

Exhibit No.:
Issues: AAO
Witness: Frank L. Kartmann
Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WO-2002-273
Date: January 31, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WO-2002-273

FILED²

JAN 31 2002

**Missouri Public
Service Commission**

DIRECT TESTIMONY

OF

FRANK L. KARTMANN

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

JEFFERSON CITY, MISSOURI

NP

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

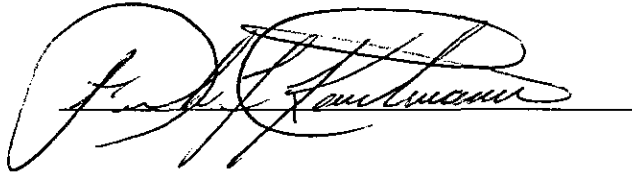
In the Matter of the Joint Application)
of Missouri-American Water Company,)
St. Louis County Water Company d/b/a)
Missouri-American Water Company and)
Jefferson City Water Works Company)
d/b/a Missouri-American Water Company)
for an accounting authority order relating)
to security costs.)

Case No. WO-2002-273

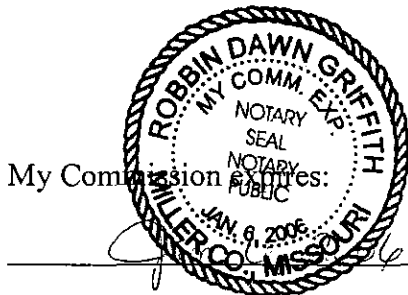
State of Missouri)
County of COLE) ss

AFFIDAVIT OF FRANK L. KARTMANN

Frank L. Kartmann, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Frank L. Kartmann"; that said testimony was 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, information, and belief.



Subscribed and sworn to before me this 28th day of January, 2002.




Notary Public

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DIRECT TESTIMONY

FRANK L. KARTMANN

WITNESS INTRODUCTION

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

2 A. Frank L. Kartmann, 535 N. New Ballas Rd., St. Louis, Missouri.

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

4 A. I am employed by Missouri-American Water Company ("MAWC") as Vice President-
5 Operations.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATION.**

7 A. I obtained a BS Degree in Secondary Education from the University of Illinois -
8 Urbana/Champaign, Illinois in 1986. I obtained a BS Degree in Civil Engineering from
9 the University of Missouri - Rolla, Missouri in 1989. I earned an MBA from Washington
10 University - St. Louis, Missouri in 1999.

11 **Q. PLEASE SUMMARIZE YOUR EMPLOYMENT EXPERIENCE.**

12 A. I joined SLCWC in 1989 as a System Engineer designing and managing the construction
13 of water main and mechanical piping projects. In 1994, I became the Plant Engineer for
14 SLCWC's Meramec Plant. In 1998, I became the Plant Superintendent for SLCWC's
15 Meramec and South County Plants. In 1999, I became Director-Engineering for
16 SLCWC, JCWWC and MAWC. In 2000, I was elected Vice President-Engineering for
17 the same three companies. In 2001, I was elected Vice President-Operations.

18 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS VICE PRESIDENT-
19 OPERATIONS FOR MAWC.**

20 A. I am responsible for the operations related functions of the nine MAWC water systems
21 and the MAWC corporate functions of Engineering, Water Quality, and centralized
22 maintenance services. These responsibilities include, but are not limited to oversight of

1 the operations & maintenance and capital budgets, compliance with Environmental
2 Protection Agency, Missouri Department of Natural Resources and Missouri Public
3 Service Commission, and other federal, state and local regulations, capital planning,
4 development of and compliance with company policies, quality of our customer service,
5 and the safety and adequacy of our water supplies and services

6 **Q. DO YOU HAVE PRIMARY RESPONSIBILITY FOR SECURITY MEASURES**
7 **DESIGNED TO PROTECT MAWC'S PLANT AND FACILITIES?**

8 A. Yes.

9 **PURPOSE**

10 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

11 A. I will provide testimony supporting the operational aspects of Missouri-American Water
12 Company's Application for an Accounting Authority Order ("AAO") relating to security
13 costs.

14 **CHANGE IN OPERATIONS**

15 **Q. DID ANY RECENT EVENT CHANGE MAWC'S APPROACH TO PLANT AND**
16 **FACILITY SECURITY?**

17 A. Yes. The terrorist attack on the United States which took place on September 11, 2001,
18 and resulted in great loss of lives and property, had a profound impact on the security
19 environment across the entire country. MAWC was no different. This event caused an
20 increased focus on security as the result of external pressures and internal decisions.

