

Exhibit No.:
Issues: Payroll, Incentive Compensation,
Business Transformation
Witness: Donald J. Petry
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2015-0301
SR-2015-0302
Date: March 4, 2016

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

SURREBUTTAL TESTIMONY

OF

DONALD J. PETRY

ON BEHALF OF

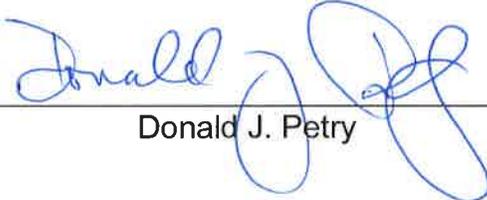
MISSOURI-AMERICAN WATER COMPANY

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

IN THE MATTER OF MISSOURI-AMERICAN)	
WATER COMPANY FOR AUTHORITY TO)	
FILE TARIFFS REFLECTING INCREASED)	CASE NO. WR-2015-0301
RATES FOR WATER AND SEWER)	CASE NO. SR-2015-0302
SERVICE)	

AFFIDAVIT OF DONALD J. PETRY

Donald J. Petry, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Donald J. Petry"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge.



Donald J. Petry

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 4th day of March 2016.



Notary Public

My commission expires: July 17, 2016

<small>DONNA S. SINGLER Notary Public, Notary Seal State of Missouri St. Louis County Commission # 12368409 My Commission Expires July 17, 2016</small>

**SURREBUTTAL TESTIMONY
DONALD J. PETRY
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. SR-2015-0302**

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SURREBUTTAL TESTIMONY

DONALD J. PETRY

I. INTRODUCTION

1

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Donald J. Petry, and my business address is 727 Craig Road, St.
4 Louis, MO 63141.

5

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**

8 **A.** Yes, I provided Rebuttal Testimony in this proceeding.

9

10 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

11 **A.** I am employed by American Water Works Service Company, Inc. ("Service
12 Company" or "AWWSC") as the Manager of Rates & Regulatory Support. The
13 Service Company is a subsidiary of American Water Works Company, Inc.
14 ("American Water") that provides support services to American Water's
15 subsidiaries, including Missouri American Water Company ("MAWC" or
16 "Company").

17

18 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

19 **A.** I will respond to Office of Public Counsel witness Hyneman's recommended
20 adjustment to the Company's payroll expense. I will also respond to Staff

1 witness Kunst's Rebuttal testimony on Incentive Compensation and Staff
2 witness Bolin's Rebuttal testimony on Business Transformation.

3

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
5 SERVICE COMMISSION ("COMMISSION")?**

6 A. Yes, I have.

7

II. PAYROLL

8

9 **Q. DID OPC WITNESS HYNEMAN PROPOSE AN ADJUSTMENT TO
10 PAYROLL IN HIS REBUTTAL TESTIMONY IN THIS CASE?**

11 A. Yes he did.

12

13 **Q. WHAT WAS OPC'S PROPOSAL FOR PAYROLL?**

14 A. Public Counsel now supports the Staff's recommended level of payroll in
15 Staff's direct filing. The Public Counsel recognizes that the Staff adjustment
16 did not annualize payroll costs past the test year or true-up date in this case as
17 proposed by MAWC in its direct testimony. The Public Counsel does not
18 support any adjustment to payroll expense past the test year or true-up date in
19 this rate case.

20

21 **Q. WHAT ADJUSTMENT DID STAFF MAKE TO SUPPORT SERVICES
22 LABOR?**

23 A. Staff began with the Service Company employee count at September 30,
24 2015, and multiplied the employees' annual salary by the current average

1 percentage of time the employee charged to MAWC to arrive at the labor
2 amount. They then deducted \$26,633, for lobbying labor and related
3 expense. The lobbying adjustment is addressed in MAWC witness Tinsley's
4 rebuttal testimony. Staff then applied an O & M percentage to the total
5 payroll to arrive at the expensed amount of payroll. The O & M percentage
6 was also applied to their calculated payroll tax, 401K, ESPP, and group
7 insurance expense.

