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Case No.: WR-2020-0344

Date: February 9, 2021

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2020-0344

SURREBUTTAL TESTIMONY

OF


PATRICK L. BARYENBRUCH

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Patrick Baryenbruch, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am President of Baryenbruch & Company, LLC, 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.



Patrick Baryenbruch

February 8, 2021

Dated

**SURREBUTTAL TESTIMONY
PATRICK L. BARYENBRUCH
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-0344**

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SURREBUTTAL TESTIMONY

PATRICK L. BARYENBRUCH

I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is Patrick L. Baryenbruch. My business address is 2832 Claremont Road,
3 Raleigh, North Carolina 27608.

4 **Q. Have you provided direct testimony in this case?**

5 A. Yes. My Direct Testimony covered the reasonableness and necessity of American
6 Water Works Service Company (“Service Company”) charges to Missouri-American
7 Water Company (“MAWC”) during 2019.

8 **Q. What is the purpose of this Surrebuttal Testimony?**

9 A. I am responding to the Rebuttal Testimonies of Mr. Greg Meyer, witness for the
10 Missouri Industrial Energy Consumers (“MIEC”), and Mr. Robert Schallenberg,
11 witness for the Office of the Public Counsel. I cover certain of their assertions in the
12 sections below.

II. REBUTTAL TESTIMONY OF OPC WITNESS ROBERT SCHALLENBERG

14 **Q. Which portions of Mr. Schallenberg’s rebuttal testimony will you address?**

15 A. I will respond to the following items in Mr. Schallenberg’s testimony:

- 16 • “Item 7 MAWC second adjustment to increase MAWC’s support service costs
17 because the Company’s owner is selling an affiliate located in the state of New
18 York”. (Schallenberg RT, pp. 7-8). This covers the reallocation of Service

1 Company expenses that results from the planned divestiture of the New York
2 American Water (“NYAW”) business.

- 3 • “Item 9 AWWSC’s Charges in MAWC’s Rate Base that are not addressed by
4 MAWC’s witnesses or The Study”. (Schallenberg RT, pp. 9-10). This covers
5 capital-related Service Company charges to MAWC.

6 **Q. What are the circumstances associated with Item 7?**

7 A. American Water Works Company, Inc., (AWWC) is selling 100% of the outstanding
8 stock of New York American Water Company (NYAW). Service Company expenses
9 will be reallocated over the remaining AWWC operating utilities, including MAWC.
10 As a result, approximately \$1.4 million in additional Service Company expenses will
11 be assigned to MAWC as a result of the sale.

12 **Q. What are Mr. Schallenberg’s contentions regarding the identified reallocation?**

- 13 A. He believes the reallocation is not appropriate for the following reasons:
- 14 • No additional benefits are provided to MAWC by the reallocation;
 - 15 • The divestiture of NYAW has not yet occurred so the reallocation is not known and
16 measurable;
 - 17 • The Service Company has not determined cost savings it can realize from the
18 divestiture; and,
 - 19 • MAWC and its customers are being asked to “pay for holding company costs
20 created by a non-regulated sale solely to increase the earnings of the American
21 Water enterprise.”

22

1 **Q. Do you agree that the reallocation provides no benefit to MAWC?**

2 A. No. The reallocation allows the Service Company to continue providing MAWC with
3 high-quality services. My original evaluation of Service Company services (Schedule
4 PLB-2 of my Direct Testimony) determined that the services MAWC receives from the
5 Service Company are necessary and reasonable. MAWC's annual cost per customer
6 for Administrative and General (A&G) services received from the Service Company
7 would increase from \$63 to \$66, after factoring in the additional allocations. The \$66
8 amount is still well below the comparison group of other utility service companies.
9 Also, I found the Service Company provided services to MAWC at \$12.8 million less
10 than the cost of outside service providers. Even after offsetting the additional \$1.4
11 million in Service Company charges, the cost of Service Company services is still
12 significantly lower than outside providers. MAWC's total annual cost of customer
13 account services, including those provided by the Service Company's call centers,
14 would increase from \$25.09 per customer to \$25.51 as a result of the additional
15 allocation. Again, this is well below the utility comparison group's average cost.