21 **Q. DO YOU BELIEVE THAT THE EVENTS OF SEPTEMBER 11, 2001, ARE**
22 **EXTRAORDINARY, UNUSUAL AND UNIQUE?**

23 A. Yes. The events of September 11, 2001, and the threat resulting therefrom, were
24 extraordinary in nature and beyond the imagination of many in this country.

25 **Q. WHAT WAS THE UNIQUE EFFECT OF THOSE EVENTS ON SECURITY**
26 **PLANS?**

1 A. The significance of that event from a security standpoint was that it brought into focus the
2 immediate threat and vulnerability of many of this Country's assets and facilities. This
3 very much includes the nation's public utility plant and facilities. As a result, public
4 utility security received much more attention and scrutiny from governmental authorities
5 and the public.

6 **Q. DO YOU THINK THIS ASPECT OF THE EVENT WILL BE RECURRING?**

7 A. I hope not. While it is always possible that something of this nature will happen again, I
8 believe we have taken, and will be taking over the next several months, the steps that are
9 within our ability to protect the MAWC plant, facilities and our customers.

10 **Q. DOES THE THREAT CONTINUE?**

11 A. It appears that it does. **
12 _____ ** marked Schedule FLK-1, and attached to this testimony. MAWC also must
13 take into account other indications from the United States government that the threat is
14 real, such as the following excerpt from President Bush's January 29, 2002, State of the
15 Union address:

16 Our cause is just, and it continues. Our discoveries in Afghanistan
17 confirmed our worst fears and showed us the true scope of the task ahead.
18 We have seen the depth of our enemies' hatred in videos where they laugh
19 about the loss of innocent life.

20 And the depth of their hatred is equaled by the madness of the
21 destruction they design. *We have found diagrams of American nuclear*
22 *power plants and public water facilities*, detailed instructions for making
23 chemical weapons, surveillance maps of American cities, and thorough
24 descriptions of landmarks in America and throughout the world.

25 What we have found in Afghanistan confirms that, far from ending
26 there, our war against terror is only beginning. Most of the 19 men who
27 hijacked planes on September the 11th were trained in Afghanistan's
28 camps. And so were tens of thousands of others. Thousands of dangerous
29 killers, schooled in the methods of murder, often supported by outlaw
30 regimes, are now spread throughout the world like ticking time bombs, set
31 to go off without warning.

32 **Q. WHAT DO THESE TYPES OF MESSAGES MEAN TO YOU?**

33 A. As a result, I must assume that, and plan as if, a threat to public utility facilities continues.

1 The events of September 11, 2001 have shown us that as long as terrorist networks exist
2 which possess individuals willing and apparently desirous to commit suicide to inflict
3 death innocent people and to upset the economies and day to day operations of an entire
4 civilization, a threat to public utility facilities remains. Public water utility facilities, by
5 their very nature, provide access not only for legitimate utility service, but also for the
6 committing of acts directed against many people. The events of September 11, 2001 give
7 us cause to respond directly, but prudently to the threat of terrorism against our public
8 utility systems by taking reasonable steps to minimize access for such terrorist acts.

9 **Q. DID MAWC'S APPROACH TO SECURITY CHANGE AS A RESULT OF THE**
10 **EVENTS OF SEPTEMBER 11, 2001?**

11 A. Yes.

12 **Q. HOW?**

13 A. Because MAWC has always had an obligation to provide safe and adequate service, the
14 American System has been assessing security needs of its plant and facilities for some
15 time. However, as a result of the events of September 11, 2001, MAWC, and others
16 believed it was necessary to adopt new procedures, update existing procedures, and install
17 facilities to further safeguard its water plant and systems with a sense of urgency and in
18 an extremely short period of time, rather than slowly make these changes and the required
19 investments over a much more extended period of time.

20 **Q. WHAT ARE THE GENERAL NATURE OF THESE ACTIONS?**

21 A. ** _____
22 _____**

23 **Q. CAN YOU BE MORE SPECIFIC?**

24 A. I do not think that at this time it is advisable to do so in testimony for security reasons.

Whether it is necessary for litigation purposes, is a legal question for a different forum. However, if the information pertaining to the details of these security measures were unintentionally released, it would give persons desiring to do harm to MAWC's customers, through contamination of the water supply or disruption of that supply, a blueprint for circumventing the security currently in place, and, perhaps, cause MAWC to incur additional and significant expense for new and additional security measures along with the possibility of replacing damaged and destroyed plant.