8

9 **Q. DOES THE COMPANY AGREE WITH THIS METHODOLOGY FOR**
10 **CALCULATING SERVICE COMPANY LABOR?**

11 A. No, we do not. While this bottom up approach is effective for calculating labor
12 for MAWC where employees' time is 100% MAWC, it is not appropriate for
13 Service Company labor where employees' time is being direct charged or
14 allocated and overheads applied. Staff's September 30,2015 pro forma
15 wages for Missouri American Water compared to total service company
16 wages is 11.39%. The following shows the actual Missouri American Water
17 allocated wages compared to total Service Company wages for the prior three
18 years and true-up period. Also shown is the average of employees.

19

	12/31/13	12/31/14	12/31/15	01/31/16
20 Wage Percentage	12.32%	12.37%	12.55%	12.56%
21 Average # Employees	1,541.0	1,443.6	1,265.5	1,259.5

22
23

1 This shows that staffs methodology's resulting 11.39% understates the
2 wages. Historically the allocation has ranged from 12.32% to 12.56% even
3 as the average number of employees has been decreasing. The above
4 calculation is on wages only. Related payroll taxes, 401K, ESPP, and group
5 insurance would also be understated.

6

7

III. INCENTIVE COMPENSATION

8

**Q. HAS STAFF MADE ANY CHANGES TO ITS DIRECT FILED POSITION IN
9 REGARDS TO INCENTIVE COMPENSATION?**

10

A. Yes. Staff reconsidered its adjustment proposing to disallow the portion of the
11 incentive compensation associated with the surveys and stated that it will
12 adjust its cost of service calculation to include \$310,068 of expense and
13 \$146,026 of capital cost that it had previously excluded.

14

15

**Q. DOES THE COMPANY AGREE WITH STAFF'S RECONSIDERED
16 ADJUSTMENT?**

17

A. The Company appreciates Staff's reconsidered adjustment but maintains that
18 Staff has not gone far enough. As MAWC witness Mustich explains, American
19 Water targets total employee compensation (base plus incentive pay) levels
20 at the market median. Moreover, as Mr. Baryenbruch confirms, the Service
21 Company charges are demonstrably reasonable. Accordingly, it is
22 inappropriate to reduce them, whether directly or through the artifice of a
23 reduction for incentive compensation.

24

1 **IV. BUSINESS TRANSFORMATION**

2 **Q. STAFF WITNESS BOLIN EXPRESSES CONCERN THAT LITTLE OR**
3 **NONE OF THE BUSINESS TRANSFORMATION COSTS WERE**
4 **ALLOCATED TO NON-REGULATED AFFILIATES OF AMERICAN WATER.**
5 **PLEASE EXPLAIN WHY BT COSTS ARE NOT ALLOCATED TO THE**
6 **“NON-REGULATED” (OR “MARKET-BASED”) AFFILIATE OF MAWC.**

7 A. BT program costs are, for the most part, not properly allocable to the market-
8 based business because the BT systems are designed for AW regulated
9 utilities, and the BT program scope does not include the technology or
10 business process needs of American Water’s market-based business.
11 Moreover, MAWC’s market-based affiliate American Water Enterprises
12 (“AWE”) owns and operates separate finance, accounting, management of
13 asset lifecycle, customer service, customer billing and strategic planning
14 systems, which in large part satisfy the market-based operations needs in
15 these areas. None of the costs incurred by AWE have been included in the
16 BT program costs that are being allocated among the American Water
17 regulated utility affiliates, including MAWC.

18
19 **Q. IS IT YOUR POSITION, THEN, THAT IT WOULD BE INAPPROPRIATE IN**
20 **THIS CASE TO ALLOCATE ANY OF THE BT PROGRAM COSTS THAT**
21 **ARE BEING ALLOCATED AMONG THE AMERICAN WATER REGULATED**
22 **UTILITY AFFILIATES, INCLUDING MAWC TO THE MARKET-BASED**
23 **AFFILIATE OF MAWC?**

1 A. Yes. It would be highly inappropriate to allocate any of the BT program costs
2 to the market-based business or to disallow any portion of the requested BT
3 costs based on a belief that some portion of those costs should be allocated
4 to the market based companies. Any costs properly allocable to the market-
5 based companies have already been removed from the BT costs before they
6 were allocated to MAWC.

