

Exhibit No.:
Issues: Residential Usage, No-Bid Contracts
Witness: Kevin H. Dunn
Exhibit Type: Surrebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2011-0337
SR-2011-0338
Date: February 2, 2012

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2011-0337
CASE NO. SR-2011-0338**

SURREBUTTAL TESTIMONY

OF

KEVIN H. DUNN

ON BEHALF OF

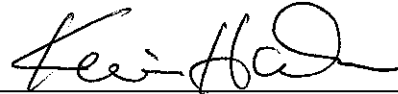
MISSOURI-AMERICAN WATER COMPANY

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) RATES FOR WATER AND SEWER) SERVICE)	CASE NO. WR-2011-0337 CASE NO. SR-2011-0338
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AFFIDAVIT OF KEVIN H. DUNN

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



Kevin H. Dunn

State of Missouri

County of St. Louis

SUBSCRIBED and sworn to

Before me this 31st day of January 2012.



Notary Public

My commission expires: 6/11/2012

JULIE M. POLZIN
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires 6/11/2012
Commission # 08575308

**SURREBUTTAL TESTIMONY
KEVIN H. DUNN
MISSOURI-AMERICAN WATER COMPANY
CASE NO.WR-2011-0337
CASE NO.SR-2011-0338**

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1 **SURREBUTTAL TESTIMONY**

2 **KEVIN H. DUNN**

3
4
5 **I. WITNESS INTRODUCTION AND PURPOSE**

6
7 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

8 A. My name is Kevin H. Dunn and my title is Director - Engineering for Missouri-
9 American Water Company ("MAWC" or "Company"). My business address is
10 727 Craig Road, St. Louis, Missouri 63141.

11
12 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. Yes, I have submitted direct and rebuttal testimony in this proceeding.

15
16 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

17 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
18 testimony of Staff Witness Mr. Jerry Scheible, P.E. and to the St. Louis local
19 public hearing testimony of Mr. Alan Ratermann pertaining to no-bid
20 contracts.

21
22 **II. RESIDENTIAL USAGE**

23 **Q. WHAT ARE THE RECOMMENDATIONS OF MR. SCHEIBLE?**

24 A. Mr. Scheible recommends that residential customers' usage by district be
25 determined by averaging the most recent four years of usage data and that

1 there should not be an adjustment to residential customer usage based upon
2 theoretical declining usage.

3
4 **Q. DO YOU AGREE WITH HIS RECOMMENDATION THAT RESIDENTIAL**
5 **CUSTOMERS' USAGE SHOULD BE DETERMINED BY A FOUR YEAR**
6 **AVERAGE?**

7 A. No.

8
9 **Q. WHY NOT?**

10 A. By calculating solely on an average of historic usage, Mr. Scheible ignores
11 the reality, not theory, of declining residential usage and exposes the
12 Company to a revenue shortfall. The use of an average as an attempt to
13 normalize residential usage that ignores the decline occurring in residential
14 usage results in a higher usage rate that will overstate test year revenues.

15
16 **Q. WHAT METHOD DOES THE COMPANY RECOMMEND FOR**
17 **DETERMINING RESIDENTIAL CUSTOMER USAGE?**

18 A. In my Direct Testimony, I describe the method for determining declining
19 usage by analyzing weather neutral usage (i.e. the base or winter usage),
20 over a three month period. This winter usage more readily describes the in-
21 house usage of a residential customer. This is similar to waste water
22 systems using a winter water usage to determine the sewer usage rate for
23 billing their customers. My analysis performs a linear regression on ten years
24 of historical base residential customers' usage to create a "best fit" trend line
25 for each district. Then I perform a separate analysis of the discretionary

1 usage (i.e. usage above the base or winter usage) to normalize weather
2 effects. A ten year average of this discretionary usage is a conservative
3 method to minimize the impact of weather to residential usage. The trend
4 projection of base usage is then added to the ten year average of
5 discretionary usage to determine the projected residential customers' usage.

6
7 **Q. ISN'T THE METHOD OF ANALYSIS FOR DISCRETIONARY USAGE**
8 **SIMILAR TO STAFF'S RECOMMENDATION FOR NORMALIZATION?**

9 A. Pertaining to weather normalization that is correct, however, my method uses
10 a larger period of consideration for discretionary usage in attempt to minimize
11 the effect of weather. Mr. Scheible only uses the last four years and three of
12 those four years had higher than average precipitation so would not be as
13 effective in normalizing weather as the method I propose. These two
14 methods are also dissimilar because Mr. Scheible neglects to include or
15 account for the declining residential usage that has been experienced in
16 water systems throughout the United States. Company witness Mr. Gary
17 Naumick describes this occurrence in both his direct and rebuttal testimony.

18
19 **Q. WHY DOES MR. SCHEIBLE RECOMMEND NOT MAKE AN**
20 **ADJUSTMENT TO CUSTOMER USAGE BASED ON THE THEORY OF**
21 **DECLINING USAGE?**

22 A. Mr. Scheible states that conservation practices or lawn size or irrigation
23 practices would be reasonably accounted for in an average of recent actual
24 averages and that the average usage per customer increased from at least
25 one preceding year in seven of the ten districts reviewed. Also, he states that

1 any potential declining trend is not occurring at such a rapid pace that an
2 average from recent years would not account for this.

3
4 **Q. IS THIS POSITION CORRECT?**

5 A. No. I have explained earlier in this testimony that a four year average of
6 recent data is not reasonable to account for weather impacts to normalize
7 usage. Also, the percent decline of base usage over the last ten years in the
8 districts studied ranges from 7%-34%, with the largest system, St. Louis
9 County, having a nearly 13% decline. These should not be considered
10 inconsequential declines and these declines must be taken into account for
11 the Company to reasonably collect the revenues projected for setting rates in
12 this case. The base usage also covers 65%-95% of the total usage
13 depending on the district and the weather during the discretionary periods,
14 resulting in a large amount of the customer usage susceptible to decline.
15 Additionally, Mr. Naumick states in his rebuttal testimony (Pages 6 - 7) that
16 replacement of low flow fixtures and appliances will continue to occur and will
17 continue to drive the decline in base usage per customer.

