

Exhibit No.:	
Issues:	Affiliate Transactions
Witness:	Nicholas Santillo Jr.
Exhibit Type:	Surrebuttal
Sponsoring Party:	Missouri-American Water Company
Case No.:	WR-2022-0303
Date:	February 8, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

SURREBUTTAL TESTIMONY

OF

NICHOLAS SANTILLO JR.

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Nicholas Santillo Jr., under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am Senior Vice President, Chief Information Officer for American Water, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.

A handwritten signature in black ink, appearing to read "Nicholas Santillo Jr.", written over a horizontal line.

Nicholas Santillo Jr.

February 8, 2023

Dated

**SURREBUTTAL TESTIMONY
NICHOLAS SANTILLO JR.
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

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SURREBUTTAL TESTIMONY

NICHOLAS SANTILLO JR.

I. INTRODUCTION

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Q. Please state your name and business address.

A. Nicholas Santillo Jr. and my business address is One Water Street, Camden, NJ 08102.

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

A. I am employed by American Water Works Service Company, Inc. (“Service Company”), a subsidiary of American Water Works Company, Inc. (“AWK”), as Senior Vice President, and Chief Information Officer.

Q. Please summarize your educational background and business experience.

A. I am a 2016 graduate of University of Phoenix where I earned a Bachelor’s degree in Organizational Security and Management. I have been employed by AWK in various capacities for more than 20 years, including multiple technology, operational, and leadership roles, as well as Chief Audit Executive responsible for the AWK’s internal audit program. I am Board certified by ASIS in Physical Security, Security Management, and Investigations. I also serve as the Chair of the Water Sector Coordinating Council. Previously, I served as the Chair of the National Association of Water Companies Safety and Security Committee, and the ASIS Utilities Security Council. I am also a former Board member of the Water Information Sharing and Analysis Center and have served as a member of multiple Federal and State committees including the AWWA Security Risk and Resilience Standard Committee, and multiple Critical Infrastructure Partnership Advisory Committee workgroups.

1 **Q. What are your current employment responsibilities?**

2 A. In my current role, I am accountable for physical and cyber security, and all aspects of the
3 Information Technology program.

4 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

5 A. The purpose of my Surrebuttal Testimony is to respond to Office of the Public Counsel
6 (“OPC”) witness Angela Schaben’s proposed disallowance of MAWC’s investment in
7 capital software projects included in this case. Ms. Schaben’s recommendations appear to
8 be based on a misunderstanding of what is included in the capital software projects and her
9 position that MAWC has failed to provide sufficient evidence to justify the investments. I
10 will demonstrate that MAWC is properly accounting for the capital software projects in
11 accordance with Generally Accepted Accounting Principles (“GAAP”) and explain the
12 process the Company engages in to determine the appropriate level of investment in these
13 types of assets, ultimately inuring to the benefit of MAWC’s customers. I will further
14 demonstrate that these investments were prudent and justified to continue to provide safe
15 and reliable utility service. As such, Ms. Schaben’s recommended adjustment must be
16 rejected by the Commission.

17 **II. MAWC’S CAPITALIZATION OF SOFTWARE PROJECTS IS PROPER AND IN**
18 **ACCORDANCE WITH GAAP**

19
20 **Q. Ms. Schaben recites the GAAP standards for software related expenditures, stating**
21 **that ASC 350-40 offers guidance to determine if computer software costs can be**
22 **capitalized, clarifying capitalization of costs for both internal use software and cloud**
23 **computing arrangements. Do you agree with Ms. Schaben’s characterization of ASC**
24 **350-40?**

1 A. Generally, I agree with Ms. Schaben’s description of the GAAP standards, but I disagree
2 with the way she has applied them in this case. That is, I agree that capitalization rules
3 differ between internal use software and cloud computing software. However, the projects
4 referenced by Ms. Schaben are internal use software and not related to cloud computing
5 arrangements. Therefore, I disagree with her assertion that MAWC has not complied with
6 those rules with respect to the capital software projects she seeks to disallow.

7 **Q. How do you respond to Ms. Schaben’s statement that she would expect to see vendor**
8 **contracts between Service Company and MAWC to demonstrate the proper level of**
9 **software capitalization?**

10 A. There are no Information Technology (“IT”) contracts executed between Service Company
11 and MAWC. Rather, Service Company contracts for IT projects and those contracts include
12 the scope of activities relative to delivering the project, including the following project
13 categories: preliminary project stage, application development stage, and post
14 implementation stage. Additionally, IT projects are delivered through a standardized
15 governance process that includes an accounting review to ensure costs are properly
16 accounted for. These projects adhere to the Company’s Accounting for Internal Use
17 Software Practice (attached as Schedule NT-1 ST - Confidential) and AWK’s procurement
18 practices.

19 **Q. Is the fact that MAWC accesses enterprise level software through Service Company,**
20 **or the degree to which MAWC and Service Company contract at arm’s length, a**
21 **factor in determining whether MAWC has complied with GAAP?**

22 A. No, not with respect to the rules Ms. Schaben cites regarding delineating between internal
23 use software and cloud computing arrangements. Whether MAWC has followed proper

1 GAAP accounting for these investments is determined by looking at the type of assets. The
2 Company has provided additional detail on this question in response to OPC data requests
3 1110-1114. I will describe below the process through which the Company analyzes the
4 level of technology expenditures and how they are allocated to MAWC. Ms. Schaben's
5 reference to GAAP compliance appears to be nothing more than an attempt to bolster what
6 appears to be her primary argument for disallowing these capital software projects – that
7 they are procured through Service Company and not independently by MAWC.