Q. IN ADDITION TO UTILIZING THE ASSESSMENTS AND WORK PERFORMED BY THE COMPANY, DID MAWC ALSO CONSULT WITH ANY OTHER ORGANIZATIONS AS IT TOOK THESE STEPS?

A. Yes. These steps have been taken after consultation with various governmental entities, to include the following:

- Missouri Department of Natural Resources;
- Missouri Public Service Commission;
- Federal Bureau of Investigation;
- Local Emergency Planning Commission of St. Louis County, Missouri;
- Missouri State Highway Patrol;
- Governor's Special Advisor for Homeland Security; and
- State Emergency Management Agency.

Q. DID ANY OF THESE AGENCIES MAKE SUGGESTIONS AS TO STEPS TO TAKE?

A. ** _____

_____. **

Q. TO YOUR KNOWLEDGE HAVE OTHER STATES ENCOUNTERED THIS

1 **ISSUE?**

2 A. Yes. In fact, on November 13, 2001, the Board of Directors for the National Association
3 of Regulatory Utility Commissioners ("NARUC") approved a Resolution on Commission
4 Procedures Related to the increased Security Measures Undertaken by Water Utilities. A
5 copy of that Resolution is marked Schedule FLK-2 and attached to my testimony.

6 **Q. IS THERE PORTIONS OF THAT RESOLUTION THAT YOU BELIEVE ARE**
7 **PARTICULARLY RELEVANT?**

8 A. Yes. The NARUC Resolution stated in part as follows:

9 WHEREAS, The safety and protection of our nation's water utilities are critical and
10 essential to the health, safety, well-being and continued economic development of our
11 communities; and

12 WHEREAS, Water utilities may be making unexpected and, in some cases, potentially
13 significant expenditures for the assessment and implementation of new, improved and/or
14 more comprehensive security measures in response to potential threats or terrorist attacks;
15 and

16 WHEREAS, To assist with efficient cost recovery of prudently-incurred security-related
17 expenditures, and to reduce uncertainty regarding the ability to recover prudently-
18 incurred security related costs, Public Utility Commissions may wish to consider the
19 following mechanisms which acknowledge the special needs surrounding these new
20 expenditures, noting that these expenditures are neither revenue producing nor are items
21 that are likely to produce efficiencies by reducing expenses over time:

- 22 • A separate cost recovery method, such as a single issue rate case, limited
23 proceeding, "pass-through," or a surcharge, if applicable; or
- 24 • Deferral of expenses for accounting purposes only until a more comprehensive
25 rate case expense review can take place at the time of the utility's next base rate
26 case filing;
- 27 • Two commonly used expense deferral mechanisms are the use of account
28 balancing coupled with the creation of regulatory assets or a request for
29 special accounting treatment via a Petition for Declaratory Order;

30 **Q. HAS THERE BEEN ANY EVIDENCE OF CONCERN BY THE FEDERAL**
31 **GOVERNMENT?**

32 A. Yes. There has been general support for addressing public utility security cost issues on a
33 national level. The Federal Energy Regulatory Commission ("FERC") recently issued a

1 Statement of Policy (96 FERC ¶ 61,299, Docket No. PL01-6-000) which indicated a
2 willingness to address security expenses. The FERC stated as follows:

3 In light of tragic events that have taken place in our country this week and
4 the high state of alert the country is now experiencing, the Commission
5 believes it is appropriate to provide regulatory guidance on certain energy
6 infrastructure reliability and security matters that may be affected by this
7 Commission's rate jurisdiction. The Commission understands that electric,
8 gas, and oil companies may need to adopt new procedures, update existing
9 procedures, and install facilities to further safeguard their electric power
10 transmission grid and gas and oil pipeline systems. The Commission is
11 aware that there may be uncertainty about companies' ability to recover the
12 expenses necessary to further safeguard our energy infrastructure,
13 especially if they are operating under frozen or indexed rates. In order to
14 alleviate this uncertainty, the Commission wants to assure the companies
15 we regulate that we will approve applications to recover prudently
16 incurred costs necessary to further safeguard the reliability and security of
17 our energy supply infrastructure in response to the heightened state of
18 alert. Companies may propose a separate rate recovery mechanism, such
19 as a surcharge to currently existing rates or some other cost recovery
20 method.