18
19 **III. NO-BID CONTRACTS**

20 **Q. IS MR. RATERMANN CORRECT IN HIS STATEMENT THAT MAIN**
21 **REPLACEMENT PROJECTS ARE AWARDED WITHOUT BIDDING?**

22 A. No. Mr. Ratermann's statement is incorrect. All main replacement projects
23 performed by outside contractors in St. Louis County are awarded as result
24 of a bidding process.

1 **Q. PLEASE DESCRIBE THE BIDDING PROCESS USED FOR MAIN**
2 **REPLACEMENT WORK IN ST. LOUIS COUNTY.**

3 A. MAWC solicits bids for main installation work (trench method or directional
4 drilling method) and restoration work from contractors who have been pre-
5 qualified by the Company. The pre-qualification process includes some
6 combination of written questionnaire, telephone interview and follow-up
7 investigation. The Company solicits information about experience of the
8 company for the type of work being contracted, safety records, financial
9 stability, bonding capacity, insurance levels, staffing availability, internal
10 personnel policies, and qualifications and experience of employees. Once a
11 contractor is pre-qualified, they may participate in the bid process. For main
12 installation, for example, pre-qualified contractors are invited to provide
13 competitive unit prices for various bid items along with time and material
14 pricing for emergency work. The parties then enter into contracts, which
15 reflect the terms and conditions for the proposed type of work (i.e. trench
16 installation or directional drilling installation). The work performed under
17 these contracts is assigned by various task orders, and the Company has
18 three options for awarding the project: 1) award a task order based on the
19 lowest contractor's unit pricing for the work; 2) award a task order based on
20 lump sum bids from all contracted companies for the type of work to be
21 performed; and 3) award an emergency task order based on time and
22 material. Restoration work (restoring any pavement or ground disturbed
23 during main installation) also is awarded pursuant to contracts with pre-
24 qualified contractors. The difference with restoration work is that the primary

1 method used to award this work is by obtaining lump sum bids from qualified
2 bidders.

3
4 **Q. HOW DOES THE COMPANY TYPICALLY AWARD TASK ORDERS FOR**
5 **MAIN INSTALLATION REPLACEMENT WORK?**

6 A. While MAWC has the option to use any of the options described above, the
7 Company typically awards task orders based on the lump sum method. The
8 first option, using lowest unit price, has been used for directional drilling work
9 in the past; however the Company has found it best to competitively bid this
10 work for each task order. The third option has been added in case there
11 would be some emergency and a main would need to be replaced quickly.
12 To my knowledge, the emergency option has not been used to date.

13
14 **Q. PLEASE DESCRIBE THE AWARD PROCESS FOR THE LUMP SUM**
15 **OPTION.**

16 A. MAWC reviews the contractors' lump sum bids and availability to perform the
17 task order. The task order is awarded to the contractor that is able to
18 perform the work within the time constraints for the project and provides the
19 lowest lump sum bid for the task order.

20
21 **Q. DOES MAWC ALLOW CONTRACTORS TO BE PAID ON A TIME AND**
22 **MATERIAL BASIS AFTER THEY HAVE EXPERIENCED A COST**
23 **OVERRUN, AS MR. RATERMANN STATED?**

24 A. No. There is a process in place for requesting and approving any changes to
25 the accepted bid terms. The contracts for this type of work allow contractors

1 to request changes to their original bid, whether it is related to cost or time for
2 completing the work. If the contractor believes a change is necessary, the
3 contractor must request the change (cost or time) through the Company's
4 inspector assigned to inspect the work. The inspector will discuss the
5 proposed change with the Company and, if the Company agrees to modify
6 the original terms, a written change order is prepared. For a change in cost,
7 the contractor provides a lump sum or unit price bid to perform the extra
8 work. If the work must be performed quickly, the Company may choose to
9 use the time and material pricing provided in the original bid by the
10 contractor. Most approved change orders are based on lump sum or unit
11 price bids by the contractor. However, not all change orders are approved,
12 and, as discussed below, the Company also can impose liquidated damages
13 when the contractor does not meet the original terms of the bid.

14
15 **Q. DOES MAWC REQUIRE BONDS FOR MAIN REPLACEMENT**
16 **PROJECTS?**

17 A. MAWC requires performance and payment bonds for all task orders that
18 exceed \$50,000.

19
20 **Q. DOES MAWC ASSESS LIQUIDATED DAMAGES FOR MAIN**
21 **REPLACEMENT PROJECTS?**

22 A. Yes. Main replacement projects have to be installed in a timely manner to
23 minimize distractions to our customers. The contractors agree that time is of
24 the essence for this work and therefore the contracts include a liquidated
25 damages clause. As a matter of fact, the recent trench installation method

1 performed by ADB, Inc. went over schedule and MAWC assessed the
2 penalty for liquidated damages due to the delay. No cost overruns were
3 sought by the contractor or were paid by MAWC.

4
5 **Q. DOES MAWC REQUIRE BACKGROUND CHECKS ON OUTSIDE**
6 **CONTRACTORS?**

7 A. Yes. MAWC's past practice has been to require contractors to perform
8 background checks on any of the contractor's employees who worked on-site
9 at our Company's facilities. This practice has been reviewed and, starting
10 with 2012 contracts, background checks also will be required for main
11 installation work.

12
13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 A. Yes, it does.