
12 employees that the testing department utilizes and also the amount of floor space that the
13 testing department occupies. This clearly shows that a significant majority of the work
14 performed at Belleville Labs pertains to testing and sampling work.

15 The Staff believes that use of test analysis is a more appropriate allocator than
16 customer counts because it more accurately reflects the nature of the work being performed at
17 Belleville Labs. The Staff also contends that the remaining indirect portion of the research
18 department costs would naturally follow the test analysis allocation of the sampling costs,
19 because as Ms. Norton indicated to the Staff during the tour, much of the research
20 department's work could impact future levels of test analysis.

21 Q. Does the Company's proposed allocation of using operating company
22 customer counts make a distinction between the types of work performed in the two different
23 departments at Belleville Labs?

1 A. No. The Company's own proposed allocation method makes no distinction for
2 the work that is performed in the research department. Their methodology also results in
3 having the indirect portion of research department costs follow the customer count allocation
4 for testing and sampling costs.

5 Q. How does the Staff respond to Mr. Baryenbruch's assertion that the Staff's
6 allocation method is wrong because an operating company's total samples can vary from one
7 year to the next because of source water conditions, contamination events and regulations (see
8 page 3, lines 26-27)?

9 A. That Staff disagrees with Mr. Baryenbruch in that he believes that the potential
10 variability from year to year makes the Staff's test analysis method wrong. The Staff believes
11 that these types of conditions clearly underscore why the Staff's methodology is better.
12 Company's customer count methodology will never take into account conditions such as
13 source water condition, state specific regulations or contamination events because customer
14 counts have nothing to do with these types of events. Similarly, they do not address
15 differences in source of supply and numbers of connections to the systems that exist between
16 operating companies. However, Staff's methodology of using testing analysis is directly
17 correlated to each of these conditions.

18 Q. Does Belleville Labs currently track test analyses to be performed for each
19 operating company?

20 A. Yes. Belleville Labs requires each operating company to submit a list of the
21 number and frequency of water analyses that each operating company expects the lab to
22 perform during the upcoming calendar year. These lists are received by the lab in the mid-
23 November/early December time period. Ms. Norton, director of the labs, told the Staff that

these lists would be a good indicator of the work to be performed by the labs in the upcoming year. In addition, Ms. Norton indicated to the Staff that the lab maintains a 12-year history of actual test analyses that it performs.

Q. Please respond to Mr. Baryenbruch's assertions that "allocation on the basis of samples tested could cause an operating company's portion of Belleville Lab costs to vary widely from one year to the next," (see Baryenbruch page 4, lines 7-8) while allocating based on the number of customers is much less variable (See Page 4, lines 7-15).

A. On page 4 of his rebuttal testimony, Mr. Baryenbruch uses New Jersey as an example to demonstrate how an allocation based on test analysis can cause a variation in cost from year to year. The Staff has discussed this chart with Mr. Baryenbruch and indicated to him that the numbers do not match information that has been supplied to the Staff through written data requests. Mr. Baryenbruch indicated to the Staff that he has adopted Staff's calculations for 2002 but relied on inconsistent information that the Company supplied to him for the other years in his analysis. The following chart reflects the consistent set of data for test analysis allocations for New Jersey for the time period Mr. Baryenbruch examined in his rebuttal testimony based on information supplied by the Company to the Staff in the responses to Staff Data Request Nos. 266, 402 and 439.

12 Months YTD	Test Analysis Allocation of Total Belleville Labs
12/31/99	21.7%
12/31/00	23.8%
12/31/01	18.1%
12/31/02	23.9%
6/30/03	16.09%

Mr. Baryenbruch states on page 4 lines 1 and 2 that "New Jersey-American represents less than 13% of total American Water customers." But as can be seen from the chart above,

1 New Jersey-American has consistently required more than 13% of the test analysis that has
2 been performed at Belleville Labs. Mr. Baryenbruch's own New Jersey example, clearly
3 demonstrates that using the Company's proposed customer allocation method results in
4 New Jersey-American ratepayers consistently paying less for Belleville Labs costs than is
5 appropriate. This means that all other American Water operating companies, including
6 MAWC, are put in the position of subsidizing New Jersey- American's testing requirements.
7 What Mr. Baryenbruch's analysis shows is that New Jersey customers have been getting a
8 discount for water testing at the expense of ratepayers from other American Water operating
9 companies.

10 Q. Do you have another example that would demonstrate that the use of
11 customers as an allocation basis is improper?

12 A. Yes. In January 2002, MAWC purchased the City of Florissant Water System
13 (Florissant). Prior to this, Florissant operated as a wholesale customer of MAWC. Upon
14 completion of the sale, Florissant customers became retail ratepayers of MAWC. The sale
15 also resulted in a change of customer numbers from one when Florissant was a wholesale
16 customer to approximately 14,500 when Florissant ratepayers became retail customers of
17 MAWC. However, the test analysis required for MAWC did not change.

18 Q. Has the Staff examined Missouri's historical test analysis experience?

19 A. Yes. The Staff has examined the percentage of Missouri related test analysis
20 to total Belleville Labs test analysis. The following chart shows an historical analysis of
21 Missouri test analysis and respective customer count allocations:

<u>Period</u>	<u>Staff Test Year Analysis</u>	<u>Customer Count Allocation</u>
12 months YTD 12/31/00	11.03%	16.10%
12 months YTD 12/31/01	8.71%	16.04%
12 months YTD 12/31/02	8.13%	15.27%
12 months YTD 6/30/03	6.65%	15.27%

This chart demonstrates that Missouri has experienced a continuous decline in its percentage of test analysis required from Belleville Labs. Because of this continuous decline the Staff chose the test year level as the most accurate predictor of the ongoing percentage of test analysis and the associated costs. Furthermore, the Staff's test year level is conservative because the update period ending June 30, 2003 indicates that test analysis has continued to decline beyond the test period. The Staff also has a pending data request that will determine test analysis levels through November 30, 2003. On the other hand, the Company's customer count methodology attempts to allocate over 15% of non-direct Belleville Labs costs to Missouri during the test year. By using the customer count methodology the Company is forcing MAWC ratepayers to pay for more than 15% of non-direct Belleville Labs costs while only 8.13% of the testing work at Belleville Labs is actually performed for MAWC. The Staff's chart also reveals that MAWC has been consistently overcharged for Belleville Labs costs based on the Company's customer count methodology in comparison to actual test analysis.

Again, the Staff believes that the fact that test analysis does vary from year to year justifies the need to allocate these indirect costs based on what is actually taking place, namely test analysis. Of course, as Company witness Baryenbruch has suggested in testimony, allocating based on customer counts will provide much less variability in the

1 allocation of Belleville Labs non-direct costs. Variability is not a factor in proper cost
2 assignment and can in fact lead to improper cost charges. An entity that requires less work
3 performed should receive less cost. Unfortunately, customer counts have nothing to do with
4 testing expenses and therefore result in an inappropriate amount of non-direct Belleville Labs
5 costs being assigned to MAWC. Furthermore, the effect of using the Company's
6 methodology results in MAWC's ratepayers paying for testing and sampling costs that relate
7 to ratepayers who are located in states other than Missouri.

8 Q. How does the Staff respond to Mr. Baryenbruch's claim that the Company's
9 method of allocating non-direct charges is "straightforward and understandable?"

10 A. While the Company's method may be straightforward and understandable that,
11 by itself, does not make it appropriate. As the Staff has pointed out, MAWC's customer
12 counts do not correlate to the work that is being performed at Belleville Labs. Furthermore,
13 the Staff believes that using the number of test analysis instead of customer of counts is also
14 straightforward and understandable.

15 Q. Please respond to Mr. Baryenbruch's statement on page 5, line 15-16 that "if
16 different allocation factors were used in different states, the process would undoubtedly cost
17 more to administer."

18 A. While Mr. Baryenbruch makes this statement in his testimony he provides no
19 actual cost studies to support such a claim. The Staff believes that knowing that a current
20 allocation methodology is creating a situation where MAWC is being forced to pay nearly
21 twice as much for testing costs than test analysis would suggest and that also creates inter-
22 company subsidies is inappropriate and should lead to the implementation of test analysis as a
23 consistent standard.

1 Q. How does the Staff respond to Mr. Baryenbruch's point that because every
2 American Water operating company uses the same allocation method for non-direct charge
3 expenses it creates a system wide consistency (Baryenbruch rebuttal, page 5, line 12)?

4 A. The Staff believes by adopting the approach of allocating non-direct Belleville
5 Lab charges based on actual test analysis that American Water can improve upon its current
6 allocation process by making it more reflective of the work that is performed at the Lab.

7 Q. How does the Staff respond to Mr. Baryenbruch's statement that Company's
8 methodology provides consistent customer impacts (Baryenbruch rebuttal, page 5, line 22)?

9 A. Mr. Baryenbruch claims that by using number of customers as its allocation
10 methodology, American Water ensures that activities cost the same from one customer to
11 another and from one state to the next. The glaring problem that this claim ignores is that
12 customer counts have no correlation to testing and sampling expense. Mr. Baryenbruch's
13 position would force customers to pay the same amount regardless of the fact that the costs to
14 serve some of those customers is significantly less than the costs to serve other customers.
15 Therefore, the consistent customer impact is irrelevant and does not address the subsidies
16 occurring between the various operating companies because of different levels of test analysis
17 performed for each state. In contrast, the Staff's proposed allocation methodology tracks
18 actual test analysis, which represents the majority of the resources and work that is performed
19 at Belleville Labs.

20 Q. Please respond to Mr. Baryenbruch's claim that the cost of changing the
21 allocation basis for Belleville Lab services from number of customers to number of samples
22 tested based on Staff's recommendation is not worthwhile.

1 A. While Mr. Baryenbruch makes this claim (Baryenbruch rebuttal, page 7, lines
2 3-6), he does not provide any cost evidence to support it. He only goes on to say that Staff's
3 adjustment is worth \$346,337 and that on a per customer basis this would represent
4 approximately \$.07 per customer per month and would require the Company to secure
5 regulator approval in other states. The Staff contends that its proposed adjustment is material
6 in amount and more accurately reflects the nature of the work being performed at Belleville
7 Labs than the Company's customer count allocation methodology. It also avoids the effect of
8 having Missouri ratepayers subsidizing the customers who reside in other states for the work
9 that is performed at Belleville Labs. The Staff recommends that the Commission adopt the
10 test analysis allocation methodology to distribute non-direct Belleville Labs Service Company
11 costs to MAWC.

12 **COMPENSATION FOR SERVICES PROVIDED BY MAWC TO AWR**

13 Q. On page 21, lines 9-14, Mr. Grubb states his belief that MAWC is in no way
14 "involved in the provision of service by AWR." Is this statement correct?

15 A. No. As the Staff has already described in its direct testimony, MAWC has
16 made it possible for AWR to offer its water line protection program only because it has
17 supplied a list of customers to AWR on two separate occasions. MAWC has also provided on
18 four occasions a signed letter of endorsement by Mr. Thornburg, MAWC's President,
19 promoting this water line protection program. The letterhead on the letter also contains the
20 trusted name of MAWC as well as the logo used by the Company. The fourth AWR mailing
21 was sent to MAWC customers on October 15, 2003. This mailing is attached as Schedule 1 to
22 this surrebuttal testimony.

23 Q. Are there any other ways MAWC is involved in the AWR program?

1 A. Yes. If a customer experiences a leak, they are instructed to "...call the toll
2 free number shown on your water bill from Missouri American Water Company. In the event
3 Missouri-American determines the leak is to your customer-owned water line. We will
4 arrange to have an approved independent contractor call you to set up a time...to arrange for
5 repair of your customer-owned water line." This statement indicates that AWR enlists the
6 involvement of MAWC employees to inspect and determine the source of any leaks. It also
7 indicates that AWR uses the resources of the National Call Center. Therefore, the number of
8 calls the National Call Center handles must also include those calls, which relate solely to
9 AWR activities. In Staff Data Request No. 173, the Staff asked the Company if the Call
10 Center tracked the number of calls related to questions about the water line protection
11 programs. In the response to item five in that data request the Company indicated, "The
12 Company does not have any categorical breakdown for the call volume as described." The
13 Staff followed up Data Request No. 173, via email, with a question regarding how the Call
14 Center tracks the types of calls that it receives. The Company responded with the following:

15 The Alton CSC does not track call volume by type of calls received for
16 each state. Due to the large volume of calls received, the Center breaks
17 down their call volume by state only. For example: A group of
18 Customer Service Associates (CSA's) are assigned to the MO Regional
19 Skill, a group of CSA's are assigned to the IL Regional Skill and etc.
20 At present, the Center is not tracking calls by type of calls received but
21 instead by the volume of calls received by state.

22 The Staff has attached the response to Staff Data Request No. 173 and the related email
23 response regarding this Data Request as Schedule 2 to this surrebuttal testimony. I will
24 discuss this situation more in this surrebuttal testimony regarding the Call Center.

25 Q. Does the Staff believe that a water line protection program can be beneficial to
26 Missouri ratepayers?

1 A. Yes. The Staff believes that a properly administered water line protection
2 program can benefit customers who wish to protect their service line.

3 Q. Please respond to Company witness Grubb's argument that a MAWC demand
4 of compensation from AWR would have been inappropriate.

5 A. AWR is in the business of offering a water service line protection program in
6 order to make a profit. For AWR to make a profit, the firm is soliciting thousands of
7 customers. Many have already signed up for the program. However, AWR would not earn a
8 single dollar of profit without the customer lists that MAWC ultimately provided to it free of
9 charge. If MAWC was truly acting in its own best financial interests, it would have
10 negotiated a better deal than to receive absolutely no compensation at all for all of the services
11 it provided to AWR. MAWC would not give these customer lists to a non-affiliated company
12 without seeking compensation. This very point highlights the concerns the Staff has with
13 MAWC's interactions with its affiliated companies such as AWR. Company witness Grubb
14 attempts to explain this situation on page 23, lines 8-9 by suggesting that MAWC chose to
15 assist AWR free of charge in order to reduce "customer dissatisfaction with failing service
16 lines." The Staff believes, from its perspective, that American Water would rather have a non-
17 regulated affiliated company AWR offer the program instead of the regulated MAWC. This
18 would allow AWR to keep all of the profits and at the same time use the time and resources of
19 the utility free of charge. If MAWC were to offer the program, the profits it earned from such
20 a program would help to reduce rates that ratepayers in Missouri would have to pay. As it
21 stands, by offering the program through an affiliate, AWR can keep all of the profits while
22 MAWC can avoid sharing the profits of such a program with its ratepayers. The Staff
23 contends that since the program is offered through an affiliated company and MAWC is not

1 acting in the best interests of its ratepayers, some adjustment needs to be made to properly
2 compensate MAWC and its ratepayers. The Staff believes that MAWC should not have
3 provided the customer list and all of the aforementioned services without compensation from
4 AWR for Missouri ratepayers who have been solicited for the program.

5 Q. Has the Staff requested information regarding the operations of AWR?

6 A. Yes. The Staff has requested information pertaining to AWR in Data Request
7 Nos. 144 and 277-279. In response to each of those data requests the Company has filed an
8 objection. Currently, the Staff has still not received any information with regards to any of
9 these requests. Each of these data requests were part of Staff's Motion to Compel Answers to
10 Staff Data Requests. Information that the Company has denied to the Staff regarding AWR in
11 these requests includes the following:

12 1. Access to AWR's Board of Director's meeting minutes from
13 January 1, 2000 to present.

14 2. A copy of all studies and analysis that would show what AWR
15 would experience by offering the program to MAWC customers for
16 each year covering 2003-2006 for each of the following items:

17 Total Expenses

18 Total Revenues

19 Net profits on an annual basis

20 Number of customers served

21 3. A 2003 monthly breakdown of actual revenues, actual number of
22 customer served, actual expenses and actual net income that AWR
23 actually experienced via MAWC customers.

24 4. An historic breakdown of actual revenues, actual expenses, actual
25 numbers of customer served and actual net profits AWR has
26 experienced in other states where it has already offered its protection
27 program.

1 5. The level of actual revenues, actual expenses, actual number of
2 customers served and actual net profits AWR expects to receive from
3 offering its protection line program to in other states in the future.

4 This information would allow the Staff to examine the decision making process that led to the
5 water line protection program and how AWR expected to obtain the customer list. It would
6 also show who was making the decisions and how much profit was available to share with
7 MAWC. This information is also crucial in allowing the Staff to determine an appropriate
8 amount of compensation for MAWC. This information would also shed light on whether this
9 transaction was truly conducted in an appropriate manner. Clearly the Company would rather
10 not disclose this information to the Staff and instead accuse the Staff of being “arbitrary” (See
11 Grubb rebuttal, page 23, line 22) and “grossly excessive” (See Grubb rebuttal, page 21, line
12 27) in attempting to make an adjustment to fairly compensate the Company and its ratepayers.

13 Q. Does the Staff agree with Company witness Grubb’s suggestion that \$8,400 is
14 an appropriate valuation of the customer list?