16 MAWC and its customers will continue to benefit from the high-quality
17 services of the Service Company that remain a good value for MAWC and its
18 customers in spite of the additional charges resulting from the divestiture of NYAW.
19 MAWC's Service Company charges including the reallocation reflect the Service
20 Company's actual costs post divestiture. Thus, the reallocation complies with the
21 service agreement between MAWC and the Service Company, which stipulates:

22 *The services to be rendered under this agreement are to be rendered*
23 *by the Service Company to Water Companies at their cost to the*
24 *Service Company.*

1 **Q. Do you agree with Mr. Schallenberg’s contention that the reallocation is not**
2 **appropriate because the sale of NYAW has not been completed?**

3 A. No. The actions of AWWC, including execution of a stock purchase and sale
4 agreement with Liberty Utilities, Co. and subsequent filing with the New York State
5 Public Service Commission (NYSPSC) seeking authorization for the proposed
6 transaction, are evidence of its intent to sell NYAW. MAWC is seeking recovery of
7 the reallocation because the sale will take place upon NYSPSC approval. Thus, the
8 reallocation will have a known future impact.

9 **Q. Is it true that the Service Company has not determined cost savings it can realize**
10 **from the divestiture?**

11 A. No. The Service Company projects lower post-divestiture resource requirements. This
12 projection represents the Service Company’s expected actual cost to deliver services to
13 water utility affiliates. Costs that can be eliminated due to the divestiture of NYAW
14 have already been removed from the net total cost pool that is allocated to the remaining
15 American Water operating companies. The net total amount being reallocated post-
16 divestiture is less than what NYAW is currently charged by the Service Company. The
17 basis for allocation is the remaining number of customers (i.e., NYAW customers are
18 excluded). Thus, the resultant allocation calculation produces an additional \$1.4
19 million assigned to MAWC.

20 **Q. In his rebuttal testimony, Mr. Schallenberg cites MAWC’s response to OPC data**
21 **request 1045, which asks: “Will any of AWWSC’s costs be reduced due to the**
22 **divestiture of NYAW? If yes, what is the amount of the reduction? If not, why**
23 **not?” How did the Company respond at that time?**

1 A. On September 28, 2020, MAWC replied that the “amount of possible savings is still
2 being determined and will be furnished when finalized.”

3 **Q. Is that still the situation?**

4 A. No. Since this response was filed, MAWC has updated its response to OPC 1045 to
5 provide as follows: New York’s total share of service company costs is \$14.8M. As a
6 result of the divestiture, \$3.1M of costs are expected to be eliminated. The remaining
7 costs are then reallocated among all regulated affiliates proportionate to each affiliate’s
8 service company allocation. As a result, approximately \$1.4M of costs will be
9 reallocated to Missouri. Therefore, the amount of the additional allocation that has
10 been identified here is net of the eliminated savings.

11 **Q. Do you agree that the reallocation represents “holding company costs” that
12 MAWC and its customers are being asked to pay?**

13 A. No. The “holding company,” AWWC, is not charging MAWC anything in connection
14 with the divestiture. The reallocation comes from the Service Company and is
15 reflective of its actual costs to provide services. Again, this is in accordance with the
16 service agreement between MAWC and the Service Company, which requires that
17 services be provided at cost.

18 **Q. Concerning Mr. Schallenberg’s Rebuttal Testimony item 9, do you agree that
19 your evaluation of the Service Company’s services and associated charges to
20 MAWC did not cover capital costs?**

21 A. No. Mr. Schallenberg’s claim that my evaluation did not cover capital-related charges
22 from the Service Company to MAWC is wrong. The scope of my test to determine if

1 services were provided at the lower of cost or market covered both O&M and capital
2 charges from the Service Company.

3 **Q. What was the result of that evaluation?**

4 A. The analysis below shows MAWC was charged a total of \$45.7 million in O&M and
5 capital during 2019. Of this total, \$39.0 million associated with management and
6 professional services was subjected to a lower-of-cost-or-market comparison. The
7 remaining \$6.7 million for customer account services are not included in this test
8 because there are no publicly available sources for prices charged by outside providers
9 of those service. Instead, these charges are tested by my comparison of MAWC's total
10 customer account charges per customer versus the costs of utilities in Missouri and
11 neighboring states.