21 **Q. WHAT ABOUT THESE EXAMPLES DO YOU BELIEVE IS SIGNIFICANT?**

22 A. I believe that it shows that this was an extraordinary event of great breadth and
23 proportion. MAWC's need to take additional security precautions is very much in line
24 with the general response of the public utility industry.

25 **SECURITY EXPENDITURES**

26 Q. ** _____
27 _____?

28 A. _____
29 _____
30 _____ **

31 **Q. WHAT IS THE OVERALL COST OF THE SECURITY MEASURES?**

32 A. ** _____

1

2

3

4

**

5

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

6

A. Yes, it does.

**SCHEDULES FLK-1 AND FLK-3
TO THE DIRECT TESTIMONY OF
FRANK L. KARTMANN
HAVE BEEN DEEMED TO BE
HIGHLY CONFIDENTIAL**

*Resolution on Commission Procedures
Related to the Increased Security Measures
Undertaken by Water Utilities*

WHEREAS, Due to the tragedy of the September 11, 2001 terrorist attacks, a heightened focus has been placed upon water utilities' adoption of increased security measures, where appropriate, as well as upon certain Public Utility Commission procedures related to cost recovery and handling of sensitive documents; and

WHEREAS, The safety and protection of our nation's water utilities are critical and essential to the health, safety, well-being and continued economic development of our communities; and

WHEREAS, Water utilities may be making unexpected and, in some cases, potentially significant expenditures for the assessment and implementation of new, improved and/or more comprehensive security measures in response to potential threats or terrorist attacks; and

WHEREAS, To assist with efficient cost recovery of prudently-incurred security-related expenditures, and to reduce uncertainty regarding the ability to recover prudently-incurred security related costs, Public Utility Commissions may wish to consider the following mechanisms which acknowledge the special needs surrounding these new expenditures, noting that these expenditures are neither revenue producing nor are items that are likely to produce efficiencies by reducing expenses over time:

- A separate cost recovery method, such as a single issue rate case, limited proceeding, "pass-through," or a surcharge, if applicable; or
- Deferral of expenses for accounting purposes only until a more comprehensive rate case expense review can take place at the time of the utility's next base rate case filing;
 - Two commonly used expense deferral mechanisms are the use of account balancing coupled with the creation of regulatory assets or a request for special accounting treatment via a Petition for Declaratory Order; and

WHEREAS, Certain new expenditures may be incurred for specific security measures which may be highly sensitive, thereby necessitating confidential treatment by both the utility and Public Utility Commission; and

WHEREAS, Public Utility Commissions across the United States are in the process of reviewing their procedures for handling sensitive and confidential information, including state statutes relating to the required disclosure of publicly filed documents; and

WHEREAS, Procedural methods may include retaining information deemed sensitive by either the utility and/or the Commission in a secure location under seal, limiting attendance at some hearings, and/or securing certain information from unrestricted public access; *now therefore be it*

SCHEDULE FLK-2

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC) convened at its November 2001 Annual Convention in Philadelphia, Pennsylvania recommends that Public Utility Commissions and water utilities work together to identify effective procedures for selective access to information related to security measures of a highly sensitive nature, that if accessible to the public, could conceivably compromise the security of the utility's water quality and service reliability, *and be it further*

RESOLVED, That within this review, consideration be given to existing directives and guidance pertaining to sensitive document procedures established for the nuclear industry as issued by the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, or any other similar body, and be incorporated, if applicable; *and be it further*

RESOLVED, That water utilities are encouraged to take all necessary and prudent precautionary steps to secure facilities; *and be it further*

RESOLVED, That when taking these steps, water utilities are encouraged to communicate promptly with regulators, preferably prior to the expenditures being made; *and be it further*

RESOLVED, That the media is encouraged to be sensitive to security issues at stake in order to prevent providing instructions to terrorists as to how to contaminate water supplies and/or otherwise detrimentally affect water system reliability; *and be it further*

RESOLVED, That Public Utility Commissions should seek coordination with all applicable state security related agencies, emergency management agencies, environmental protection agencies and health departments; *and be it further*

RESOLVED, That as a result of this interaction between water utilities and Public Utility Commissions, guidelines will be developed for effective handling and treatment of documents of a sensitive security nature which will be discussed at the 2002 Winter Meetings to be held in Washington, D.C.

Sponsored by the Committee on Water

Adopted by the NARUC Board of Directors, November 13, 2001