15 A. No. Company witness Grubb states that he has research that shows the cost of
16 lists similar to MAWC’s customer list being worth \$35 to \$75 per 1,000 customers “on the
17 open market” (Grubb rebuttal, page 23, line 25). The problem that Mr. Grubb’s research
18 ignores is that AWR is not offering it service on the “open market.” The service is being
19 offered to captive utility customers. Furthermore, without the MAWC customer list and
20 Company endorsement, it would have been extremely difficult if not impossible for AWR to
21 conduct its business, earn profits and offer its services to MAWC customers. Obviously, the
22 MAWC customer list has much more value than the one-time payment of \$8,400 suggested
23 by Mr. Grubb.

24 Q. Did the Company receive any compensation for MAWC
25 President Thornburg’s time?

1 A. No. Company witness Grubb states on page 24, lines 10-11 that “There was
2 absolutely no incremental cost to MAWC in connection with this letter. There is no
3 reasonable way to place a value on Mr. Thornburg’s letter.”

4 Q. Does the Staff believe that this is reasonable?

5 A. No. The Staff believes that it is unreasonable to attribute zero value to
6 Mr. Thornburg’s time or to the letter itself. The Staff thinks it is reasonable to believe that
7 Mr. Thornburg spent time discussing the program in meetings, concluding that the program
8 was of value to MAWC and its customers, reviewing similar programs that were offered in
9 other parts of the American Water system and either drafting or at least reviewing the letter
10 that has been mailed to MAWC customers on four occasions.

11 Q. What compensation is the Staff attempting to recover in making its
12 adjustment?

13 A. The Staff is attempting to recover a portion of the profits that AWR will
14 generate annually from offering the water line protection program in Missouri. The Staff
15 believes that MAWC is fairly entitled to 50% of AWR’s profits. Without all of the services
16 provided by MAWC, the Staff believes AWR would have difficulty making any profits.
17 However, under the Staff’s proposal to share profits equally, AWR and MAWC and its
18 ratepayers would profit from the program. The Staff does not believe that a one-time
19 payment for the customer list represents fair compensation to MAWC for opening the door
20 for AWR to potentially earn significant unregulated profits.

21 **COST ALLOCATION MANUAL (CAM)**

22 Q. Please respond to Company witness Grubb’s concerns about the Staff’s
23 proposed reporting requirements regarding the Company’s CAM.

1 A. Mr. Grubb believes the CAM should represent nothing more than a reference
2 manual (Grubb rebuttal page 29, line 20). As such, he believes the Company should not be
3 required to update the CAM with meaningful actual monthly data. Furthermore, Mr. Grubb
4 disagrees with five of the six additional CAM reporting requirements that are proposed by the
5 Staff. The Staff believes that MAWC's CAM should be more than merely a "reference
6 manual" with no supporting cost data.

7 In its current state, no party can examine the CAM and make any determination about
8 the appropriateness of any of the costs being allocated to all the various entities. The Staff's
9 proposed requirement attempts to make the CAM a more useful tool to be used to determine
10 the appropriateness of the affiliated transactions, not only during actual rate proceedings, but
11 also to act as a monitoring tool in between those rate proceedings.

12 Q. Please address each of Mr. Grubb's concerns, regarding what the Staff believes
13 the CAM should clearly identify.

14 A. CAM Requirement 1: Total Service Company costs by month – Currently the
15 CAM does not identify this information. This information should already be tracked,
16 recorded and reviewed monthly by some individual at the Company. The Staff is merely
17 requesting that this information also be placed in a monthly report as part of its CAM.

18 CAM Requirement 2: Allocation Basis used to distribute those costs each month to all
19 entities –Company witness Grubb indicates that the Company already tracks this information
20 for the CAM. MAWC should continue to provide this information.

21 CAM Requirement 3: Identify costs borne by each entity taking service from the
22 Service Company – Currently, the CAM does not identify this information. This information
23 should already be tracked recorded and reviewed each month by some individual at the

Service Company. The Staff is only requesting that this information be included in a monthly report as part of the Company's CAM.

CAM Requirement 4: Identify Service Company costs by month identified by cost pool and the corresponding allocation basis. – Currently, the CAM does not identify this information. Mr. Grubb indicates on page 31, line 4 of his rebuttal testimony that “the financial system would produce the information,” however he feels it is not appropriate to include this information in the CAM. The Company already tracks the information. The Staff is merely recommending that this information be included in a monthly report as part of its CAM.

CAM Requirement 5: Report monthly allocated Service Company costs along with the monthly allocation calculations broken down by Service Company functions as shown below:

Shared Services Center	Belleville Labs
Call Center	Corporate
Regional Offices	ITS Haddon Heights, NJ
ITS Hershey, PA	ITS Richmond, IN

Mr. Grubb indicates that he does not have an issue with doing this, but would rather do it on an annual basis. However, the Staff asks to receive the information on a monthly basis. Given the complex nature of the affiliate transactions resulting from the allocation of Service Company costs it is imperative to maintain this data on a monthly basis in order to provide the most accurate history. Changes in operations and customer levels at any of American Water's operating companies can impact the allocations of all the remaining entities. The Staff will need the monthly detail to accurately determine the appropriateness of Service Company allocations to MAWC.

1 CAM Requirement 6: For each of the Service Company functions listed in
2 requirement 5, the Company should maintain a monthly expense detail report of the total
3 Service Company expenses that can be examined by the Staff to determine if expenses that
4 are being allocated are reasonable and appropriate. The Staff believes this item is very
5 important and should be part of its CAM requirements. The Staff needs this information to
6 determine what the allocated amounts are comprised of and to determine if it is even
7 appropriate to allocate the costs to MAWC.

8 Q. Has the Staff requested that similar information be reported within the context
9 of a CAM with regard to other utilities operating in Missouri?

10 A. Yes. The Stipulation And Agreement in Case No. EM-2001-464, involving
11 the Kansas City Power & Light Company (KCPL), specifies that KCPL will provide the
12 following items in relation to its CAM:

13 Dollar amounts for each service and good charged to each affiliate by
14 KCPL, and the total cost related to each service and good listed.

15 Dollar amounts for each service and good bought from each affiliate by
16 KCPL, and the total cost related to each service and good listed.

17 The amount of revenues and expenses for each deregulated activity for
18 the last calendar year.

19 Similarly, in Case No. GM-2001-342, involving the Laclede Gas Company (Laclede),
20 Laclede agreed to provide this same cost information listed above, as part of its CAM.
21 Clearly the CAM's for both KCPL and Laclede do not act merely as a reference manual as
22 Company witness Grubb suggests. These CAMS supply useful financial information in order
23 to assist the Staff in making a determination regarding these companies' affiliated
24 transactions. The Staff requests that the Commission require the Company to update its CAM
25 to include the requested information.

AFFILIATED TRANSACTION RULE

Q. On page 32, lines 28-30, Company witness Grubb states his belief that the Service Company “billing process is fair and reasonable and that the regulated and non-regulated companies receive an appropriate amount of billed charges for the services rendered by the Service Company.” Does Staff agree with this statement?

A. No. As the Staff has already explained previously in direct testimony, regulated utilities receive indirect charges every month from the Service Company regardless of whether the regulated utility actually received a direct charge for that service or not. On the other hand, non-regulated entities only receive indirect charges in those months that they actually received a direct charge. Clearly, this results in American Water’s non-regulated companies not being charged on an equal and consistent basis in comparison to American Water’s regulated operating companies. The Company’s response to Staff Data Request No. 403 verifies this inconsistent treatment between regulated and unregulated companies. The Staff has attached the Company’s response to Data Request No. 403 as Schedule 3 to this surrebuttal testimony. The Company’s response to Staff Data Request No. 445 clearly indicates that this inconsistency has occurred in relation to various functions performed by the Service Company and then allocated to MAWC. The Staff has attached the Company’s response to Data Request No. 445 as Schedule 4 to this surrebuttal testimony.

Q. Please respond to Company witness Grubb’s contention that “MAWC does not believe that an affiliate transaction rule is necessary at this time.”(Grubb rebuttal, page 33, line 4).

A. The Staff strongly disagrees with this statement. Mr. Grubb goes on to say the following in his rebuttal testimony:

With the exception of the relationship with American Water Capital Corp (AWCC), MAWC has no more or different relationship with the non-regulated businesses of American Water than it did 10 years ago. MAWC does not transact any business with any American affiliate on an on-going basis, with the exception of the Service Company and AWCC.

The Staff disagrees with all of these statements contained in Mr. Grubb's rebuttal testimony. Ten years ago, AWR was not obtaining information and resources from MAWC, free of charge, in order to offer its water line protection program. Similarly ten years ago, the American Water Service Company was not providing a Call Center function, centralized accounting at the National Shared Service Center, or even an Information Technology Service function that served all of the operating companies. These functions were previously performed on the local operating company level. The Staff has examined PSC Annual Report filings regarding the area of intercorporate charges to MAWC during the period covering January 1, 1998 through December 31, 2002. This examination reveals the substantial increasing trend of intercorporate costs being allocated to MAWC:

**MAWC ALLOCATED
INTERCORPORATE**

<u>YEAR</u>	<u>CHARGES</u>
1998	\$ 2,677,126 *
1999	\$ 2,157,453 *
2000	\$ 4,800,640
2001	\$ 8,567,900
2002	\$13,893,814

*1998 and 1999 do not reflect MAWC intercorporate charges allocated to St. Louis County Water Company and United Water Missouri Inc. because these two entities received intercorporate charges from their previous owners during these two years. In 1998, St. Louis County Water and United Water Missouri incurred net charges totaling \$1.75 million from their respective affiliate companies, while receiving \$648,085 in inter-company revenues. In 1999, this affiliate net charge amount totaled \$3.28 million, while inter-company revenues totaled \$726,445.

1 In the current rate proceeding the Company has proposed to increase the 2002 level to over
2 \$15.7 million by proposing to include an additional \$1.82 million related to a portion of
3 additional call center costs and additional Information Technology Services (ITS) costs. With
4 the significant increase in intercorporate costs being charged to MAWC, it seems clear to the
5 Staff that a proposal to promulgate an affiliate transaction rule to address these new
6 developments is imperative.

7 Q. Does the Staff believe that an affiliate transaction rule can be promulgated in
8 such a way that it is fair and reasonable?

9 A. Yes. Such rules have already been successfully put into place for electric and
10 gas utilities operating in Missouri. The Staff believes that these existing gas and electric
11 affiliate transaction rules can be modified for water utilities to insure that standards are in
12 place to protect both the Company and its customers, from potential affiliate abuses.

13 **NATIONAL CALL CENTER**

14 Q. What is the issue with regard to National Call Center expense?

15 A. The Call Center expense issue is an allocation issue. The Staff has made all of
16 its adjustments to Call Center expense in order to protect MAWC and its ratepayers from an
17 inappropriate cost allocation process. The Company is proposing that MAWC incur
18 significant increases in previous levels of Call Center expenses. Documentation from
19 American Water indicated to the Staff that the move to the Call Center would result in overall
20 cost savings. In addition, based on the current allocation process some states have
21 experienced lower ongoing customer service related costs while other states have experienced
22 increased ongoing customer service related costs as a result of the decision to develop the
23 National Call Center. The Staff contends that since American Water has achieved overall cost

1 savings, it would be inappropriate to allocate additional costs to any operating company based
2 on this overall collective outcome. No operating company should have received an increase
3 in costs above what it previously experienced and many, if not all, should have actually
4 realized a decrease from the costs previously experienced or what is referred to as “as-was”
5 costs. The Staff wants to make clear that it has not attempted to capture any of the overall
6 American Water cost savings that have occurred. Rather, the Staff’s adjustment merely
7 maintains MAWC’s previous levels of Call Center expense as was calculated by Company
8 witness Ed Grubb in his response to Staff Data Request No. 110.

9 Q. Has Staff made any additional adjustments related to the National Call Center?

10 A. Yes. The Staff has included three additional adjustments, S-13.6, S-14.28 and
11 S-17.6. These adjustments remove costs related to annualized labor, labor related benefits
12 and payroll taxes that pertain to employees already included in the Staff’s cost of service
13 calculation for customer service costs on the MAWC level in addition to the allocated Call
14 Center Service Company expense. The following chart summarizes the Staff’s Call Center
15 adjustments to test year expense:

16	Total Test Year Expense	\$3,669,378
17	Less: Staff Adjustment S-14.18	\$(3,008,967)
18	(\$3,005,947 + \$3,020)	
19	Plus: Staff Adjustment S-13.4	\$ 3,139,391
20	(\$3,261,840 - \$122,449)	
21	Less: Staff Adjustment S-13.6	\$(412,772)
22	Less: Staff Adjustment S-14.28	\$(91,430)
23	Less: Staff Adjustment S-17.6	<u>\$(33,760)</u>
24	Staff adjusted call center expense	\$3,261,840

25 Staff’s adjusted call center expense represents the previously experienced “as was” call center
26 costs that were identified by Company witness Grubb in the response to Staff Data Request

Surrebuttal Testimony of
John P. Cassidy

No. 110. Company's response to Staff Data Request No. 110 also represents the operating costs and savings that MAWC prepared to compare "as was" call center costs factored up for all known changes to "as is" costs that supported Company adjustment in its direct testimony for ongoing call center costs. A copy of Company witness Grubb's response to Staff Data Request No. 110 is attached as Schedule 5 to this surrebuttal testimony.

Q. Has the Company provided an "update" to its response to Staff Data Request No. 110, which forms the basis for Company witness Van den Berg's call center testimony?

A. Yes. However, the Staff points out that in the original response to Staff Data Request No. 110, the Company in no way indicated that the data it supplied was interim information, or that the Staff should expect that an update to Staff Data Request No. 110 would be forthcoming because the Company was waiting for additional information. It was only after learning of the Staff's call center adjustments that MAWC decided to change its position. The Staff will address Mr. Van den Berg's call center testimony later in this surrebuttal testimony.

Q. What amount did the Company propose to include for Call Center Costs in its direct testimony?

A. The Company originally proposed to include the following amounts related to Call Center functions:

Test Year Expense St. Louis District	\$3,005,947
Cost of employees located in St. Louis that complete additional tasks not performed at the Call Center	\$ 878,917
Company's pro-forma adjustment of estimated allocated call center costs pertaining to non-St. Louis districts	<u>\$ 986,548</u>

1	Subtotal Call Center related costs proposed	
2	by Company	\$4,871,412
3	Plus: Non-Recurring customer service costs related	
4	to District activity no longer in existence	
5	(included in test year)	<u>\$ 125,469</u>
6	Total Call Center Related Costs included	
7	in MAWC's proposal	\$4,996,881

8 Q. What level of increase in Call Center related costs did the Company's original
9 response to Data Request No. 110, reveal that MAWC should expect to receive?

10 A. A review of the information supplied by the Company in the response to Data
11 Request No. 110 (see schedule 5 attached) shows that the Company calculated a \$1.6 million
12 increase in call center costs that existed prior to the formation of the National Call Center.
13 Therefore, the Staff was not incorrect in making this determination of increased call center
14 costs as Company witness Van den Berg had suggested in his rebuttal testimony on page 7,
15 lines 15-18.

16 Q. Did MAWC propose any adjustment to remove the \$125,469 of non-recurring
17 MAWC district level expense that occurred during the test year?

18 A. No. None of the Company's adjustments proposes to remove the \$125,469 of
19 non-recurring district level expense from the test year, as shown above and identified in the
20 response to Staff Data Request No. 298.

21 Q. What is the impact of failing to remove these non-recurring costs from the test
22 year on Company's previous proposal?

23 A. By not removing the \$125,469 non-recurring costs the Company had included
24 in its proposal an amount that was in excess of \$1.7 million more than prior call center
25 expense. Again, this analysis demonstrates that the Staff was not incorrect in making the
26 determination of increased call center costs as Company witness Van den Berg has suggested

in his rebuttal testimony. The Staff's determination is based entirely on the information that Company has supplied to Staff in Data Request Nos. 110 and 298.

Q. Please describe the information that MAWC provided to the Staff with regard to "as-was" and "as-is" cost comparison in its response to Staff Data Request No. 110, which is attached as Schedule 5 to this surrebuttal testimony.

A. The Staff requested that the Company provide the costs and the savings that were experienced as a result of the transition to the Call Center. As part of the response to this Data Request, Company witness Grubb provided a study, which reflected the "as-was" costs (costs that existed prior to the transition to the Call Center). Mr. Grubb adjusted these "as-was" costs for wage increases that would have occurred since that time in order to bring these costs to current levels. Mr. Grubb also indicated that, "The response to this data request will encompass not just the St. Louis District but also all districts." These Company calculations revealed that on a current cost basis the cost of the previous customer service function would be \$3,261,840. Mr. Grubb also included a calculation of the current "as-is" Call Center costs, which includes the following items:

Actual test year allocated St. Louis district call center costs	\$3,005,947
Company's adjustment to annualized all remaining MAWC Districts joining the call center effective May 2003	\$ 986,548
Actual maintained labor costs in addition to allocated Call Center costs that are performed at the district level	<u>\$ 878,917</u>
Total "As-is" Call Center Costs	\$4,871,412

The Staff did not adjust or modify these calculations in any way. All of these costs represent the amounts that have been supplied by MAWC. Staff members Stephen M. Rackers and I,

1 contacted Mr. Grubb via conference call to discuss the response to this request. Mr. Grubb
2 stated during the conference call that his calculations accounted for all the costs to provide the
3 customer service function, at all the districts that were replaced by the Call Center. Also he
4 gave no indication that the Staff should expect a change or update to this request at any point
5 in the future. Based on the Company's own calculations, subtracting the "as-was" costs from
6 the "as-is" costs, reveals that the Company will incur an additional \$1.6 million related to
7 their decision to move to the Call Center. This number is further increased to \$1.7 million
8 given the additional test year level of \$125,469 of non-recurring district level customer
9 service expense that should be excluded.