Service Company Charges to MAWC

	<u>2019</u>
O&M	\$ 32,274,137
Capital	\$ 13,385,058
Total Charges	<u>\$ 45,659,195</u>

Analysis of Charges Subjected to Lower of Cost or Market Test

Professional Services	\$ 39,019,341	in scope
Customer Account Services	\$ 6,639,853	out of scope
Total Charges	<u>\$ 45,659,195</u>	

12
13 **Q. Did you determine MAWC was charged the lower-of-cost-or-market for
14 management and professional services provided by the Service Company in 2019?**

15 A. Yes. The cost of Service Company services to MAWC during 2019 were lower than
16 the cost of outside providers of managerial and professional services. On average, the
17 hourly rates for outside service providers are 58% higher than the Service Company's
18 hourly rates. If all the managerial and professional services now provided by the

1 Service Company had been outsourced during 2019, MAWC and its customers would
2 have incurred nearly \$12.8 million in additional expenses. This equates to more than
3 \$26 per MAWC customer (\$12.8 million/484,517 customers). This is further evidence
4 that the Service Company is a good value for MAWC and its customers.

5 **Q. How do the 2019 costs of Service Company's customer accounts services,**
6 **including those of the National Call Centers, relate to those of other utilities?**

7 A. The cost of the Service Company's customer accounts services, including those
8 provided by the National Call Centers, is below the average of the neighboring electric
9 utility comparison group. As will be explained further herein, this group of companies
10 provides a reasonable proxy group for comparison to a regulated utility of the size and
11 scope of the Service Company and MAWC. During 2019, the cost of customer
12 accounts services for MAWC customers was \$27.89, compared to the 2018 average of
13 \$30.92 for neighboring electric utilities.

14 **III. REBUTTAL TESTIMONY OF MIEC WITNESS GREG MEYER**

15 **Q. Which portions of Mr. Meyer's rebuttal testimony will you address?**

16 A. I will respond to Section III - Service Company Charges of Mr. Meyer's testimony.
17 This section runs from pages 7 to 10 in his rebuttal testimony.

18 **Q. What are Mr. Meyer's contentions regarding the reallocation of Service Company**
19 **charges to MAWC?**

20 A. Mr. Meyer believes the reallocation associated with the NYAW divestiture is not
21 appropriate for the following reasons:

- 1 • The sale has not yet occurred, so the reallocation expenses are not known and
2 measurable;
- 3 • Future growth of AWWC’s total customer base is not factored into the
4 determination of MAWC’s reallocation amount of \$1.4 million; and,
- 5 • The Service Company’s costs are primarily variable and “MAWC has failed to
6 make any provisions for the possible reduction in the labor force at the service
7 company in response to the sale of the New York utility.”

8 **Q. Do you agree that the reallocation expenses are not known and measurable?**

9 A. No. As stated in response to Mr. Schallenberg’s claims, the reallocation will have a
10 known future impact that is measurable. The Service Company has developed an
11 estimate of its post-divestiture resource requirements. Costs that can be eliminated due
12 to the divestiture of NYAWC have been removed from that estimate.

13 **Q. Do you agree that the future growth of AWWC’s total customer base is not
14 factored into the determination of MAWC’s reallocation amount of \$1.4 million?**

15 A. Yes, although the method for determining each operating company’s future allocation
16 of Service Company charges does not depend on future customer counts. The \$1.4
17 million reallocation is based on MAWC’s current proportion of total American Water
18 customers. A future increase in total AWWC regulated customer base may or may not
19 change total Service Company expenses allocated to MAWC. That depends on which
20 operating companies experience future customer growth. While American Water’s
21 total customer base has increased in the past, it is not possible to attribute future growth
22 to specific operating companies, such as MAWC. Therefore, it is reasonable for

1 purposes of this rate case proceeding to assume the portion of total Service Company
2 expenses assigned to MAWC will remain the same in the future.