8 **III. THE PROCESS FOR ANALYZING TECHNOLOGY INVESTMENTS AND**
9 **ALLOCATING TO MAWC IS ROBUST AND YIELDS BENEFITS FOR CUSTOMERS**

10
11 **Q. Has Ms. Schaben accurately described how MAWC procures its software?**

12 A. No, not in totality. MAWC procures its software through centrally managed Enterprise
13 Solutions projects whereby the IT function solicits project recommendations from business
14 resources. Consistent with our Technology Committee Charter, projects are reviewed,
15 prioritized, and approved by various business representatives; included are certain affiliate
16 operations personnel which are periodically rotated. Relevant business representatives are
17 informed of project status throughout the project lifecycle. The benefit of Service
18 Company centrally managing Enterprise Solutions projects helps to ensure that projects are
19 delivered timely, that resources are available to address the needs of MAWC, and to ensure
20 that the technologies implemented operate effectively across our enterprise systems. In
21 addition, Service Company projects are able to leverage the expertise from our technology
22 operations teams to ensure that our systems remain compliant with accounting, SOX
23 compliance, data privacy, and security regulation.

24 **Q. Where does Ms. Schaben articulate a concern over MAWC not independently**

1 **procuring its own software and support?**

2 A. At page 8 of her Rebuttal Testimony, Ms. Schaben bemoans a lack of evidence that MAWC
3 is afforded an opportunity to negotiate on its own behalf with third party vendors to obtain
4 a fair price. The flaw in this argument is that Ms. Schaben appears to assume, without
5 evidence, that MAWC would receive a better price, or even have access to the same
6 products, if it were to negotiate independently of Service Company.

7 **IV. THE CAPITAL SOFTWARE PROJECT INVESTMENTS ARE PRUDENT AND**
8 **JUSTIFIED**

9 **Q. Ms. Schaben provides a breakdown in Table 1 of her Rebuttal Testimony of the**
10 **capital software investments based on description, reason, and whether they are the**
11 **result of upgrading or enhancing existing software reaching the end of its useful life.**
12 **What does she do with this breakdown?**

13 A. Nothing, so far as I can tell. However, she does later make reference to her Table 1 when
14 she stated she did not find sufficient information explaining why the new projects were “so
15 essential.”¹ By delineating between investments for upgrades resulting from existing
16 software reaching the end of its useful life and investments for new technology, Ms.
17 Schaben appears to be making a qualitative suggestion that new technology is somehow
18 inherently less justifiable than replacement technology.

19 **Q. Do you agree?**

20 A. Absolutely not. Technology evolves at a rapid pace. New technologies emerge to support
21 automation, processing efficiencies, address data privacy concerns, cyber security risks,
22 and support new customer preferences and interaction. In addition, new capabilities are

¹ Schaben RT, p.13.

1 made available by software providers to accommodate new ways of working in support of
2 our commitment to deliver safe and reliable service. Cybersecurity risks, for example,
3 change rapidly, and may require new technology investment and/or replacement of existing
4 end of life technology to keep company technology systems current and secure.
5 Additionally, as described by Company witness Patrick L. Baryenbruch in his Direct
6 Testimony, the resulting costs of the Company’s technology and software investments,
7 which are included in the overall Service Company charges to MAWC, are reasonable.²

8 **Q. Ms. Schaben testifies that corporate entities, including regulated public utility**
9 **companies, commonly conduct a return on investment analysis to ensure funds are**
10 **directed to projects expected to achieve the best return on investment. Is this**
11 **testimony relevant here?**

12 A. No. I have already described the process undertaken to analyze the appropriate level of
13 investment in technology. Ms. Schaben speaks as though the return to shareholders is the
14 only factor. That is not how the Company determines its technology expenditures. The
15 extent to which, and the point at which, return to shareholders is considered was answered
16 in MAWC’s response to her discovery request: “the anticipated return on the investments
17 would be the return authorized by the Commission in this rate case.”³

18 **V. CONCLUSION**

19 **Q. Are the capital software investments justified?**

20 A. Yes. They have been properly accounted for according to GAAP guidelines and they are
21 necessary expenditures for the provision of safe and reliable utility service by MAWC.

² Baryenbruch DT, pp. 5-6.

³ Company response to OPC DR 1102 (c) and (d).

1 AWK has established multiple practices and processes to ensure the effective delivery of
2 technology and proper accounting for technology costs in compliance with GAAP
3 standards. There is no evidence that MAWC has been allocated more than its fair share or
4 that MAWC could obtain the necessary software and support at lower cost.

5 **Q. Does this conclude your Surrebuttal Testimony?**

6 A. Yes.

Schedule NS-1 ST has been marked CONFIDENTIAL in its entirety
in accordance with Commission Rule 20 CSR 4240-2.135(2)(A).8.