10 Q. Please respond to Company witness Van den Berg's belief that the "as-was" to
11 "as-is" comparison that the Company provided in the response to Staff Data Request No. 110
12 is now invalid.

13 A. Mr. Van den Berg now wants to move away from the Company's previous cost
14 comparison calculations provided in Data Request No. 110 by suggesting the previous
15 calculations did not consider customer growth or increases in call volume (Van den Berg page
16 9, lines 15-16). Mr. Van den Berg asserts that Mr. Grubb's "as-was" case did not consider
17 changes in MAWC call volume (Van den Berg page 10 lines 1-9). The Staff disagrees with
18 Mr. Van den Berg's claim. Clearly, a review of page 2 of Schedule 5 attached to this
19 surrebuttal testimony, shows Mr. Grubb's analysis did make a comparison of "as-was" call
20 levels to "as-is" call levels. Company witness Grubb indicates an "as-was" cost of \$8.44 per
21 call and an "as-is" cost of being \$9.77 per call, or an increase of \$1.27 per call. Mr. Grubb
22 reflected "as-was" call levels as being 386,415 and estimated that "as-is" call levels to be
23 501,768. Mr. Van den Berg accepts Mr. Grubb's "as-was" call levels but develops his own

1 estimate of “as-is” call levels to be 521,529. Also, note that Mr. Van den Berg also accepts
2 Mr. Grubb’s cost per call calculation of \$8.44, which is based on Mr. Grubb’s \$3,261,840 “as-
3 was” cost calculation as well as his 1999 call volume levels. It is also important to note that
4 even though Mr. Grubb identified an estimated increased call volume level, he did not
5 consider that to be the appropriate basis for calculating “as-was” costs as Mr. Van den Berg
6 now does.

7 Q. Why does the Staff believe it is inappropriate to attempt to justify the increase
8 in call center expense based upon Mr. Van den Berg’s newly created number of calls?

9 A. There are several reasons that this is inappropriate. First, the 2003 call level of
10 521,529 as calculated by Mr. Van den Berg represents only his best estimate of what call
11 levels will be on a going forward basis and it is inflated due to the inclusion of calls that
12 pertain to the operations of the affiliated company AWR. Mr. Van den Berg uses actual Call
13 Center experience from May through October 2003 and multiplies this level by two to achieve
14 an annual level. To this amount he adds an estimated ratio of Integrated Voice Response
15 (IVR) calls, which is based on a comparison of 2002 data to 2003 data. Mr. Van den Berg
16 does this because during 2003, the Call Center did not track IVR calls by state. However, as
17 the Staff has already pointed out earlier in this testimony, the Company has indicated in
18 response to Staff Data Request No. 173 that it does not maintain any categorical breakdowns
19 of calls that come into the Call Center relating to calls concerning the AWR water line
20 protection program. In an email follow up to this data request, the Company further explained
21 that it does not track call volume by type of calls received for each state and that currently, the
22 Call Center is not tracking calls by type of calls received but instead by the volume of calls

1 received by state. Please refer to Schedule 2 attached to this surrebuttal testimony to view
2 Data Request No. 173.

3 Likewise, in Data Request No. 174, the Staff requested the total number of calls that
4 related to the service line protection program offered by AWR. Again, the Company was
5 unable to identify these calls. Please refer to Company's updated response to Staff Data
6 Request No. 174, attached as Schedule 6 to this surrebuttal testimony. The Staff is also aware
7 that American Water Resources first offered its water line protection program to MAWC
8 customers in April 2003. Therefore, it appears that the number of customers who have called
9 the Call Center with questions regarding the AWR program improperly inflates
10 Mr. Van den Berg's 2003 call calculations.

11 The Staff has verified that non-AWR employees located at the Call Center answer
12 questions about the AWR service line protection program. I have called the Company's Call
13 Center phone number listed at the bottom of my MAWC bill on multiple occasions and
14 spoken to customer service representatives about the specifics of the AWR water line
15 protection program. The Staff found that the customer services representatives had access to
16 information of AWR's offerings in multiple states and were knowledgeable about the
17 specifics of the program. The Staff also discovered that the Call Center telephone menu
18 contains an option that transfers the caller to a Call Center customer service representative
19 who is able to answer specific questions about the AWR program or to an AWR employee.

20 Second, Mr. Van den Berg states on page 10, on lines 5-6 that "the call volume has
21 increased from 386,415 calls per year in 2000 to an expected 521,529 calls per year in 2003."
22 The Staff believes Mr. Van den Berg's 386,415 calls per year actually relates to 1999. The
23 Company has indicated in the response to Staff Data Request No. 173, (please see Schedule 2)

1 that “The customer call count of 386,415 was based on a time frame of 1999. These call
2 levels were developed through a survey of the Company based on the actual call total
3 experienced during the year 1999.” When asked why the Company did not use more current
4 data, the Company has indicated that it did not have records of call totals for 2000 and 2001.
5 The Company also did not have actual call volumes for the first nine months of 2002 for all
6 non-St. Louis districts. Therefore, there is no way to determine if the 1999 levels represent an
7 accurate gauge of historical call levels on which to make any sort of a comparison with
8 estimated future call levels. Furthermore, MAWC did not own St. Louis County Water or
9 United Water Missouri for all of 1999. It is unclear as to how MAWC estimated their
10 respective call levels for 1999. The Company’s response seems to indicate that the 1999
11 volumes were based on a “survey.” The Staff has requested that the Company furnish the
12 actual call reports that they relied upon to develop this 1999 level in Staff Data Request
13 No. 480 in order to determine if these call volumes are actual levels or estimates.

14 Third, Mr. Van den Berg’s analysis is inconsistent with the analysis that American
15 Water performed and relied upon in making its original decision to develop its National Call
16 Center. American Water did not rely on a comparison of “as-was” call volumes to an “as-is”
17 estimated call volume level. Instead, American Water performed a comparison of “as-is”
18 costs to “to-be” costs and also considered one-time transition costs. This type of analysis is
19 more consistent with the analysis that Company witness Grubb performed in his response to
20 Staff Data Request No. 110. The Staff will discuss American Water’s Call Center analysis
21 later in this surrebuttal testimony.

22 Fourth, it is inconsistent with information supplied to the Staff in its response to Staff
23 Data Request No. 383, which addressed Call Center costs as well as Call Center transition

1 costs. American Water prepared a document dated October 2000, subsequent to the
2 August 24, 2000 date when American Water made their final decision to form the Call Center.
3 In that document American Water states that the Call Center will provide a “High level of
4 customer service at a decreased cost to the customer.” The Staff has attached a portion of the
5 Company’s response to Staff Data Request No. 383 as Schedule 7 to this surrebuttal
6 testimony.

7 Finally, the Staff contends that Mr. Van den Berg’s 1999 call volumes are dated and
8 offer no other historic means of comparison. Also, it appears that these call volumes are not
9 actual volumes, but instead are based on estimates that may or may not be accurate.
10 Likewise, his 2003 call volumes are estimated and inappropriately include the effect of
11 customers calling with questions about the affiliated company AWR’s service line protection
12 program. Mr. Van den Berg goes on to use these call volumes to compute the number of calls
13 per customer. These problems with Mr. Van den Berg’s call volumes result in a flawed
14 analysis. Furthermore, Mr. Van den Berg’s analysis is inconsistent with the analysis
15 American Water performed and relied upon in making its decision to develop the National
16 Call Center.

17 Q. Why is Mr. Van den Berg’s calculation of \$4,401,704 of ongoing “as-was”
18 O&M cost inappropriate (Van den Berg, rebuttal, Schedule AJV2)?

19 A. Company witness Mr. Van den Berg, changes Company witness Grubb’s
20 previous “as-was” calculations from an actual cost methodology factored up for known
21 changes, to a cost per call methodology that is based on estimates and distortions.
22 Mr. Van den Berg does this by multiplying Mr. Grubb’s \$8.44 cost per call by his estimated
23 2003 call level of 521,529. Mr. Van den Berg also relies on Mr. Grubb’s \$3,261,840 “as-

1 was” amount, which is the same number he also disputes on page 9, lines 5-22 of his rebuttal
2 testimony. Again this calculation is based on an estimated number of calls as well as a level
3 that is improperly inflated for calls related to an affiliated company’s water line protection
4 program. Furthermore, it is inappropriate to apply a cost of \$8.44 per call to a new level of
5 estimated calls, as this logic assumes that all costs are variable.

6 Q. Is Mr. Van den Berg’s position consistent with the methodology found in the
7 documentation that American Water relied upon in making its decision to create the
8 consolidated National Call Center?

9 A. No it is not. This cost per call methodology was not the methodology that
10 American Water used in making its determination of the cost savings that it would achieve.
11 In Staff Data Request No. 448 the Staff requested a copy of all documentation that American
12 Water relied upon in making its decision to develop the National Call Center. The
13 Company’s response to Staff Data Request No. 448 has been attached as Schedule 8 to this
14 surrebuttal testimony. In the response to Staff Data Request No. 449, MAWC indicated that
15 it also relied upon the same documentation supplied in the response to Staff Data Request
16 No. 448 in making its decision to join the Call Center. A review of this documentation
17 reveals that American Water and MAWC did not base their decisions to develop and join the
18 Call Center on the cost per call analysis. This document also demonstrates that American
19 Water expected an overall cost savings of \$10 million annually. This same document also
20 demonstrates that after a period of five years, American Water calculated that it would
21 entirely recapture all of its one-time transition costs and still achieve a savings of over \$31
22 million. This document is consistent with the statement made by American Water reported in

its 2001 SEC 10K filing that it expected the move to the Call Center to create savings and that the move and its related transition costs would have “no impact on customers rates.”

Q. Through the rebuttal testimony of Mr. Van den Berg is the Company now supporting a different Call Center adjustment than it previously proposed in the direct testimony of Mr. Grubb?

A. Yes. Based on Mr. Van den Berg’s statement found on page 11, lines 10-16, the Company now supports a lower ongoing level of call center costs than were supported in its direct testimony filing. In its direct filed case, Company witness Grubb includes an adjustment to annualize ongoing allocated call center expense at \$3,992,495, by including an adjustment of \$986,548 to the test year allocated amount of \$3,005,947. Mr. Van den Berg is now suggesting that the ongoing allocated Call Center adjustment has changed to \$217,281 for a total annual allocated cost of \$3,223,228. This is in addition to the same \$878,917 of district level call center costs newly created by the Call Center’s formation and the \$125,469 of non-recurring call center expense.

However, this new position still suggests that MAWC should incur \$965,774 of additional ongoing expense because of its decision to join the Call Center. The following chart shows a breakdown of this proposed additional ongoing expense:

“As-Was” Costs factored up for all changes	\$3,261,840
Less: Company’s proposed allocated costs	(\$3,223,228)
Plus: MAWC additional district costs	\$ 878,917
Plus: Non-recurring costs not removed from test year	<u>\$ 125,469</u>
Additional Call Center Costs proposed by Company	\$ 965,774

1 The Staff contends that this is inappropriate given the fact that the Call Center has achieved
2 overall cost savings for American Water. Staff does not oppose the allocation of all the cost
3 savings from the decision to build the Call Center to other states. Staff does oppose
4 overstating the amount of those cost savings given to other states by inflating the costs
5 assigned to MAWC over the amount MAWC would have incurred absent joining the Call
6 Center. Since, there is overall costs savings, the Staff contends that at worst, MAWC should
7 experience no increase in “as-was” costs. The Staff’s adjustments to the Call Center reflect no
8 increase and do not attempt to capture any of the overall savings.

9 Q. What is your response to Mr. Van den Berg’s comparison of the Company’s
10 new calculation for ongoing “as-was” costs to his new calculation for “as-is” costs as
11 explained on page 12, lines 1-12 of his rebuttal testimony?

12 A. Mr. Van den Berg tries to use these calculations to prove that a cost savings
13 has been generated by comparing his newly created version of “as-was” costs to his revised
14 version of “as-is” costs. He bases this notion upon a comparison between his calculation of
15 “as-was” costs that are based on estimated call volumes that are also inflated by AWR related
16 calls to Company’s revised “as-is” position of taking service company bills for May –
17 October 2003 and multiplying by two and then adding district costs that were created as a
18 result of the Call Center’s formation. Mr. Van Den Berg makes this attempt to dispel the fact
19 that previously the Company indicated in the response to Staff Data Request No. 110 that this
20 comparison revealed an actual cost increase for MAWC of an additional \$1.6 million. Again
21 the Staff reiterates that this is an inappropriate comparison for the previous reasons stated and
22 it ignores the fact that the Call Center’s formation created an overall cost savings to American
23 Water. Furthermore, Mr. Van den Berg’s “as-is” position ignores the fact that Kentucky

1 joined the Call Center on October 20, 2003 and Indiana is expected to join the Call Center on
2 February 16, 2004.

3 Q. How does the Staff respond to Mr. Van den Berg's claim that Staff's position
4 would result in duplicate functions remaining at the operating company creating duplicate
5 costs for the operating company and the Service Company (Van den Berg, rebuttal, page 13,
6 lines 1-9)?

7 A. The Staff has made all of its adjustments to Call Center expense to protect
8 MAWC and its customers from an allocation process that inappropriately results in additional
9 costs. By making its adjustments the Staff is not suggesting that MAWC should have retained
10 its existing call center functions at the local level. As the Staff has already pointed out in its
11 direct testimony, as of 2001 American Water believed that the Call Center would result in
12 "reduced operating expenses, resulting in no impact on customers' rates." This quote was
13 taken from the American Water 2001 SEC 10K filing. Further evidence of this is found in the
14 documentation that American Water and MAWC relied on in making the final decision to
15 develop the Call Center on August 24, 2000. This documentation was provided to the Staff as
16 part of Data Request No. 448, which is attached as Schedule 8 to this surrebuttal testimony.
17 American Water's final revised calculations revealed that they would realize an annual
18 savings of \$10,097,000 with a five-year net savings of \$31,239,000 which included recovery
19 of all related transition costs (please refer to pages 8-10 and 8-11 of Schedule 8). Page 8-13
20 of this document provides a breakdown of all "as-is" costs by state. The states "Introduction"
21 page (Page 8-28) in this document shows that American Water also prepared a table showing
22 the projected "to-be" costs and multiple scenarios for how these could be allocated back to
23 each state.

1 Q. Is the Staff able to compare the analysis for “to-be” costs for Missouri with the
2 analysis for other states?

3 A. No. The Company only provided data for Missouri even though the
4 Company’s response to Staff Data Request No. 448 indicates that the other states information
5 exists. The Staff contacted Mr. Jim Harrison, with American Water, who prepared the
6 response to this data request. Mr. Harrison indicated to the Staff that the other states’
7 documentation exists but that it would not be provided to the Staff. Mr. Harrison admitted
8 that in total American Water had actually experienced an overall cost savings in relation to the
9 move to the Call Center and that some states were now paying more for this move while other
10 states were now paying less. This is inappropriate. The Call Center was built with economic
11 reasons being a key factor in the decision. No state should have its cost of service increased
12 because of their inclusion in the Call Center. Otherwise, it is imprudent to join the Call
13 Center since they can provide the service at an overall lower cost level. As a result, MAWC
14 is now subsidizing the other American Water operating companies that received a cost
15 reduction. If the Staff had the “as-is” and “to-be” costs referenced in Data Request No. 448
16 for all other operating companies the Staff could examine this documentation to determine
17 whether these allocated costs were appropriate.

18 Unfortunately the Call Center has not resulted in savings for MAWC. Instead,
19 MAWC and its ratepayers are being asked to pay for a significant increase in total Call Center
20 costs. In addition, MAWC is proposing to include “a return of” and a “return on” all of the
21 one-time call center transition costs that relate to business assets they do not own and business
22 processes that they do not control and this despite the fact that the American Water analysis
23 (page 8-11 of Schedule 8) suggests that total transition costs would be recouped within two

1 years of developing the Call Center through the overall cost savings that have been passed on
2 to other states. The Staff believes that Call Center costs should be left at the levels as
3 calculated by Company witness Grubb that reflect “as-was” call center costs that were
4 factored up for all known changes in cost. Likewise, the Staff argues that the Call Center
5 related transition costs should not be included in rates, because they did not generate any cost
6 savings to MAWC, they are one-time non-recurring costs, they relate to assets that MAWC
7 does not own and to business processes that MAWC does not control.

8 Q. Please respond to Mr. Van den Berg’s comments on page 15, lines 20-21, page
9 16, page 17, lines 1-9, page 19, lines 13-23 and page 20 lines 1-5.

10 A. On these referenced pages, Mr. Van den Berg comments about how customers
11 today have expectations that are driven by industry standards for customer service. However,
12 the Staff does not believe that MAWC or American Water attempted to determine what
13 customer service expectations MAWC customers had, prior to the decision to develop the
14 National Call Center.