3 **Q. Do you agree that the Service Company’s costs are primarily variable?**

4 A. No. The Service Company is structured as a shared services organization for the
5 purpose of providing economies of scale for affiliate operating companies. The shared
6 service arrangement means that many Service Company staff members support
7 multiple operating companies. Thus, relatively few employees are dedicated
8 exclusively to serving one operating company. For this reason, it is not possible to
9 match the reduction of Service Company employees in exact proportion to NYAW’s
10 customer count.

11 In addition, the types of costs the Service Company incurs in the provision of
12 services to MAWC and other operating companies are not fixed in nature. As shown
13 in the table below, almost half of the Service Company’s 2019 charges to MAWC are
14 non-labor expenses. These expenses are enterprise-wide in nature and include outside
15 services, enterprise software licenses and depreciation expense. Many of these
16 expenses are fixed and do not vary directly with AWWC’s total customer base.

Cost Category	2019	
	Charges to MAWC	Percent of Total
Labor	\$ 18,941,762	41.0%
Benefits	\$ 4,360,718	10.0%
Other	\$ 22,356,715	49.0%
Total	\$ 45,659,195	100.0%

17
18 All of this runs contrary to Mr. Meyer’s allegation that the Service Company’s
19 expenses are “primarily variable.”

1 **Q. Do you agree that no provision has been made for possible reductions in the**
 2 **Service Company’s labor force?**

3 A. No. As stated above in response to Mr. Schallenberg’s similar allegation, costs that
 4 can be eliminated due to the divestiture of NYAW have been removed from the net
 5 total cost pool that is allocated to the remaining American Water operating companies.

6 **IV. CONCLUSION**

7 **Q. How would you describe the growth of Service Company charges to MAWC since**
 8 **2010?**

9 A. The growth in Service Company charges has been moderate. As shown in the table
 10 below, between 2010 and the proforma year of 2021, Service Company charges to
 11 MAWC have grown by a compound annual growth rate of 2.17%. This growth rate is
 12 less than the increase in the Consumer Price Index from 2010 to 2020.

MO American's Rate Case

Year		Service Company Charges to MAWC	Eliminations (A) CSC Adjustment	Net Charges	MAWC Number of Customers at 12/31	Total AW Number of Customers at 12/31
2010	Actual	\$29,971,881		\$29,971,881	452,102	3,336,226
2011	Actual	\$28,914,085		\$28,914,085	454,094	3,159,245
2012	Actual	\$29,489,559		\$29,489,559	455,730	3,158,941
2013	Actual	\$30,471,427		\$30,471,427	464,232	3,220,072
2014	Actual	\$29,989,320		\$29,989,320	464,498	3,219,192
2015	Actual	\$28,616,407		\$28,616,407	473,245	3,252,691
2016	Actual	\$30,232,390		\$30,232,390	476,071	3,312,304
2017	Actual	\$27,841,658		\$27,841,658	479,323	3,353,877
2018	Actual	\$30,337,016		\$30,337,016	483,143	3,381,695
2019	Actual	\$32,274,130		\$32,274,130	484,517	3,434,025
2020	Actual	\$37,680,064	(\$3,794,190)	\$33,885,874	487,083	3,495,558
12 Mo May 2021	Forecast	\$37,968,831	(\$3,909,093)	\$34,059,738	488,152	

Note A: Prior to 2020, these expenses were recorded on the books of MAWC. Starting in 2020, the Service Company began managing these expenditures centrally and assigning them to the operating companies, including MAWC.

13

1 **Q. Do you believe it is equitable for MAWC to recover the additional allocation of**
2 **Service Company charges related to the divestiture of NYAW?**

3 A. Yes. The most equitable outcome is produced by a consistent treatment of the cost of
4 Service Company's services provided to MAWC. In the past, when American Water's
5 total customer base grew, MAWC's customers received the benefit of economies of
6 scale that flowed through in the form of actual Service Company costs. MAWC did
7 not receive any premium because the Service Company's services became relatively
8 less expensive as the enterprise customer base grew. The same treatment should be
9 applied to the rare instance where American Water's customer base declines. It would
10 be inconsistent for MAWC to be penalized with a disallowance of the Service
11 Company's actual costs of service that have been demonstrated to be reasonable.

12 **Q. Does this complete your surrebuttal testimony?**

13 A. Yes.