7

8 **Q. ARE YOU SAYING THAT THE MARKET-BASED AFFILIATES WILL NOT**
9 **USE THE BT SYSTEMS?**

10 A. No. I am saying that the BT systems were designed for the regulated utility
11 companies. As explained more fully in the Company's updated response to
12 OPC 5012 (attached as DJP-1SR), the Company's market-based affiliates
13 access only two aspects of the BT systems: (1) Success Factors (branded
14 internally as myCareer Solutions) and (2) a portion of the SAP CIS module.

15

16 **Q. DO YOU BELIEVE THAT IT IS APPROPRIATE FOR THE COMMISSION**
17 **TO ALLOCATE BT PROGRAM COSTS TO MAWC'S MARKET-BASED**
18 **AFFILIATE?**

19 A. No, it is not. As I explained above, all costs that should be charged to
20 MAWC's market-based affiliate for its use of the BT systems have been
21 isolated based on the market-based company's limited use of the systems.
22 Those costs have been removed from the BT program costs and directly
23 charged to the market-based company. Given that there is no other use of

1 the BT systems by the market-based company, there is no basis upon which
2 BT program costs should be allocated to them.

3

4 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

5 A. Yes, it does.

OPC 5012 Update

DATA INFORMATION REQUEST
Missouri-American Water Company
WR-2015-0301 / WR-2015-0302

Requested From: Tim Luft
Date Requested: 10/14/15

Information Requested:

Do any AWWC non-regulated operations or subsidiary companies have any licenses for any of the software that is included in the AWWC BT program?

- a. If not, explain fully why not.
- b. If so, identify each license related to the BT program that is held by each AWWC non-regulated operation or subsidiary.

Requested By: Jere Buckman – Office of Public Counsel – jere.buckman@ded.mo.gov

Information Provided:

American Water Works Service Company, Inc. is licensed to use all of the BT related software applications. The BT systems are designed for American Water's regulated utilities, and American Water Company's "non-regulated" or market-based affiliates. American Water Enterprises ("AWE") owns and operates separate finance, accounting, management of asset lifecycle, customer service, customer billing and strategic planning systems, which satisfy the market-based operational needs.

Updated Information Provided:

American Water Works Service Company, Inc. is the only non-regulated affiliate licensed to use all of the BT related software applications.. The BT systems are designed for American Water's regulated utilities, and the project scope did not include the technology or process needs of American Water's non-regulated (or market-based) business conducted through American Water Enterprises. American Water Enterprises ("AWE") owns and operates separate finance, accounting, management of asset lifecycle, customer service, customer billing and strategic planning systems, which satisfy the market-based operational needs.

The Company's market-based affiliates access two aspects of the new BT systems: (1) Success Factors (branded internally as *myCareer* Solutions) and (2) a portion of the SAP CIS (Customer Information System) module. As explained more fully below, certain BT implementation costs have been directly charged to the Company's market-based affiliates and, in other circumstances, will be credited to the Company and its regulated utility affiliates through a reduction in BT implementation costs. As also explained below, certain ongoing subscription and maintenance costs will be charged to market-based affiliates, with a corresponding reduction in Service Company fees.

Success Factors (branded within American Water as *myCareer Solutions*)

The Company's market-based affiliates are users of *myCareer Solutions*, and a portion of this application has been assigned to the Company's market based affiliates based on the proportionate share of the market-based companies' employee count (~12%) to the regulated utility companies' employee count (~88%). The cost of developing *myCareer Solutions* totaled approximately \$2 million dollars and went into service in August 2012. Approximately 12% of the development costs to the Company and its regulated utility company affiliates *myCareer Solutions* were directly charged to the Company's market-based affiliates.

Finally, this same assignment methodology (proportionate share of the market-based companies' employee count to the regulated utility companies' employee count) is used to charge a percentage of the ongoing subscription fees and maintenance cost for *myCareer Solutions* to the Company's market-based affiliates.

SAP CIS (Customer Information System)

One of the Company's market-based affiliates has been directly billed approximately \$1,116,783 by an outside vendor (Accenture) to modify SAP CIS to enable the Company's market-based affiliate to continue the placement of its protection plan services charge on four (4) of the regulated utility companies' billing statements (where approved by the state commission). A portion of the ongoing maintenance costs for SAP's Customer Relationship and Billing (CR&B) system are allocated to the Company's market-based affiliates based on the proportionate share of the market-based companies' customer count included on the SAP CR&B system (approximately 10%) to regulated utility companies' customer count (approximately 90%).