15 Q. What level of customer service did MAWC supply prior to joining the Call
16 Center?

17 A. In the response to Staff Data Request No. 309, the Company indicated that
18 MAWC customer service provided core hours from 8:00 AM through 5:00 PM using
19 approximately 22 call handlers. The Company was available all days except 11 company
20 observed holidays.

21 Q. What has been the result of MAWC transferring its customer service functions
22 to the Call Center?

1 A. The Company claims better service and more efficient use of technology.
2 However, this proposed level of service has created, based on the Company's revised
3 position, nearly a \$1 million increase in customer service costs despite the fact that, on an
4 overall basis, American Water has achieved cost savings.

5 Q. Has MAWC's history of complaints suggested that customers were having
6 problems with its previous levels of customer service?

7 A. No. The Staff's Engineering and Management Services Department performed
8 an analysis of the history of MAWC customer complaints received by the Missouri Public
9 Service Commission. This review of the number of MAWC customer complaints is shown
10 below:

11	1999	209
12	2000	376
13	2001	69
14	2002	137
15	2003	134 *

16 *Represents January 1 to December 2, 2003.

17 The year 2000 complaint levels can be explained by the fact that the Company had two filed
18 rate cases during that year. The St. Louis district, which represent over 75% of MAWC's total
19 customers, connected to the call center effective December 31, 2001. However, in 2001 the
20 Company actually experienced fewer customer complaints than during 2002, when over 75%
21 of their customers (i.e. the St. Louis district) were actually connected to the Call Center.
22 Certainly, none of these historical complaint levels would justify the additional costs that the
23 Company is proposing to include in rates associated with the services offered by the Call
24 Center.

25 Q. What level of customer service does the National Call Center provide for
26 MAWC customers currently?

1 A. The National Call Center provides customer service 24 hours a day, 7 days a
2 week. The Company has chosen this service level as part of its stated goal for reaching
3 world-class customer service target levels. The Company has also suggested that it now has
4 the ability to perform the following:

- 5 1. Track average abandoned call rate
- 6 2. Track average speed of answer
- 7 3. Track first call effectiveness
- 8 4. Track average customer inquiry response time
- 9 5. Accumulate data about customer calls regarding satisfaction
10 with call and other aspects of the Interactive Voice Response system
11 based on customer satisfaction surveys
- 12 6. Accessing multi-language capability in the Company's
13 customer service department through the Call Center.

14 Q. Has the Company conducted any study of any kind to determine any additional
15 costs associated with the 24/7 level of service being provided at the Call Center versus any
16 other alternative levels of customer service?

17 A. No. The Company performed no such study. Please refer to the Company's
18 response to Staff Data Request No. 308, which has been attached as Schedule 9 to this
19 surrebuttal testimony.

20 Q. Did the Company perform any survey or any other analysis of any kind to
21 determine what value MAWC customers actually placed on a 24/7 level of customer service?

22 A. No. The Company performed no such study. The Company has no evidence
23 to prove that MAWC customers have expressed that they wanted this level of customer
24 service or even if they would be willing to pay for the additional costs of providing the
25 service. That determination was made exclusively by American Water and the operating

1 companies. Please refer to the Company's response to Staff Data Request No. 310, which is
2 attached as Schedule 10 to this surrebuttal testimony.

3 Q. Did the Company perform any study or analysis to determine any quantifiable
4 benefits realized by MAWC associated with a 24/7 level of customer service versus any other
5 alternative level of customer service?

6 A. No. The Company performed no such study. Please refer to the Company's
7 response to Staff Data Request No. 311, which is attached as Schedule 11 to this surrebuttal
8 testimony.

9 Q. Did the Company perform any study or analysis to determine any quantifiable
10 benefits realized by MAWC associated with any of the six other Call Center services versus
11 any other alternative levels of customer service?

12 A. No. The Company has performed no such studies. Similarly the Company did
13 not perform any customer surveys to determine what value MAWC customers place on these
14 other Call Center Services versus any other alternative levels of customer service. The
15 Company also did not perform any cost study to determine the additional costs associated
16 with these six other Call Center services versus any other alternative levels of customer
17 service.

18 Q. Is there other support for the Staff's belief that the Company made its decision
19 to form the call center without seeking MAWC customer input?

20 A. In the responses to Staff Data Requests Nos. 310 and 311 the Company stated
21 the following:

22 The decision to go 24/7 was to improve service levels to meet what we
23 (including operating company presidents) believe customers expected.
24 Accenture had some documentation on other utilities and non-utility
25 service which indicated that 24/7 is an expected service level today. It

1 was also believed that this would not have a material cost impact due to
2 having to already staff for all time zones and our need to staff for
3 emergency services.

4 Therefore, the Company's initial decision was based on their belief of what expected
5 customer service levels should be. The Staff has repeatedly asked the Company to supply the
6 Accenture documentation referenced above, but still has not received this information from
7 the Company. The Staff contends that the contact level that MAWC customers enjoyed prior
8 to the formation of the National Call Center was adequate. The Staff also contends that
9 MAWC's decision to join the Call Center was a management decision that did not consider
10 the financial interests of MAWC's customers. While the goal of offering "world class"
11 customer service may represent MAWC's conception of an ideal customer service situation,
12 the Staff contends that the additional costs that were incurred to offer this level of customer
13 service is unnecessary for the provision of safe and adequate service to its customers and
14 therefore should not be included in rates. Furthermore, it ignores the fact that American
15 Water has achieved overall cost savings. Given this condition, it would be inappropriate to
16 charge MAWC or any other American Water Operating Company any additional costs related
17 to the decision to form the Call Center.

18 Q. Is 24/7 a level of customer service offered by AmerenUE, which represent
19 Missouri's largest electric utility, serving more than twice the number of customers as
20 MAWC?

21 A. No. AmerenUE does not offer a 24/7 level of service. AmerenUe currently
22 offers customer service hours to answer questions about customers bills from 7:00 am to
23 7:00 pm Monday through Friday. At one time, AmerenUE actually expanded its customer
24 service hours to 6:00 a.m. to 10:00 p.m. Monday through Friday, and 7:00 a.m. to 5:00 p.m.
25 on Saturday. However, AmerenUE subsequently reduced its customer service to its current

1 core hours of 7:00 a.m. to 7:00 p.m. Monday through Friday. If the largest electric utility in
2 the state found that a customer service level of something less than 24/7 was sufficient, it
3 seems unreasonable to believe that a water company with less than half of the number of
4 customers would need 24/7. The Staff believes 24/7 more appropriately is a result of an
5 American Water objective to serve a customer base that extends from New Jersey to Hawaii.

6 Q. Has the Company overlooked any non-recurring expenses in making its
7 adjustment to ongoing Call Center expense?

8 A. Yes. The Company failed to eliminate \$122,449 of customer account expense
9 and an additional \$3,020 of administrative and general expense that occurred during the test
10 year. The Staff contends that these costs will not occur again in the future due to the change
11 in operations that took place when the remaining districts transitioned to the Call Center
12 during May 2003. Should the Commission decide that the Company's proposed adjustment
13 to Call Center expenses is justified, the Staff contends that this \$125,469 amount of expense
14 must be removed from the cost of service calculation to avoid providing the Company
15 recovery for expenses they no longer incur.

16 Q. Based on its rebuttal testimony has the Company position with regards to its
17 Call Center adjustment changed?

18 A. Yes. As previously discussed in this testimony, based on Company witness
19 Van den Berg's rebuttal testimony filing the Company's direct filed position as contained in
20 Company witness Grubbs testimony and workpapers has changed. I have verified through a
21 discussion with MAWC Vice President, James J. Jenkins that the Company's Call Center
22 adjustment has changed from \$986,548 to \$217,281. The Staff believes that the Company's

position is unsupported and should not be allowed, but should the Commission rule in the Company's favor the Company's direct filed adjustment must be reduced by \$769,267.

NATIONAL CALL CENTER TRANSITION COSTS

Q. Has the Staff made any changes to its Plant Adjustment P-87.1?

A. Yes. Subsequent to the direct testimony filing, the Company provided the Staff with additional amounts of Call Center related transition costs that have occurred through the update period ending June 30, 2003. The Staff has reflected this updated level of transition costs in Plant Adjustment P-87.1

Q. Has the Staff made any additional adjustments related to Call Center transition costs since the direct testimony filing?

A. Yes. The Company has also provided the Staff with the corresponding level of depreciation reserve, which relates to the Call Center transition costs the Staff has removed from plant in service in Adjustment P-87.1. Staff Reserve Adjustment R-87.1 removes from the cost of service calculation all of the depreciation reserve related to the Call Center transition costs the Staff has proposed to disallow in this proceeding.

Q. Historically, what has been the Staff's position with regards to transition costs like those proposed for inclusion by MAWC in the current case?

A. The Staff's position with regard to transition costs has been to allow recovery for any unrecovered transition costs that generate actual cost savings to the ratepayers of a Company. The Staff has allowed recovery of transition costs over periods covering 10 or 20 years. The Staff has never allowed rate base treatment or a "return on" unrecovered transition costs. The Staff has historically disallowed one-time transition costs that do not generate measurable cost savings.

1 Q. Please explain why the Staff believes the Company's proposal for a recovery
2 of transition costs related to the move to the Call Center is inappropriate.

3 A. Traditionally, the Staff has proposed "return of" unrecovered transition costs
4 that relate to activities that result in achieved cost savings to ratepayers. For example, in Case
5 No. EM-96-14 involving the merger of Union Electric and Central Illinois Public Service
6 Company, Union Electric was able to demonstrate to the Staff that the resulting merger was
7 likely to lead to sufficient efficiencies and cost savings to cover the amount of merger
8 transition costs. The Staff ultimately agreed to an amortization over ten years, with no rate
9 base treatment, for certain Union Electric unrecovered transition costs.

10 MAWC has proposed to receive both a "return of" and a "return on" Call Center
11 transition costs. The Staff believes that neither of these proposed treatments are justified
12 because the Call Center has not resulted in any achieved cost savings for MAWC. Instead the
13 Company proposes to significantly increase the total amount of Call Center costs and related
14 customer service activities. Therefore, since these costs represent nothing more than one-time
15 non-recurring expenses that relate to business assets that MAWC does not own and does not
16 control, they should not be included in rates. Even Company witness Thornburg admits the
17 costs are nonrecurring (See Thornburg rebuttal, page 8, line 7). Furthermore, the 2001
18 American Water SEC 10K also characterizes these cost as "one-time."

19 Q. What about the Company witness Jenkin's contention on page 8, lines 21-22,
20 that "shareholders would not be compensated" for the fact that MAWC customers have
21 benefited from all of the improvements created at the Call Center that did not exist
22 previously?

1 A. The Staff has requested that the Company provide all documentation that
2 would indicate that MAWC customers actually wanted this level of customer service. The
3 Company has provided no such documentation to the Staff. Therefore, the level of customer
4 service being provided by the Call Center represents only American Water's belief that the
5 Call Center reflects the appropriate level of customer service that MAWC customers expect.
6 The Staff believes that a critical concern to American Water in implementing a Call Center,
7 would be to ask their own customers if they need this level of expanded service, and if so
8 what they would be willing to pay for it. Absent such an effort, there is no real evidence to
9 suggest that customers would support transitioning to the Call Center given the significant
10 increase in costs that this move results in.

11 Q. Please respond to Company witness Van den Berg's assertion that the
12 Commission required capitalization of certain A&G expenses in Case No. WR-89-246.

13 A. The A&G expenses that Mr. Van den Berg refers to as part of Case
14 No. WR-89-246, which involved St. Louis County Water Company, related to labor expenses
15 that the Staff proposed the Company should more appropriately be capitalized instead of
16 expensed. The resulting capitalization study required the Company to capitalize more of its
17 payroll and related costs. The difference between the item referenced in Case
18 No. WR-89-246 and the transition costs in the current case that Mr. Van den Berg compares
19 them to are numerous:

- 20 • The capitalization study related to employees of St. Louis County
21 Water Company.
- 22 • The resulting capitalization of that payroll was applied to assets that
23 St. Louis County Water actually owned and controlled.
- 24 • The payroll and capitalization related to items that were continuous
25 and ongoing.

1 These items do not represent one-time, non-recurring expenses like call center and national
2 shared services transition costs. Such a comparison is not appropriate.

3 Q. Please respond to Company witness Thornburg's assertion on page 8, lines 19-
4 20 that "the Staff has always agreed that we have the right to recover transition costs for new
5 water plants, tanks, wells and meter reading systems and so on."

6 A. The Staff is not aware of what specific situations Mr. Thornburg is referring to.
7 However, all of the items that Mr. Thornburg mentions are actually owned and controlled by
8 MAWC. The Call Center transition costs relate to assets that MAWC does not own and
9 business processes that MAWC does not control.

10 Q. Prior to this case, did the Company ever supply the Staff with any indication of
11 the proposed increases in costs related to the ongoing Call Center costs and the related Call
12 Center transition costs that the Company is seeking in the current case?

13 A. No. Mr. Thornburg indicates on page 8, line 9 that "after so much Staff
14 involvement" he is surprised that Staff would now deny MAWC recovery and a return on
15 these costs. Similarly, Company witness Van den Berg states on page 22, lines 5-14, that:

16 The stipulation and agreement submitted 9/7/01 encouraged the
17 continued migration to the National Call Center. As a result of that
18 agreement in Case No. WM-2001-309, defined reports were to be filed
19 on a regular basis to monitor the quality of customer care offered by the
20 Alton Call Center and the continued improvement of the customer
21 experience.

22 At no point did the Staff ever give its approval to proceed with the Call Center project.
23 Rather, the Company approached the Staff to let it know that it had decided to implement the
24 project. The Staff, given the fact that the Company had already made its decision in August
25 2000, merely requested additional information in order to monitor the activities at the Call

1 Center. The agreement in Case No. WM-2001-309 in no way meant to represent Staff's
2 acquiescence to the Company's decision to join the Call Center and to increase MAWC costs.

3 Q. Please respond to Mr. Thornburg's statement that on page 8, lines 13-15 that
4 the goal of the Call Center "was never improved profits; it was improved customer service
5 and efficiency."

6 A. The Staff believes that this statement is inaccurate. The Staff reiterates the
7 statements taken from American Water's 2001 SEC 10K found in Cassidy's direct testimony
8 on page 26, lines 20-28 through page 27, lines 1-25. Readers of a Company's SEC 10K can
9 expect to find information regarding profits and costs. There is no assurance that this
10 document will contain customer service related information. Pages 8-10 and 8-11 of
11 Schedule 8, suggest that not only was overall cost savings an important issue with regard to
12 the formation of the Call Center, but there is strong evidence that a significant portion of the
13 transition cost has already been recovered at the American Water Service Company. These
14 pages reveal that at the time of making its decision American Water expected to generate in
15 excess of \$10 million of annual savings. It also shows that over the course of five years, total
16 savings of over \$31 million would result even after one-time transition costs were recovered.
17 Given this situation it seems entirely inappropriate for MAWC to request additional transition
18 cost recovery as a result of this decision.

19 Q. Does the Staff have any additional comments?

20 A. Yes. The Staff believes that its call center adjustments and its adjustments
21 related to call center transition costs are appropriate and should be adopted by the
22 Commission. However, should the Commission adopt Company's Call Center adjustment
23 and in addition also choose to allow the Company to recover related call center transition

costs, the Staff believes that an adjustment to Company's Call Center transition costs should be made based upon their rebuttal position. The Company has now indicated that it believes that the Call Center has created \$299,559 of annual savings. If this is accepted the Staff contends that these savings should be used to offset the related transition costs of \$5,263,822. The Staff contends that based on Company's position it will have recovered \$587,999 of savings from January 1, 2002 through April 16, 2004. This would lead to a recoverable transition costs level of \$4,675,823 based on the calculation shown below:

\$5,263,822	Total Call Center related Transition Costs
\$ 225,538	2002 transition costs St. Louis only
\$ 75,179	2003 first four months St. Louis only
\$ 199,706	2003 last eight months MAWC in total
<u>\$ 87,576</u>	2004 Total MAWC through Operation of Law Date 4/16/04
\$4,675,823	Unrecovered level based on Company's revised position

NATIONAL SHARED SERVICES TRANSITION COSTS

Q. Has the Staff made any changes to its Plant Adjustment P-87.2?

A. Yes. Staff has corrected its posting of Plant Adjustment P-87.2 to accurately reflect the amount of Shared Services transition costs that have been capitalized by the Company through the update period ending June 30, 2003. The Staff has reflected this corrected update level of transition costs in Plant Adjustment P-87.2.

Q. Has the Staff made any additional adjustments related to Shared Services transition costs since the direct testimony filing?

A. Yes, the Staff is proposing depreciation reserve adjustment R-87.2. The Company has provided the Staff with the corresponding level of depreciation reserve, which

1 relates to the Shared Services transition costs the Staff has removed from plant in service
2 through Staff Plant Adjustment P-87.2. Staff Reserve Adjustment R-87.2 removes from the
3 cost of service calculation all of the depreciation reserve, which relates to the Shared Services
4 transition costs the Staff has proposed to disallow in this proceeding.

5 Q. Why is it inappropriate for the Company to capitalize the transition costs
6 related to National Shared Services Center?

7 A. Because the transition costs relate to assets that MAWC does not own, and to
8 business processes which they do not control. Seeking to recover a “return on” and a “return
9 of” these costs is totally inappropriate. Furthermore, by the April 16, 2004 operation of law
10 date established in the current proceeding, the Company will have already recovered all of the
11 \$4,488,827 of Shared Services related transition costs that it has incurred. In the response to
12 Staff Data Request No. 181, the Company has indicated through a cost benefit analysis that it
13 expects to generate annual savings of \$2,575,688. Please refer to the Company’s response to
14 Staff Data Request No. 181, which is attached as Schedule 12 to this surrebuttal testimony.
15 MAWC transitioned to the Shared Services center on November 7, 2001, which occurred after
16 the date that rates were established in the last MAWC (September 14, 2000) and St. Louis
17 County Water Company (May 13, 2001) rate cases. The following chart reflects the amount
18 of savings the Company has and will continue to recapture to offset the Shared Services
19 transition costs through the operation of law date in the current case:

SAVINGS GENERATED AND RETAINED BY MAWC	
<u>PERIOD</u>	<u>BY MAWC</u>
11/7/01-12/31/01	\$ 388,117
1/1/02 – 12/31/02	\$2,575,688
1/1/03-12/31/03	\$2,575,688
1/1/04-4/16/04	<u>\$ 753,002</u>
Total Savings Realized	\$6,292,495

This chart reflects that by the end of the operation of law date, by its own calculations, the Company will have already recovered approximately \$1,803,668 (\$6,292,495 - \$4,488,827) more in cost savings from its participation in the National Shared Services Center than it actually incurred for transition costs. Allowing MAWC to include the transition costs in the cost of service for this case will afford the Company recovery of these costs twice. The Staff recommends that the Commission disallow these transition costs.

SEVERANCE COSTS

Q. Has the Company provided any additional information that has changed the Staff's adjustment with regards to severance costs?

A. Yes. After Staff's direct testimony filing, the Company provided updated information regarding the amount of severance costs that were accrued during the test year in its response to Staff Data Request No. 457. In the response to Staff Data Request No. 457, the Company indicated severance costs that related to the call center totaled \$1,988 and severance costs relating to the service center totaled \$1,012. The Staff will reflect this change in adjustment S-14.27. The Company filed no rebuttal testimony to specifically address Staff's adjustment to remove severance costs. The Staff still contends these severance costs represent additional transition costs and should therefore be disallowed for the same reasons previously discussed in my direct and surrebuttal testimony.

1 Q. Does the Staff have any other recommendations?

2 A. Yes. The Staff has learned that MAWC is required to pay management fees in
3 advance for services provided by the Service Company. The Staff does not believe that this is
4 appropriate given the affiliated relationship between these two entities. The Staff is aware
5 that the Company is not required to prepay for the goods and services from the various
6 vendors that were included in the cash vouchers expense lag. The Staff would also contend
7 that the affiliate service company for which MAWC currently is required to prepay for
8 services provided actually pays their invoices for goods and services in arrears. Therefore,
9 under the current prepayment situation, the ratepayers of MAWC are being required to
10 provide a cash working capital allowance for bills from affiliates which do not incur
11 prepayments for their goods and services. Staff witness Roberta A. McKiddy has applied the
12 cash vouchers expense lag to management fees. Please refer to Ms. McKiddy's direct
13 testimony for an explanation of the Staff's calculation of the cash vouchers expense lag. The
14 Staff recommends that the Commission only include the cash working capital requirement
15 associated with paying for services that it receives from its affiliated Service Company in a
16 manner similar to the payments MAWC makes to other vendors as is represented by the cash
17 vouchers expense lag.

18 Q. Does this conclude your surrebuttal testimony?

19 A. Yes, it does.



**Missouri
American Water**

535 North New Ballas Road
St. Louis, MO 63141

Robert Schallenberg
1911 N Circle Dr
Jefferson City MO 65109-1207



Dear Robert Schallenberg:

Recently you received a letter from us describing the Water Line Protection Program being offered by our affiliate, American Water Resources, Inc. In a short amount of time the Program has grown rapidly and thousands of our customers have enrolled to take advantage of this unique offer. Please take a few minutes now to revisit how the Program can save you thousands of dollars and many sleepless nights - your peace of mind is worth it.

Costs for repairing your water line could amount to thousands of dollars.

You may not realize it, but as a homeowner, you own the water line that runs through your property between the street and your home. At any time, normal wear and tear can cause your water line to leak or break, as shown on the enclosed diagram. You can't prevent it. You can't predict it. And, worst of all, most homeowner insurance policies do not cover repairing it, so you'll have to pay for it.

For just pennies a day, you can be protected from unexpected worries and costs.

In cooperation with our affiliate, American Water Resources, Inc., Missouri American Water is pleased to introduce a special Water Line Protection Program to cover these unexpected costs and provide you with peace of mind. This also means that you won't have to spend hours searching for a qualified repair contractor — you can leave that up to the experts.

When you consider all the advantages, I'm sure you'll agree that this Program is one of the best opportunities available to you as a homeowner.

- Save up to \$3,000 in unexpected repairs for just pennies a day (\$4 a month)
- Enjoy peace-of-mind protection from the most experienced water resource manager in the country
- Eliminate the hassles of searching for a qualified repair contractor

We are pleased to make the protection you need and the peace of mind you deserve available to you while continuing to deliver the quality service you depend on from Missouri American.

Please carefully read the Program terms and conditions on the back of this letter, and keep this information for future reference. For just pennies a day, I'm sure you will agree that the Water Line Protection Program is a good value. So, I encourage you to complete the enclosed enrollment form today. For only \$4 a month, join the thousands of other homeowners that are protected from the expense and worry that a broken water line can cause.

Sincerely,

Eric W. Thornburg
President

P.S. For just pennies a day, you can save thousands of dollars and countless hours of worry and hassle.

AMERICAN WATER RESOURCES, INC.

American Water Resources, Inc. an affiliate of Missouri American Water is dedicated to offering products and services that enhance those services currently offered by Your regulated water provider.

WATERLINE PROTECTION PROGRAM

This agreement is between American Water Resources, Inc. and You, a participant in the Water Line Protection Program, hereinafter referred to as the Contract or the Program. Please read the Contract and retain it for Your records.

THIS AGREEMENT COVERS

American Water Resources, Inc.'s Water Line Protection Program will cover the cost for repair of Your Customer-Owned Water Line should You have a water leak caused by normal wear and tear.

DEFINITIONS

"Administrator" means American Water Resources, Inc., 1410 Discovery Parkway, Alton, Illinois 62002. Toll Free 1-866-430-0819.

"Confirmation Letter" means the acknowledgement letter You will receive from Us following enrollment outlining Your Program specifications. The Confirmation Letter will include the following information:
Your Name

Your Covered Address

Your Customer Number

Your Program Effective Date

Your Program Term

"Customer-Owned Water Line" means the section of the single water supply line You own that runs from Your home to the connection owned by Missouri American Water. It does not include any connections/ extensions such as water lines to sprinklers and/or agricultural meters.

- If the meter is located inside Your home, it is the section of the water supply line from the shut-off valve to the inlet side of the meter.

- If the meter is located outside Your home, it is the section of the water supply line from the outlet side of the meter to the shut-off valve inside Your home.

"Effective Date" means the date protection begins under the Program, which is thirty (30) days after Your Enrollment Date. Your Program Effective Date is listed on Your Confirmation Letter.

"Enrollment Date" means the date Your enrollment form is received, processed and confirmed by Us.

"Lapse of Coverage" means We requested payment from You for an additional Term or Your periodic Program fee and We did not receive Your full payment within thirty (30) days from the date said payment was due. The Program will lapse without notice.

"Program" means American Water Resources, Inc.'s Water Line Protection Program.

"Term" means the period of time, from the Program Effective Date, Your Program will be in effect. The Program Term is annual [three hundred sixty five (365) days] unless it is terminated or cancelled sooner as provided herein. Your Program Term is listed on Your Confirmation Letter.

"We," "Us" and "Our" mean the Administrator.

"You" and "Your" mean a residential customer and customer of record of Missouri American Water, the homeowner of a single-family residence and the purchaser of this Program.

ELIGIBILITY FOR PROTECTION

You must be a residential customer, customer of record of Missouri American Water and owner of the residence to which the Customer-Owned Water Line is attached. The Customer-Owned Water Line must be free of leaks and in working order prior to Your Enrollment Date in the Program. **Homeowners in multi-unit dwellings such as condominiums, town homes, duplexes and apartment houses are not eligible for the Program.**

PERIOD OF PROTECTION

Program Protection initiates thirty (30) days after Your Enrollment Date. Your protection will continue for the Term listed on Your Confirmation Letter. Your Program Term can automatically be extended provided You make timely payments to Us at the then-current annual Program fee. If You purchase additional Terms without a Lapse of Coverage, Your protection will remain the Program Effective Date listed on Your Confirmation Letter. If the Program lapses as outlined under "Lapse of Coverage," You may re-enroll in the Program at any time subject to a new Enrollment Date and Effective Date.

LIMIT OF PROTECTION

The maximum amount We will pay for any covered repair under the Program is \$3,000 per occurrence. Before the line is repaired, if a permit is required, We will obtain proper permitting before work will commence. We will provide basic site restoration to the repair area once the repair work is completed. Site restoration is limited to filling in, raking and reseeding one time only. All repairs to Your Customer-Owned Water Line will comply with local water code requirements. Any subsequent repair made within 60 days of a prior covered repair will be considered as a part of that prior covered repair and limited to the \$3,000 per occurrence limit. If a permit was acquired to commence work on covered water lines and requires a sidewalk, located in a public easement, to be repaired, the Program will provide repair of said sidewalk up to \$500. Cost to repair sidewalks applies toward the Program \$3,000 maximum. You will not, unless at Your own expense, engage a contractor or otherwise incur costs to repair the Customer-Owned Water Line on Our behalf. You may neither transfer the Program to a new owner of the covered property nor transfer the Program to a different residence owned by You.

THIS AGREEMENT DOES NOT COVER

- Damage to Customer-Owned Water Line incurred or existing prior to the Program Enrollment Date.
- Damage to Customer-Owned Water Line caused by the actions or negligence of You or third parties.
- Damage to Customer-Owned Water Line caused by natural disasters, or acts of nature, including, but not limited to, earthquakes, floods, landslides or sinkholes or any other insurable cause.
- Any consequential, incidental or special damages You incur including lost water, regardless of whether they are caused by delays, failure to service or for conditions beyond the control of the Administrator.
- Restoration of trees, shrubs, paved surfaces, or structures, for any reason.
- Any damage to finished or unfinished walls or surfaces inside Your home necessary to access and repair Your Customer-Owned Water Line.
- Leak repairs to any interior pipes beyond the shut-off valve inside Your home.
- Restoration of sidewalks not located in public easement. Also, restoration of sidewalks located in public easements but not required on the permit.
- Removal of debris necessary to access and repair Your Customer-Owned Water Line, including but not limited to old cars, trash, storage, rocks or materials.
- Movement of the meter at the time of repair, unless required by local code.
- Coverage for multi-unit housing including, but not limited to, town homes, condominiums, duplexes and apartment houses; and any facility used for commercial purposes.
- Updating non-leaking pipes to meet code, law or ordinance requirements or changes thereto.
- Movement of working pipes and/or lines.

YOUR RESPONSIBILITIES

If You suspect there is a water leak, call the toll-free number shown on Your water bill from Missouri American Water who will investigate the source of the problem. In the event Missouri American determines that the leak is to Your Customer-Owned Water Line, We will arrange to have an approved, independent contractor call You to set up a time to come out to Your home. The contractor will contact You within 12 hours for emergency service, or by 5:00 pm the next business day for all other service, to arrange for repair of Your Customer-Owned Water Line.

If a permit was acquired that requires repair to sidewalks located in public easements, and the cost to repair exceeds the Program maximum of \$500, it is Your responsibility to pay any additional costs. If repair cost to the Customer-Owned Water Line exceeds the Program maximum of \$3,000, it is Your responsibility to pay any additional costs. Any costs in excess of the Program maximum will be stated to You before work is performed and We will send You an invoice for all expenses over any Program maximum. Beyond the previously outlined exceptions, You will not be charged any deductible or service call fees in conjunction with a covered repair. It is Your responsibility to secure permission (right-of-way) associated with gaining access to repair Your Customer-Owned Water Line that may pass through property that You do not own.

ADMINISTRATOR'S RIGHTS

We reserve the right to change Your Program fee and/or the Program terms and conditions with thirty (30) days written notice to You. We reserve the right to transfer or assign Your Program contract. You grant Us the right to obtain customer of record information from Missouri American Water limited to Your name, address and any other pertinent information. This information will not be sold to any outside marketing companies.

CANCELLATION

You may cancel this Program at any time by mailing a cancellation request to American Water Resources, Inc., Attention: Water Line Protection Administrator, 1410 Discovery Parkway, Alton, Illinois 62002. If You cancel, the effective date of cancellation is the date We receive Your notice. You have thirty (30) days from Your Enrollment Date to cancel and receive a full refund of any payments made. Your Program participation will be subject to cancellation without notice once You are thirty (30) days past due on any payment for the Program. If Your Program protection has been cancelled due to non-payment, You may re-enroll in the Program with a new Enrollment Date and new Effective Date. We reserve the right to cancel the Program at any time upon ninety (90) days notice to You. Any refund as a result of the cancellation of the contract by either You or Us, will be determined on a prorated basis less the cost of any service performed under the Program. If You are owed a refund, it will be processed via the enrollment payment method You chose to join the Program.

PAYMENT ARRANGEMENTS

You may make payment for this Program by check. In the event that Your check is returned for Non-Sufficient Funds, Your status in the Program will be terminated as of your Enrollment Date without notice.

You may make payment for this Program by authorizing a charge to Your credit card account (Visa/MasterCard only). The charge to Your credit card account will be for a full year's participation in the Program. If Your credit card charge is not valid for any reason, Your status in the Program will be terminated as of your Enrollment Date without notice. In the event of Cancellation as provided above, the refund described in the Cancellation paragraph will be credited to Your credit card account.

Your Program participation will be subject to cancellation without notice once You are thirty (30) days past due on any payment for the Program.

TAXES

American Water Resources, Inc. will collect any and all appropriate taxes if required by the local municipal government(s), county government or the State of Missouri. These taxes will be collected at the time of payment. This Program is not currently taxed in the State of Missouri.

LIMITATION OF LIABILITY

In the event that Your property is not eligible for coverage under the terms and conditions of the Program, our only obligation is to refund any payments made by You to Us. Once we have paid You this refund, the Program will be voided as of Your Enrollment Date. The liability of the Administrator, its affiliated companies, its officers, employees, contractors and/or agents to You, or to any other third party or person, for damages resulting from the provision of, or failure to provide services under this Program, or as the result of any fault, failure, defect or deficiency in any service, labor, material, work or product furnished in connection with this Program shall be limited to an amount not to exceed \$3,000. In no event, however, shall the Administrator, its affiliated companies, its employees, agents and contractors have any liability for special, indirect, incidental, consequential or punitive damages resulting from the provision of or failure to provide service under this Program, or from any fault, failure, defect or deficiency in any service, labor, material, work or product furnished in connection with this Program. These limitations of and exclusions from liability shall apply regardless of the nature of the claim or the remedy sought.

THE WATER LINE PROTECTION PROGRAM IS NOT AN INSURANCE CONTRACT OR POLICY. THE PROGRAM PROVIDES FOR THE REPAIR OF LEAKS TO YOUR CUSTOMER-OWNED WATER LINE DUE TO NORMAL WEAR AND TEAR. THIS CONTRACT CONSTITUTES THE ENTIRE AGREEMENT BETWEEN AMERICAN WATER RESOURCES, INC. AND YOU, AND THERE ARE NO OTHER PROMISES OR CONDITIONS IN ANY OTHER AGREEMENT WHETHER WRITTEN OR ORAL.

American Water Resources, Inc.
Water Line Protection Program
1410 Discovery Parkway, Alton, IL 62002
Toll Free 1-866-430-0819

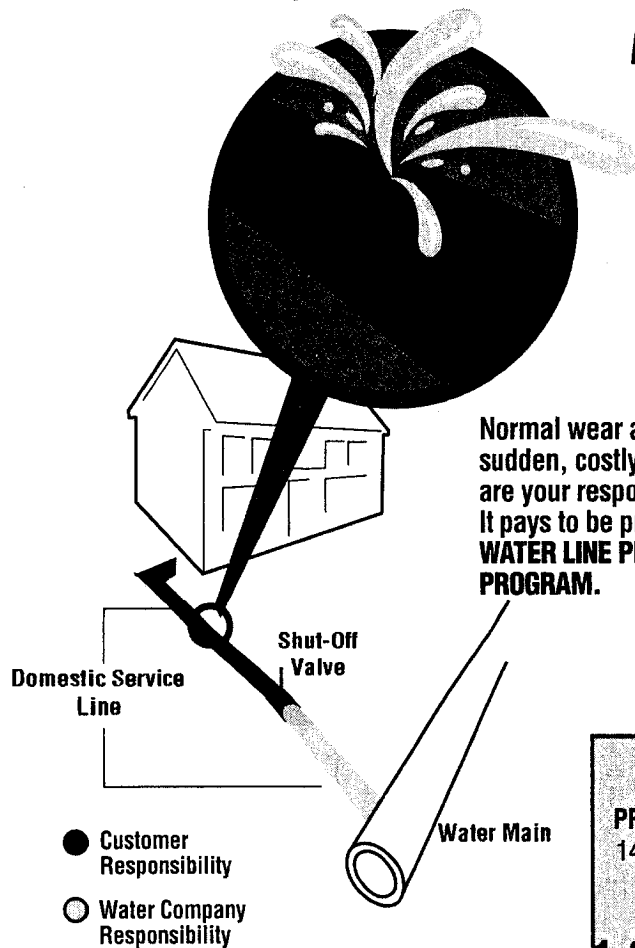
MO480903TC

01-000003945-48

Schedule 1-2

☐ **YES!** I want *protection and peace of mind*.
Enroll me in the **WATER LINE PROTECTION PROGRAM** today.

**Special
Introductory
Offer**



**WATER LINE
PROTECTION PROGRAM**
1410 Discovery Parkway
Alton, IL 62002
TOLL FREE
1-866-430-0819

IMMEDIATE ACTION FORM

MO48103R

Homeowner's Name: **Robert Schallenberg**

SERVICE ADDRESS: PROGRAM NOT AVAILABLE TO MULTI-UNIT DWELLERS AND RENTERS

Street: **1911 N Circle Dr**

City: **Jefferson City**

State: **MO**

Zip: **65109**

Reference Number:

1003836

MAILING ADDRESS

Street: **1911 N Circle Dr**

City: **Jefferson City**

State: **MO**

Zip: **65109-1207**

CONTACT INFORMATION

Home Phone:

Work Phone:

E-mail:

PAYMENT OPTIONS

☐ **I PREFER TO PAY BY CREDIT CARD**

I authorize American Water Resources, Inc. to charge the amount of \$48.00 to my credit card:

☐ VISA®

☐ MasterCard®



Expires:

Account#

Signature

(required if using credit card)

Date

☐ **I WISH TO PAY BY CHECK**

I've enclosed a check or money order in the amount of \$48.00 made payable to **American Water Resources, Inc.** in the enclosed postage-paid envelope.

By signing this enrollment form you agree to all terms and conditions of the **WATER LINE PROTECTION PROGRAM** as outlined on the back of the letter. Confirmation of enrollment will be sent to the above mailing address. Coverage begins 30 days after enrollment form is received and confirmed by American Water Resources, Inc. The expiration date for this introductory offer is 3/31/04. After 3/31/04 call 1-866-430-0819 for current offer.



From: _____

**PRIORITY
PROCESSING**

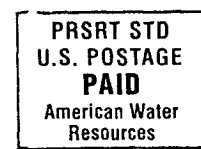
BUSINESS REPLY MAIL
FIRST-CLASS MAIL PERMIT NO 541 ALTON IL

POSTAGE WILL BE PAID BY ADDRESSEE

**AMERICAN WATER RESOURCES INC
1410 DISCOVERY PARKWAY
ALTON IL 62002-9952**

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES





Schedule 1-5



535 North New Ballas Road, St. Louis, MO 63141

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 06/13/03
Information Requested:

Please refer to the Company response to Staff Data Request No. 110.

1. Company response indicates a total Missouri American "as was" number of calls of 386,415. Exactly what time frame did this call total apply to? Also, how was this call total developed? Please explain.
2. Company response indicates a total Missouri American "as is" number of calls of 501,768. Exactly what time frame did this call total apply to? Also, how was this call total developed? Please explain.
3. Company response indicates a St. Louis County district only "as was" number of calls 245,405. Exactly what time frame did this call total apply to? Also, how was this call total developed? Please explain.
4. Company response indicates a St. Louis County district only "as is" number of calls 318,667. Exactly what time frame did this call total apply to? Also, how was this call total developed? Please explain.
5. For items 1, 2, 3, and 4 above: Provide a breakdown of these calls by the nature of the call. For example, provide number of calls related to main break, number of calls for meter problems, number of calls related to questions about the service line protection programs, number of calls related to billing questions, and so on.

Requested By: John Cassidy

Information Provided:

1. The customer call count of 386,415 was based on a time frame of 1999. These call levels were developed through a survey of the Company based on the actual call total experienced during the year 1999.
2. The time frame for the 501,768 was based on the year 2002 for the St. Louis District. At the time the response to 110 was prepared we did not have the data for the remaining districts of the Company. Therefore, we used the call volume for the year 1999 for the remaining districts of the Company (all except STL) and increased them by the same ratio increase that was experienced by the STL District. We are currently pulling the actual call volumes for 2002 for the districts that we did not have the actual data for at the time.
3. Refer to part 1.
4. Refer to part 2.
5. The Company does not have any categorical breakdown for the call volume as described above in the question.

Hyperlink:

Signed By: E. Grubb

Date Response Provided: 7/7/03

Prepared By: E. Grubb / E. Simon

Cassidy, John

From: egrubb@mawc.com
Sent: Monday, July 21, 2003 8:52 AM
To: johncassidy@psc.state.mo.us
Subject: Re: Follow up on DR 110 and 173

John, here is a response to your e-mail data request follow-up. Ed Simon has provided a repsonse.

----- Forwarded by Ed Grubb/MOAWC/AWWSC on 07/21/2003 08:47 AM -----

Edward A Simon

07/18/2003 02:34
PM

(Document link: Ed Grubb)

To: Ed Grubb/MOAWC/AWWSC@AWW
cc: Edward A Simon/MOAWC/AWWSC@AWW
Subject: Re: Follow up on DR 110 and 173

Hi Ed,

The following provides my suggested response to the follow up email we received:

In the response to item 2 in DR 173, you mentioned that you were currently pulling actual call volumes for the districts that you did not have actual data for when you responded to DR 110. When will these actual call volumes for those districts be available to the Staff? We have concluded our search for the 2002 call volume for our St. Joseph Center which handled the calls for all districts except St. Louis County. The following provides the volume of calls received (by month) for the 4th quarter 2002.

Unfortunately, we can not produce numbers for the first nine months of 2002 as the telephone reporting system was not working properly during this time. With the conversion of these districts to the Center the first week of May 2003, this system is not longer available to try to retrieve the data.

October 2002 = 32320
November 2002 = 27836
December 2002 = 28525

Also, in the response to item 5 in DR 173, you stated that the company does not have any categorical breakdown for the call volume as described in the question. As a follow up, what are all of the categorical breakdowns prepared in report form for the call volumes at the Alton call center? How does the call center track the types of calls it receives? The Alton CSC does not track call volume by type of calls received for each state. Due to the large volume of calls received, the Center breakdowns their call volume by state only. For example: A group of Customer Service Associates (CSA's) are assigned to the MO Regional Skill, a group of CSA's are assigned to the IL Regional Skill and etc. At present, the Center is not tracking calls by type of calls received but instead by the volume of calls received by state.

Edward A. Simon, II
Operations Manager - Field Customer Services
Missouri-American Water

----- Forwarded by Ed Grubb/MOAWC/AWWSC on 07/17/2003 07:09 AM -----

johnncassidy@psc.s
tate.mo.us

07/15/2003 03:21
PM

To: EGrubb@MAWC.com
cc: steverackers@psc.state.mo.us
Subject: Follow up on DR 110 and 173

Ed,

Regarding DR's 110 and 173:

In the response to item 2 in DR 173, you mentioned that you were currently pulling actual call volumes for the districts that you did not have actual data for when you responded to DR 110. When will these actual call volumes for those districts be available to the Staff?

Also, in the response to item 5 in DR 173, you stated that the company does not have any categorical breakdown for the call volume as described in the question. As a follow up, what are all of the categorical breakdowns prepared in report form for the call volumes at the Alton call center? How does the call center track the types of calls it receives?

Thanks

John

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 9/05/03
Information Requested:

Please verify that the following statements are accurate based on information provided to the Staff in a meeting at Missouri American on Friday, September 5, 2003. For any statement that is inaccurate please provide a detailed explanation as to why it is inaccurate.

1. An American Water regulated operating company taking service from American Water Service company can be assigned indirect or overhead costs of the Service Company by use of a customer number allocation.
2. An American Water non regulated company is never assigned, allocated or charged for services taken from the American Water Service Company by use of customer numbers as an allocation method.
3. Instead, non regulated companies are assigned costs on a direct basis. If a non regulated company is assigned a direct charge during a month, then that non regulated company is assigned some portion of the American Water Service Company indirect or overhead costs.
4. If an American Water non regulated company does not take service from the American Water Service Company during a particular month there is no direct charge made to that non regulated company and that non regulated company is not assigned, allocated or charged for any indirect or overhead cost during that particular month. In this situation, the American Water non regulated company is charged no (zero) American Water Service Company for that month.
5. American water regulated operating companies are allocated some amount of American Water Service Company costs each and every month.

Requested By: John Cassidy, MoPSC Staff

Information Provided:

1. This statement is correct because the Service Company concept was created to provide services and to benefit the regulated by assisting them in both the day to day management and with long-term management of the regulated entities.
2. This statement is correct. If a non-regulated Company does not receive any services from the Service Company, then the Service Company would not bill them for any services not rendered. The non-regulated companies are not included in any formula cost allocation pool based on customers.
3. This statement is correct.
4. This statement is correct. See responses to part 2 above.
5. This is a correct statement because the Service Company provides services to the regulated companies each month.

Note. The question above refers to "American Water Service Company". The response assumes that the question refers to American Water Works Service Company which provides management services to regulated and non-regulated subsidiaries of American Water.

Hyperlink:

Date Response Provided: 9/19/03

Signed By: 

Prepared By: E. Grubb

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 10/21/03
Information Requested:

Please refer to Staff workpapers I-1-1 and I-1-4 as attached. Staff workpaper I-1-1 reflects total direct charges by function that occurred during the test year. Staff workpaper I-1-4 reflects total direct and indirect charges by the same functions that occurred during the test year.

1. Is it true that during the test year (the twelve months ending December 31, 2002) that Missouri American did not receive any direct charges for the following items?

Audit
Communications
Corporate Secretary
Operations
Water Quality Corp

2. Is it true that during the test year (the twelve months ending December 31, 2002) that Missouri American did receive indirect charges for the following items?

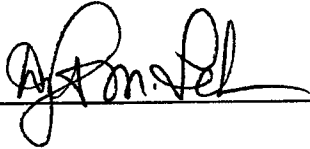
Audit
Communications
Corporate Secretary
Operations
Water Quality Corp

Requested By: John Cassidy, MoPSC Staff

Information Provided:

1. During the test year, there was no specific Missouri only work performed for the indicated functions.
2. During the test year, Missouri American received services from the indicated functions and therefore was billed for those services based on the customer allocation process.

Hyperlink:

Signed By: 

Date Response Provided: 11/10/2003

Prepared By: Ed Grubb

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. W R-2003-0500

Requested From: Ed Grubb
Date Requested: 5/07/03
Information Requested:

1. When did the St. Louis County customers transition to the new customer service center?
2. Provide the costs and savings that were experienced during the calendar year 2002 associated with this transition.
3. Provide the costs and savings that were experienced from January 1, 2003 through June 30, 2003 associated with this transition.
4. Provide all documentation supporting the Company's response to items 1, 2 and 3.

Requested By: John Cassidy
Information Provided:

The response to this data request will encompass not just the St. Louis District but also all districts. It is more appropriate to discuss the operating costs and the savings in terms of the entire state rather than from a district specific view. The Service Company bills the Company for Call Center Costs and then in the rate case process, the cost are allocated or distributed to each district based on the number of customers.

1. The St. Louis District transitioned to the Call Center in December 2001. All other districts transitioned to the Call Center in May 2003.
2. The Call Center operating costs billed to the Company in 2002 was \$3,005,947 and was only for the St. Louis District. The total operating cost savings for the year 2002 was approximately \$2,582,345. On a per call customer basis, the cost per call utilizing the call center for the St. Louis District is \$11.79 versus the per call cost of \$10.52 pre-call center transition. By incorporating the entire state into the call center, the total costs that are anticipated to be incurred from the call center is \$3,992,495. Taking this into account, the cost per call is reduced to \$9.71.
3. In lieu of a six-month report and analysis of the cost and savings, the Company is providing an annual analysis of the operating costs and savings which includes all districts in the analysis. This analysis is can be found in the pdf file indicated below.
4. See .pdf file indicated below Overall, on a cost per customer call basis, the cost has increased by \$1.27 to transition to the call center. This represents an increase of approximately 15%. The Customer Call Center is delivering a number of benefits to the customers of Missouri-American Water Company either directly or through improvements to business processes as a result of the innovative platform that has been created. See attached for further discussion. The benefits to our customers obviously have a cost to it. Missouri-American has approximately 445,000 customers. The ratio of calls to customers is approximately 1.13. Therefore, the additional cost to the customer to call the Company at the new Call Center is \$1.43. If a customer makes use of the IVR system or calls on the weekend at 2:00am because he or she works late at night or as the Company reaches its world class service level targets, the \$1.43 additional cost per call becomes real value for our customers.

Hyperlink: S0110R.pdf

Signed By:



Date Response Provided:

6/9/03

Prepared By:

E. Grubb

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110

As Was Cost Summary

Wages	\$ 1,645,756
Benefits	1,035,151
Facility Costs	436,910
Other O&M Costs	144,023
	<hr/>
Total Customer Service Costs	\$ 3,261,840

Number of Calls	386,415
Cost Per Call	\$ 8.44

As Is Cost Summary

Wages	\$ 452,214
Benefits	284,434
Facility Costs	106,998
Other O&M Costs	35,271
	<hr/>
Local Costs	878,917
Proforma Call Center Costs	3,992,495
	<hr/>
Total Cost	\$ 4,871,412

	501,768
	\$ 9.71

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110

Labor As Is Costs

TITLE	RATE	GROSS SALARY @5/01/2000	Wage Incr @ 3% - 4 Yrs	Maintained Costs
Hourly Employees				
RELIEF & GENERAL CLERK	\$ 12.56	\$ 26,214.84	\$ 29,505	
RELIEF & GENERAL CLERK	10.60	22,122.36	24,899	
RELIEF & GENERAL CLERK	10.60	22,122.36	24,899	
RELIEF & GENERAL CLERK	10.60	22,122.36	24,899	
RECEPTIONIST & TEL OPR	12.56	26,214.84	29,505	29,505
CASHIER	13.31	27,780.84	31,268	
CASHIER	11.64	24,293.88	27,343	
MAIL RECEIVING CLERK	12.56	26,214.84	29,505	
MAIL RECEIVING CLERK	12.56	26,214.84	29,505	
CUST DATA RECORD CLERK	14.77	30,829.32	34,699	
CUST DATA RECORD CLERK	14.77	30,829.32	34,699	
BILLING CLERK	12.56	26,214.84	29,505	
BILLING CLERK	10.60	22,122.36	24,899	
COPY/MAIL ROOM CLERK	10.60	22,122.36	24,899	
FILE & MAIL CLERK	9.24	19,282.68	21,703	
FILE & MAIL CLERK	9.05	18,885.96	21,256	
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	14.77	30,829.32	34,699	34,699
CUSTOMER SERVICE CLERK	12.90	26,924.76	30,304	
CUSTOMER SERVICE CLERK	12.16	25,390.08	28,577	
CUSTOMER SERVICE CLERK	12.16	25,390.08	28,577	
SENIOR CUST RECORDS CLERK	15.16	31,654.08	35,627	
TYPIST	11.64	24,293.88	27,343	
TYPIST	11.64	24,293.88	27,343	
COPY/MAIL ROOM CLERK	12.56	26,214.84	29,505	
COMPUTER OPERATOR	17.51	36,550.44	41,138	
COMPUTER OPERATOR	15.09	31,507.92	35,462	
COMPUTER OPERATOR	17.51	36,550.44	41,138	
OVERTIME PAY WR-2000-844		28,766.70	32,377	
SHIFT DIFF PAY WR-2000-844		2,539.29	2,858	
Subtotal			1,115,528	272,398

TITLE	RATE	GROSS SALARY @5/01/2000	Wage Incr @ 4% - 4 Yrs	Maintained Costs
St. Louis County				
Salaried Employees				
DIRECTOR, CUSTOMER SRVC	36.40	75,996.96	88,906	88,906
SUPT CUSTOMER SERVICE	23.95	50,000.16	58,493	
SUPV, CUSTOMER SERVICE	17.58	36,696.96	42,930	42,930
SUPV, CUSTOMER SERVICE	19.23	40,149.12	46,969	
Subtotal			237,298	131,836

Missouri-American				
Hourly and Salaried				
Customer Service Representative	10.85	22,654.80	26,503	23,990
Customer Service Representative	9.10	19,000.80	22,228	23,990
Customer Service Representative	10.37	21,652.56	25,330	
Customer Service Representative	9.10	19,000.80	22,228	
Customer Service Representative	9.10	19,000.80	22,228	
Customer Service Representative	9.10	19,000.80	22,228	
Customer Service Representative	9.10	19,000.80	22,228	
Customer Service Representative	11.85	24,742.80	28,946	
Customer Service Supv	26.44	54,995.00	64,336	
Sr. Customer Service Rep.	15.01	31,350.00	36,675	
OVERTIME PAY PER 2002 ABP		0.00	0	
SHIFT DIFF PAY PER 2002 ABP		0.00	0	
Subtotal			292,930	47,980

Total Wages			\$ 1,645,756	\$ 452,214
Total Count of Positions	49			12

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110

Benefits As Is Costs

Group Insurance Costs

Total Gross Cost from Rate Case	\$	5,110,698
Number of Employees in Rate Case		657
Cost per Employee		7,779
Number of Positions		49
Group Insurance Cost	\$	381,171

OPEB Cost

Total Gross Cost from Rate Case	\$	2,802,928
Number of Employees in Rate Case		657
Cost per Employee		4,266
Number of Positions		49
Group Insurance Cost	\$	209,034

Pensions

Total Wages	\$	1,645,756
Pension Rate per Rate Case		13.76%
Pension Cost	\$	226,456

401k Costs

Total Wages		1,645,756
Average 401k Rate Per Rate Case		2.380%
401k Cost	\$	39,169

EIP Costs

Total Wages		1,645,756
Average 401k Rate Per Rate Case		0.781%
401k Cost	\$	12,853

Payroll Taxes

Total Wages		1,645,756
Average 401k Rate Per Rate Case		7.737%
401k Cost	\$	127,332

Workmens Compensation

Total Wages		1,645,756
Average Rate Per Rate Case		2.378%
401k Cost	\$	39,136

Total Benefits	\$	1,035,151
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Gross Wages per Rate Case (full-time Staff) \$ 33,779,787

Gross 401k Costs per Rate Case 804,115

Gross EIP Costs per Rate Case 263,977

Gross Payroll Costs per Rate Case 2,613,672

Gross Workmens Comp Per Rate Case 803,393

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110

Cost Facility	Missouri	St. Louis Co.
FTE's*	9.09	31.14
SqFt	888	7,639
SqFt per FTE	98	245
Building		
Lease	\$0	\$155,491
Depreciation	\$2,948	\$0
Property Taxes	\$2,065	\$0
Carrying Cost	\$5,054	\$0
Total Building	\$10,067	\$155,491
Cost per SqFt	\$11.34	\$20.35
Computers		
Lease	\$0	\$17,316
Depreciation	\$5,002	\$0
Property Taxes	\$2,545	\$0
Carrying Cost	\$2,406	\$0
Total Computers	\$9,953	\$17,316
Cost per FTE	\$1,095	\$556
Telecom		
Lease	\$0	\$40,107
Depreciation	\$11,709	\$0
Property Taxes	\$6,778	\$0
Carrying Cost	\$0	\$0
O & M Telecom	\$26,573	\$15,640
Total Telecom	\$45,060	\$55,747
Cost per FTE	\$4,957	\$1,790
Furniture & Office Equipment		
Lease	\$0	\$31,368
Depreciation	\$916	\$1,953
Property Taxes	\$466	\$728
Carrying Cost	\$441	\$2,898
Total Furniture & Equip	\$1,823	\$36,947
Cost per FTE	\$201	\$1,186
Utilities		
Electric	\$928	\$10,379
Heating	\$147	\$0
Water & Sewer	\$0	\$0
Total Utilities	\$1,075	\$10,379
Cost per SqFt	\$1.21	\$1.36
Miscellaneous		
Janitorial	\$3,180	\$0
Trash Removal	\$984	\$0
Groundskeeping	\$3,139	\$0
Building Mgmt	\$0	\$0
Total Miscellaneous	\$7,303	\$0
Cost per SqFt	\$8.22	\$0.00
Insurance		
General Liability	\$1,529	\$6,022
Total Insurance	\$1,529	\$6,022
Cost per FTE	\$168	\$193
GRAND TOTAL	\$76,810	\$281,902
Cost per FTE	\$8,450	\$9,053
Total FTE's	40.23	
Cost per FTE	\$8,916.53	
As Was	As Is	
FTE Count	49	12
Cost per FTE	\$8,916.53	\$8,916.53
Cost	436,910	106,998

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110

Cost summary - Other O&M

Cost		Missouri	St. Louis Co.
Other O & M			
	FTE's*	9.09	31.14
Non-Billable			
	Materials & Office Supplies	\$23,328	\$0
	Maintenance Agreements	\$0	\$11,352
	Leases	\$0	\$50,973
	Misc Expenses	\$2,000	\$1,018
	Training	\$0	\$11,575
	Postage	\$18,000	\$0
	Other	\$0	\$0
	Total Non-Bill O & M	\$43,328	\$74,918
	Cost per FTE	\$4,767	\$2,406
	Total FTE's	40.23	
	Cost per FTE	\$2,939.25	
		As Was	As Is
	FTE Count	49	12
	Cost per FTE	\$2,939.25	\$2,939.25
	Cost	144,023	35,271

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110
ST. Louis District Only

As Was Cost Summary

Wages	\$ 1,311,207
Benefits	824,254
Facility Costs	353,056
Other O&M Costs	<u>93,828</u>
Total Customer Service Costs	<u>\$ 2,582,345</u>

Number of Calls	245,405
Cost Per Call	\$ 10.52

As Is Cost Summary

Wages	\$ 391,227
Benefits	245,934
Facility Costs	90,527
Other O&M Costs	<u>24,058</u>
Local Costs	<u>751,746</u>
Proforma Call Center Costs	<u>3,005,947</u>
Total Cost	<u>\$ 3,757,693</u>

	318,667
	\$ 11.79

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110
ST. Louis District Only

Labor As Is Costs

TITLE	RATE	GROSS SALARY @5/01/2000	Wage Incr @ 3% - 4 Yrs	Maintained Costs
Hourly Employees				
RELIEF & GENERAL CLERK	\$ 12.56	\$ 26,214.84	\$ 28,646	
RELIEF & GENERAL CLERK	10.60	22,122.36	24,174	
RELIEF & GENERAL CLERK	10.60	22,122.36	24,174	
RELIEF & GENERAL CLERK	10.60	22,122.36	24,174	
RECEPTIONIST & TEL OPR	12.56	26,214.84	28,646	28,646
CASHIER	13.31	27,780.84	30,357	
CASHIER	11.64	24,293.88	26,547	
MAIL RECEIVING CLERK	12.56	26,214.84	28,646	
MAIL RECEIVING CLERK	12.56	26,214.84	28,646	
CUST DATA RECORD CLERK	14.77	30,829.32	33,688	
CUST DATA RECORD CLERK	14.77	30,829.32	33,688	
BILLING CLERK	12.56	26,214.84	28,646	
BILLING CLERK	10.60	22,122.36	24,174	
COPY/MAIL ROOM CLERK	10.60	22,122.36	24,174	
FILE & MAIL CLERK	9.24	19,282.68	21,071	
FILE & MAIL CLERK	9.05	18,885.96	20,637	
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	33,688
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	33,688
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	33,688
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	33,688
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	33,688
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	33,688
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	33,688
CUSTOMER SERVICE CLERK	14.77	30,829.32	33,688	
CUSTOMER SERVICE CLERK	12.90	26,924.76	29,421	
CUSTOMER SERVICE CLERK	12.16	25,390.08	27,744	
CUSTOMER SERVICE CLERK	12.16	25,390.08	27,744	
SENIOR CUST RECORDS CLERK	15.16	31,654.08	34,589	
TYPIST	11.64	24,293.88	26,547	
TYPIST	11.64	24,293.88	26,547	
COPY/MAIL ROOM CLERK	12.56	26,214.84	28,646	
COMPUTER OPERATOR	17.51	36,550.44	39,940	
COMPUTER OPERATOR	15.09	31,507.92	34,430	
COMPUTER OPERATOR	17.51	36,550.44	39,940	
OVERTIME PAY WR-2000-844		28,766.70	31,434	
SHIFT DIFF PAY WR-2000-844		2,539.29	2,775	
Subtotal			1,083,037	264,462

TITLE	RATE	GROSS SALARY @5/01/2000	Wage Incr @ 4% - 4 Yrs	Maintained Costs
St. Louis County				
Salaried Employees				
DIRECTOR, CUSTOMER SRVC	36.40	75,996.96	85,486	85,486
SUPT CUSTOMER SERVICE	23.95	50,000.16	56,243	
SUPV, CUSTOMER SERVICE	17.58	36,696.96	41,279	41,279
SUPV, CUSTOMER SERVICE	19.23	40,149.12	45,162	
Subtotal			228,170	126,765

Missouri-American

Hourly and Salaried

Customer Service Representative	0	
Customer Service Representative	0	
Customer Service Representative	0	
Customer Service Representative	0	
Customer Service Representative	0	
Customer Service Representative	0	
Customer Service Representative	0	
Customer Service Representative	0	
Customer Service Supv	0	
Sr. Customer Service Rep.	0	
OVERTIME PAY PER 2002 ABP	0	
SHIFT DIFF PAY PER 2002 ABP	0	
Subtotal	0	0

Total Wages

Total Count of Positions

39

\$ 1,311,207	\$ 391,227
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10

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110
ST. Louis District Only

Benefits As Is Costs

Group Insurance Costs

Total Gross Cost from Rate Case	\$ 5,110,698
Number of Employees in Rate Case	657
Cost per Employee	7,779
Number of Positions	39
Group Insurance Cost	<u>\$ 303,381</u>

OPEB Cost

Total Gross Cost from Rate Case	\$ 2,802,928
Number of Employees in Rate Case	657
Cost per Employee	4,266
Number of Positions	39
Group Insurance Cost	<u>\$ 166,374</u>

Pensions

Total Wages	\$ 1,311,207
Pension Rate per Rate Case	13.76%
Pension Cost	<u>\$ 180,422</u>

401k Costs

Total Wages	1,311,207
Average 401k Rate Per Rate Case	2.380%
401k Cost	<u>\$ 31,207</u>

EIP Costs

Total Wages	1,311,207
Average 401k Rate Per Rate Case	0.781%
401k Cost	<u>\$ 10,241</u>

Payroll Taxes

Total Wages	1,311,207
Average 401k Rate Per Rate Case	7.737%
401k Cost	<u>\$ 101,448</u>

Workmens Compensation

Total Wages	1,311,207
Average Rate Per Rate Case	2.378%
401k Cost	<u>\$ 31,181</u>

Total Benefits	<u>\$ 824,254</u>
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Gross Wages per Rate Case (full-time Staff) \$ 33,779,787

Gross 401k Costs per Rate Case	804,115
Gross EIP Costs per Rate Case	263,977
Gross Payroll Costs per Rate Case	2,613,672
Gross Workmens Comp Per Rate Case	803,393

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110
ST. Louis District Only

Cost		Missouri	St. Louis Co.
Facility			
FTE's*		0.00	31.14
SqFt		0	7,639
SqFt per FTE		0	245
Building			
Lease		\$0	\$155,491
Depreciation		\$0	\$0
Property Taxes		\$0	\$0
Carrying Cost		\$0	\$0
Total Building		\$0	\$155,491
Cost per SqFt		\$0.00	\$20.35
Computers			
Lease		\$0	\$17,316
Depreciation		\$0	\$0
Property Taxes		\$0	\$0
Carrying Cost		\$0	\$0
Total Computers		\$0	\$17,316
Cost per FTE		\$0	\$556
Telecom			
Lease		\$0	\$40,107
Depreciation		\$0	\$0
Property Taxes		\$0	\$0
Carrying Cost		\$0	\$0
O & M Telecom		\$0	\$15,640
Total Telecom		\$0	\$55,747
Cost per FTE		\$0	\$1,790
Furniture & Office Equipment			
Lease		\$0	\$31,368
Depreciation		\$0	\$1,953
Property Taxes		\$0	\$728
Carrying Cost		\$0	\$2,898
Total Furniture & Equip		\$0	\$36,947
Cost per FTE		\$0	\$1,186
Utilities			
Electric		\$0	\$10,379
Heating		\$0	\$0
Water & Sewer		\$0	\$0
Total Utilities		\$0	\$10,379
Cost per SqFt		\$0.00	\$1.36
Miscellaneous			
Janitorial		\$0	\$0
Trash Removal		\$0	\$0
Groundskeeping		\$0	\$0
Building Mgmt		\$0	\$0
Total Miscellaneous		\$0	\$0
Cost per SqFt		\$0.00	\$0.00
Insurance			
General Liability		\$0	\$6,022
Total Insurance		\$0	\$6,022
Cost per FTE		\$0	\$193
GRAND TOTAL		\$0	\$281,902
Cost per FTE		\$0	\$9,053
Total FTE's		31.14	
Cost per FTE		\$9,052.73	
As Was			As Is
FTE Count	39		10
Cost per FTE	\$9,052.73		\$9,052.73
Cost	353,056		90,527

Missouri-American Water Company
Case No. WR-2003-0500
Staff Data Request No. 110
ST. Louis District Only

Cost summary - Other O&M

Cost	Missouri	St. Louis Co
Other O & M		
FTE's*	0.00	31.14
Non-Bill		
Materials & Office Supplies	\$0	\$0
Maintenance Agreements	\$0	\$11,352
Leases	\$0	\$50,973
Misc Expenses	\$0	\$1,018
Training	\$0	\$11,575
Postage	\$0	\$0
Other	\$0	\$0
Total Non-Bill O & M	\$0	\$74,918
Cost per FTE	\$0	\$2,406
Total FTE's	31.14	
Cost per FTE	\$2,405.84	
	As Was	As Is
FTE Count	39	10
Cost per FTE	\$2,405.84	\$2,405.84
Cost	93,828	24,058

Missouri-American Water Company

Benefits of Customer Call Center

The Customer Call Center is delivering a number of benefits to the customers of Missouri-American Water Company either directly or through improvements to business processes as a result of the innovative platform that has been created.

The benefits from the call center are related to technology, greater resources, standardization of business processes, and measurement of service levels not possible with our prior approach.

Some of the many benefits of technology are as follows:

- 1) Automatic Call Distribution (ACD) – ACD operates in the Customer Service Center (CSC) telephone system to ensure an even distribution of inbound calls into the CSC.
- 2) Computer Telephone Integration (CTI) – CTI allows the integration of voice and data within a customer contact center by linking the telephone system directly to the customer information system.
- 3) Interactive Voice Response (IVR) – An IVR allows customers to complete routine transactions without actually contacting an agent. This technology also paves the way for Web-based interaction for customer self-service.

- 4) Automatic Call Monitoring – Automatic call monitoring software is used to evaluate the effectiveness of call handling and associate responsiveness to inquiries.
- 5) Expert Agent Selection – This call management software directs different types of calls to different customer service reps (CSRs).
- 6) Workforce Management – Another technology is a workforce management system, which gathers information from ACD, CTI, and IVR to provide resource forecasting and scheduling to ensure optimization of staffing to meet customer needs.
- 7) Predictive Dialer – This software is installed on the telephone system to manage outbound calls. It will maximize the CSC ability to initiate communications with customers.
- 8) Electronic Customer Information System (E-CIS) – The E-CIS is designed to provide thorough customer information to the CSRs during contacts between them and the customer.

The next benefit is greater resources. Centers with a larger number of employees provide the ability to have more direct, skilled, and focused activities. A nucleus of people can be designated to focus on defining and refining best practices, while other groups can focus on performance measurement, effective management processes, and developing an environment of continued process improvement. The economies of scale of the customer call center has provided for the ability of the Company to

provide 24/7 service (24 hours a day, 7 days a week). **This more than triples the service time that we provide our customers today than was provided under the prior approach,**

Next, standardization of business processes has always been the cornerstone for reducing costs and/or improving service. As new processes are considered, innovations will be implemented that will have positive, long-term benefits.

And finally, the measurement of service is another key to the successful implementation of the customer call center and its resulting benefits to our customers. We must be able to monitor and measure the performance of the customer call center and its interaction with our customers and the progress of achieving service level targets.

Examples of service targets are answering 80% of calls within 30 seconds, call abandonment rate between 5% and 5.5%, first call effectiveness of 85%, and response time for credit or billing-related inquiries requiring less than three days. For the St. Louis District, the Company was able to meet three of the four targets for the first quarter of 2003, and we expect the entire Missouri-American Water Company to meet these targets after completion of the final transition into the call center as noted above.

No. 174 *update*

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 06/13/03
Information Requested:

1. Provide by month, for the period covering January 1, 2002 through December 31, 2003, the total number of calls for the Alton Call Center. Update by month on an ongoing basis.
2. Provide by month, for the period covering January 1, 2002 through December 31, 2003, the total number of calls to the Alton Call Center that related to each operating company and/or non-regulated entity activity such as the service line protection program offered by American Water Resources. Update by month on an ongoing basis.
3. Provide by month, for the period covering January 1, 2002 through December 31, 2003, the total costs of the Alton Call Center broken down by component. Update by month on an ongoing basis.
4. Provide by month, for the period covering January 1, 2002 through December 31, 2003, the total costs of the Alton Call Center as assigned to each operating company and/or non-regulated entity. Update by month on an ongoing basis.

Requested By: John Cassidy
Information Provided:

For all responses please see the indicated .pdf file shown below that is being provided to the Staff.

Update 9/11/03
See attached.

Hyperlink: [S0174R.pdf](#)

Signed By: *Jeffrey Badt*

Date Response Provided: *9/11/03*

Prepared By: T. Mckitrick

[illegible]

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 8/22/03
Information Requested:

Refer to the Company's response to Staff Data request 297 regarding the customer call center transition costs charged to Missouri American plant in service.

1. Identify all tangible assets Missouri American actually received as part of the \$2,000,526 of customer call center transition cost. Be specific and identify corresponding dates and amounts for each tangible asset identified. the response to this request should include, but not be limited to, new computer equipment, new computer enhancements, new computer process or any other significant technological improvement.
2. Provide all justification for the Company's proposed inclusion of \$2,000,526 of customer call center transition cost in Missouri American Water Company's plant in service. Provide a copy of all supporting documentation for this justification.
3. In the response to item 2, in Staff Data Request 297, the Company stated "These expenditures (i.e., the \$2,000,526 of customer call center transition costs) were made to plan, design and implement the concept of the customer call center and relate to the benefit that these facilities will provide to the Company over the coming years." Provide a hard copy of any formal design plans that were prepared by Missouri American Water Company and were used to implement the concept of the customer call center. Also identify the dollar amount associated with this design plan and the date(s) charged.
4. Identify all amounts spent on "recruiting and training" of employees in relation to the customer call center by amount and by date charged.
5. Explain in detail why Missouri American Water Company incurred costs for recruiting and training employees in relation to the customer call center.
6. Identify all employees recruited and trained by name and job title and indicate where all of these recruited and trained employees work at the present time.
7. Does the customer call center presently offer recruiting and training for all its employees? Please explain.
8. Please explain in detail exactly what Missouri American Water Company received from American Water Capital Corporation via an Intercompany Transfer in the amounts of \$30,094.78 and \$199,984.63 recorded in the general ledger on January 31, 2002.
9. Please explain in detail exactly what Missouri American Water Company received from AWWWS for October and November bill in the amount of \$131,277.88 recorded in the general ledger on November 30, 2001.
10. Please explain in detail exactly what Missouri American Water Company received for "TRF CALL CTR/SSC TO UPIS" in the amounts of \$1,346,832.06 and \$51,806 recorded in the general ledger on November 30, 2001.

Requested By: John Cassidy, MoPSC Staff

Information Provided:

See Attached.

Hyperlink: [S0383R.doc](#)









Signed By: 

Date Response Provided: 9/11/03

Prepared By: Ed. Grubb

CSC Blueprint - Attributes

American Water Works is creating a single customer service center that will provide world class customer service to our customers.

-  **24 hours, 7 days a week operations**
-  **Shared service organization**
-  **High level of customer service at a decreased cost to the customer**
-  **Allows the operating companies to renew their focus on providing core distribution and field services**
-  **Service levels to operating companies guaranteed**
-  **Call center transition will be seamless through the implementation of a new 1-800 number**
-  **Flexibility in shifting resources to hand emergencies as they occur**
-  **Skill-based routing of customer calls so that customers are handled effectively and efficiently**

SCHEDULE 8
HAS BEEN
DEEMED
HIGHLY CONFIDENTIAL
IN ITS
ENTIRETY

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 08/01/03
Information Requested:

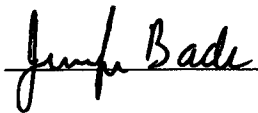
Provide a copy of all documentation, studies, analysis and calculations performed to determine any additional costs associated with the 24/7/365 level of service being offered at the National Customer Service Center versus other alternative levels of customer service. Also, provide a copy of all supporting documentation with your response.

Requested By: John Cassidy, MoPSC Staff
Information Provided:

No study exists. The decision to go 24/7 was to improve service levels to meet what we believe customers expected. Accenture had some documentation on other utilities and non-utility service, which indicated that 24/7, is an expected service level today. It was believed that this would not have a material cost impact due to having to already staff for all time zones and our need to staff for emergency services. It allows us to use non-peak staff to complete work not required to be completed during normal business hours. This information was all done prior to project implementation and this type of service level was discussed with the MO commission staff prior to implementing the project.

Hyperlink:

Signed By:



Date Response Provided: 8/21/03

Prepared By: E. Simon

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 08/01/03
Information Requested:

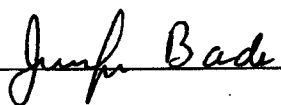
Provide a copy of all customer surveys or any other analysis or calculations that were performed to determine what value Missouri-American customers placed on a 24/7/365 level of customer service. Include a copy of all supporting documentation in your response.

Requested By: John Cassidy, MoPSC Staff
Information Provided:

No type of study exists. The decision to go 24/7 was to improve service levels to meet what we (including operating company presidents) believe customers expected. Accenture had some documentation on other utilities and non utility service which indicated that 24/7 is an expected service level today. It was also believed that this would not have a material cost impact due to having to already staff for all time zones and our need to staff for emergency services. It allows us to use non peak staff to complete work not required to be completed during normal business hours. This information was all done prior to project implementation and this type of service level was discussed with the MO commission staff prior to implementing the project.

Hyperlink:

Signed By:



Date Response Provided: 8/21/03

Prepared By: E. Simon

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 08/01/03
Information Requested:

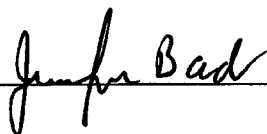
Provide a copy of all documentation, studies, calculations and analysis that determined quantifiable benefits realized by Missouri-American associated with 24/7/365 level of customer service versus any other alternative levels of customer service that were examined. Also, provide a copy of all supporting documentation with the answer.

Requested By: John Cassidy, MoPSC Staff
Information Provided:

No type of study exists. The decision to go 24/7 was to improve service levels to meet what we (including operating company presidents) believe customers expected. Accenture had some documentation on other utilities and non utility service which indicated that 24/7 is an expected service level today. It was also believed that this would not have a material cost impact due to having to already staff for all time zones and our need to staff for emergency services. It allows us to use non peak staff to complete work not required to be completed during normal business hours. This information was all done prior to project implementation and this type of service level was discussed with the MO commission staff prior to implementing the project.

Hyperlink:

Signed By:



Date Response Provided:

8/21/03

Prepared By:

E. Simon

DATA INFORMATION REQUEST
Missouri American Water Company
CASE NO. WR-2003-0500

Requested From: Ed Grubb
Date Requested: 06/17/03
Information Requested:

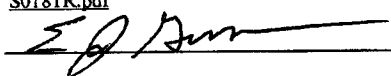
1. Describe in detail what services the National Shared Services Center provides to Missouri American.
2. Describe how Missouri American handled the services described in item 1 above prior to the formation of the National Shared Services Center.
3. Provide all cost benefit studies that Missouri American, American Water Works or any other entity performed that supported the decision to develop the National Shared Services Center in the fourth quarter of 2001. Provide a copy of all supporting documentation.
4. On what date(s) did Missouri American districts begin to receive services from the National Shared Services Center?
5. Provide a timeline or chronology of when each operating company and each non-regulated entity began to receive service from National Shared Services Center from the start date in 2001 through present.
6. Provide a timeline or chronology of when any remaining operating companies and any non-regulated entities will join the National Shared Services Center in the future.

Requested By: John Cassidy
Information Provided:

1. The Shared Services Center provides accounting, payroll, cash management, fixed asset/job costing, benefit claims processing, purchasing/accounts payable, rates and planning support, and tax accounting activities.
2. Missouri-American has, for the most part, locally provided and staffed significant elements of their own financial/accounting services and other functional departments necessary to provide such services, or in the case of smaller subsidiaries, at regional service company offices dedicated to providing these services. The shared services center has consolidated the majority of such activities into a single organization at one location, leaving only activities that can be performed more efficiently or more effectively on a local basis. Consolidation of these functions will effectuate a number of improvements organizationally, and will benefit customers in the short-term and long-term, by providing a more efficient and cost effective organization.
3. Cost/Benefit Study results see attached .pdf file.
4. November 7, 2001
5. The Shared Services Center was implemented in 3 phases; Phase 1 – September 4, 2001 included Iowa-American and New Jersey-American Water Companies; Phase 2 – November 7, 2001 included Connecticut-American, Hampton Water Works Company (New Hampshire), Indiana-American, Long Island Water Company (New York), Massachusetts-American, Maryland-American, Michigan-American, Missouri-American, New York-American, Ohio-American, Tennessee-American and Virginia-American Water Companies.; Phase 3 – January 15, 2002 included Arizona-American, California-American, Hawaii-American, Kentucky-American, Illinois-American, New Mexico-American, Pennsylvania-American and West Virginia-American Water Companies. Shared Services provides payroll processing only for AWS, AWR and American Water. Those services began on January 15, 2002.

As of now, there are no plans to add any further subsidiaries.

Hyperlink: [S0181R.pdf](#)

Signed By: 

Date Response Provided: 7/7/03

Prepared By: T. McKittrick

Shared Services Center

Missouri

Operating Expenses			
	As-Is	To-Be	Savings
Labor	2,876,934	852,692	2,024,242
Facilities	73,277	20,355	52,922
Telecommunications	178,452	49,570	128,882
Furniture And Equipment	7,236	2,010	5,226
Technology / Workstations	39,420	10,950	28,470
Other O & M Expense	177,644	49,346	128,298
Contingency	0	40,243	-40,243
Corporate	1,319,663	725,169	594,494
Region	665,267	0	665,267
Shared Service Center	0	1,816,529	-1,816,529
	<u>5,337,893</u>	<u>3,566,864</u>	<u>1,771,029</u>
Additional Savings			
Direct Deposit Savings	-18,304	-29,286	10,982
Purchase Card Rebate	0	-11,670	11,670
Electronic Fund Transfer	136,026	108,821	27,205
Lockbox Savings	511,840	375,232	136,608
Inventory Reduction	3,694,383	3,627,884	66,499
Chemical Sourcing	4,097,000	3,789,725	307,275
Fuel and Power	7,240,000	7,022,800	217,200
Transportation	209,000	200,640	8,360
Office Equipment and Furniture	95,500	91,680	3,820
Lab Supplies	220,000	211,200	8,800
Office Supplies	156,000	149,760	6,240
	<u>16,341,445</u>	<u>15,536,786</u>	<u>804,659</u>
Total Savings			<u>2,575,688</u>
Direct Personnel Costs			
Labor			
External	2,420,383		
Internal	<u>407,100</u>	2,827,483	
Travel and Living Expenses			
External	222,625		
Internal	<u>132,158</u>	354,783	
Local Severance Costs		<u>659,443</u>	<u>3,841,709</u>
Net Savings			<u>-1,266,021</u>

Shared Services Center

Number of Customers	State	Labor	Facilities	Telecom	Furniture/Equipment	Technology/Workstations	Insurance	General Office	Western Region	Commodities	Region Service	Total
		(1)	(2)	(3)		(5)	(6)	(7)			(8)	
4,684	Arizona	0	0	0	0	0	0	0	81,780	7,877	0	\$89,657
105,865	California	0	0	0	0	0	0	0	1,845,890	178,025	0	\$2,023,915
27,115	Connecticut	278,388	26,478	5,890	2,664	6,764	1,509	1,934	0	45,597	285,478	\$654,702
8,368	Hampton	0	0	0	0	0	0	0	0	14,072	162,402	\$176,474
9,881	Hawaii	0	0	0	0	0	0	0	175,243	16,616	0	\$191,859
218,937	Illinois	1,363,419	38,719	49,922	9,095	7,235	3,274	56,535	0	368,170	0	\$1,896,368
259,585	Indiana	1,837,425	60,268	71,345	8,015	24,372	3,681	48,438	0	436,524	0	\$2,490,068
56,592	Iowa	582,593	28,971	6,360	1,617	2,519	2,313	11,926	0	95,166	413,288	\$1,144,753
99,285	Kentucky	1,180,384	49,976	41,396	9,685	18,154	3,286	86,020	0	166,960	0	\$1,555,862
73,609	Long Island	621,535	0	0	0	0	0	0	0	123,783	310,968	\$1,056,286
4,745	Maryland	96,616	4,859	327	2,063	714	387	3,894	0	7,979	45,152	\$161,990
16,918	Massachusetts	300,230	51,415	13,270	6,966	6,798	1,595	14,018	0	28,450	314,609	\$737,351
415,459	Missouri	2,876,934	73,277	178,452	7,236	39,420	6,048	171,596	0	1,319,663	665,267	\$5,337,893
369,874	New Jersey	3,804,409	219,511	192,868	40,092	54,808	13,312	318,210	0	621,989	0	\$5,265,198
13,541	New Mexico	0	0	0	0	0	0	0	233,657	22,771	0	\$256,428
11,978	New York	0	0	0	0	0	0	0	0	20,142	136,549	\$156,691
42,382	Ohio	547,603	102,982	38,589	5,273	14,117	2,366	31,670	0	71,271	317,158	\$1,131,027
552,937	Pennsylvania	2,886,468	55,978	109,410	7,945	22,610	8,645	107,399	0	929,832	0	\$4,128,287
3,034	Salisbury	0	0	0	0	0	0	0	0	5,102	57,169	\$62,271
69,886	Tennessee	713,878	48,243	21,527	10,279	21,242	2,955	32,390	0	117,522	555,663	\$1,523,699
52,972	Virginia	362,204	6,777	25,852	5,547	8,683	1,553	40,555	0	89,079	377,604	\$917,854
159,429	West Virginia	2,294,714	51,779	56,592	7,485	65,967	5,517	78,841	0	268,099	0	\$2,828,994
2,580,931	Total:	\$19,746,802	\$819,230	\$811,801	\$123,962	\$293,403	\$56,440	\$1,003,427	\$2,336,570	\$4,954,688	\$3,641,307	\$33,787,629
133,971	(Western Region Total)											

* Long Island Facilities and O&M Costs are included in New Jersey Costs.

* Michigan is not included.

Shared Services Center

Customer	Personnel	Travel	Telephone	Equipment	Postage	Insurance	Gasoline	Utilities	Corporate	Contingency	Shared Services	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Customers												
4,684 Arizona	0	0	0	0	0	0	0	28,149	8,176	454	20,480	\$57,259
105,865 California	0	0	0	0	0	0	0	636,210	184,784	10,255	462,878	\$1,294,126
27,115 Connecticut	67,087	7,156	1,592	720	1,828	408	523	0	47,328	2,626	118,556	\$247,824
8,368 Hampton	0	0	0	0	0	0	0	0	14,606	811	36,588	\$52,004
9,881 Hawaii	0	0	0	0	0	0	0	59,381	17,247	957	43,203	\$120,788
218,937 Illinois	556,990	14,571	18,788	3,423	2,723	1,232	21,277	0	382,147	21,207	957,268	\$1,979,626
259,585 Indiana	735,147	23,279	27,558	3,096	9,414	1,422	18,710	0	453,097	25,145	1,134,995	\$2,431,862
56,592 Iowa	46,766	2,956	649	165	257	236	1,217	0	98,779	5,482	247,440	\$403,947
99,285 Kentucky	222,867	9,489	7,860	1,839	3,447	624	16,333	0	173,299	9,617	434,108	\$879,483
73,609 Long Island	131,469	0	0	0	0	0	0	0	128,482	7,130	321,844	\$588,925
4,745 Maryland	0	0	0	0	0	0	0	0	8,282	460	20,747	\$29,489
16,918 Massachusetts	0	0	0	0	0	0	0	0	29,530	1,639	73,971	\$105,140
3,855 Michigan	0	0	0	0	0	0	0	0	6,729	373	16,855	\$23,958
415,459 Missouri	852,692	20,355	49,570	2,010	10,950	1,680	47,666	0	725,169	40,243	1,816,529	\$3,566,864
369,874 New Jersey	905,341	46,435	40,799	8,481	11,594	2,816	67,314	0	645,602	35,828	1,617,216	\$3,381,425
13,541 New Mexico	0	0	0	0	0	0	0	81,376	23,635	1,312	59,206	\$165,529
11,978 New York	0	0	0	0	0	0	0	0	20,907	1,160	52,372	\$74,439
42,382 Ohio	69,412	10,840	4,062	555	1,486	249	3,334	0	73,976	4,105	185,309	\$353,328
552,937 Pennsylvania	780,681	14,394	28,134	2,043	5,814	2,223	27,617	0	965,132	53,560	2,417,630	\$4,297,229
3,034 Salisbury	0	0	0	0	0	0	0	0	5,296	294	13,266	\$18,855
69,886 Tennessee	128,473	10,156	4,532	2,164	4,472	622	6,819	0	121,984	6,769	305,566	\$591,557
52,972 Virginia	65,364	1,383	5,276	1,132	1,772	317	8,276	0	92,461	5,131	231,612	\$412,724
159,429 West Virginia	932,789	21,991	24,035	3,179	28,017	2,343	33,485	0	278,278	15,443	697,078	\$2,036,637
2580931 133971	\$5,495,079	\$183,007	\$212,855	\$28,807	\$81,774	\$14,172	\$252,569	\$805,117	\$4,504,926	\$250,000	\$11,284,715	\$23,113,021