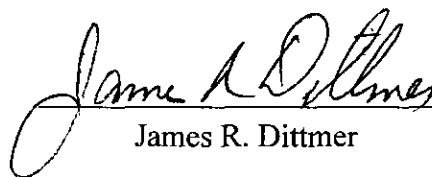


**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

IN THE MATTER OF ST. LOUIS COUNTY)	
WATER COMPANY FOR AUTHORITY TO)	CASE NO. WR-2000-844
FILE TARIFFS REFLECTING INCREASED)	
RATES FOR WATER SERVICE)	

AFFIDAVIT OF JAMES R. DITTMER

James R. Dittmer, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of James R. Dittmer"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquires 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.

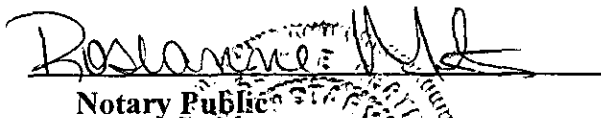

James R. Dittmer

State of Missouri

County of Jackson

SUBSCRIBED and sworn to

before me this 24th day of January, 2001


Notary Public

My commission expires: 12-7-02

ROSEANNE MERTES
NOTARY PUBLIC STATE OF MISSOURI
JACKSON COUNTY
MY COMMISSION EXP DEC. 7, 2002

Table of Contents

<u>TESTIMONY</u>	<u>PAGE</u>
Introduction	1
Cost Allocation Manual and Other Reporting Requirements	2
Incentive Compensation	9

**SURREBUTTAL TESTIMONY OF
JAMES R. DITTMER**

**PRESENTED ON BEHALF OF THE
MISSOURI OFFICE OF THE PUBLIC COUNSEL**

**St. Louis County Water Company
Rate Case No. WR-2000-844**

1 Q. Please state your name and address.
2

3 A. My name is James R. Dittmer. My business address is 740 NW Blue Parkway, Suite 204,
4 Lee's Summit, Missouri 64086.
5

6 Q. Have you previously filed testimony in this proceeding?

7 A. Yes. On November 27, 2000, I filed direct testimony in this proceeding on behalf of the
8 Missouri Office of the Public Counsel (hereinafter "OPC"). Like my previously-filed
9 direct testimony, this surrebuttal testimony is also being filed on behalf of the OPC.
10

11 Q. What is the purpose of your surrebuttal testimony?

12 A. By way of background, in my direct testimony I made recommendations regarding
13 implementation of a Cost Allocation Manual ("CAM"), additional reporting requirements,
14 as well as the ratemaking treatment to be afforded the cost of St. Louis County Water
15 Company's (hereinafter "SLCWC" or "Company") incentive compensation plans. In
16 rebuttal testimony Company witness Mr. James Salser opposed my recommendations for
17 creation and maintenance of a CAM as well as my recommendations to have the Company
18 create additional reports regarding the distribution of American Water Works Service
19 Company (hereinafter "AWWSC" or "Service Company") costs. Additionally, Company
20 witness Edward Grubb has filed rebuttal testimony regarding my incentive compensation
21 rate proposal. In this surrebuttal testimony, I am offering additional testimony addressing
22 and responding to points and comments regarding Mr. Salser's and Mr. Grubb's rebuttal
23 testimony.

Cost Allocation Manual and Other Reporting Requirements

Q. Please continue by summarizing the major points that Mr. Salser makes in opposition to your recommendations regarding implementation of a CAM as well as other reporting requirements.

A. The major points in opposition to my various recommendations can be reduced to the following:

- The information that I am recommending be maintained is not currently available. It is not practical to accumulate as it would require the rewriting of software.
- Any costs to be incurred would be chargeable exclusively to Missouri inasmuch as Missouri would be the only jurisdiction requesting the information.
- Preparation of a CAM is expensive. Furthermore, if a CAM were to be prepared, some states would require hearings for approval
- In response to my preliminary analysis which suggests or indicates that SLCWC and Missouri-American Water Company are paying more than their fair share of AWWSC costs, Mr. Salser suggests that my alternative allocators are also inadequate and subject to criticism. Accordingly, since "allocating residual costs is not a precise science," Mr. Salser endorses continued employment of exclusive application of a customer-count allocator inasmuch as such allocator offers the advantage of providing a "stable and easy to administer methodology that changes with the actual changes in the size of the operating companies operations."

Q. How do you respond to each major point contained within Mr. Salser's rebuttal testimony?

A. I will respond fairly specifically to each major point listed. However, before delving into detail, I would like to respond broadly or generally to Mr. Salser's testimony. Specifically, I would first note that it was very predictable that SLCWC and American Water Works Company would strenuously object to any proposed change in allocation factors -- or even to additional reporting that could merely facilitate a possible change in

1 allocation factors. A change in allocation factors or procedures, as well as additional
2 reporting requirements, will cause AWWC/SLCWC to incur administrative costs and
3 creates some additional work initially as well as on an ongoing basis. However, I believe
4 one of the most important factors causing SLCWC/AWWC to oppose proposals for a
5 CAM as well as additional reports to be generated is that such actions have the potential
6 to cause AWWSC costs to be partially unrecovered if not all jurisdictions accept, in the
7 rate setting arena, all changes being proposed. In other words, if each jurisdiction were to
8 adopt allocation factors that were most favorable to their jurisdiction's ratepayers, less
9 than 100% of AWWSC costs would be recovered in total from all the various AWWC
10 subsidiaries.

11
12 Q. Are you unconcerned about any of the costs, complexities and potential cost recovery
13 shortfalls noted?

14 A. I am not totally unsympathetic to such concerns. However, with regard to the general
15 Company criticism that my CAM proposal will cause costs to be incurred, I note that
16 CAMs are already being prepared and maintained by other utilities – most notably other
17 Missouri utilities. Thus, my proposal is not novel, selective or unique to SLCWC.

18
19 Further, I would emphasize – as I did in my prefiled direct testimony – that at this point I
20 have not proposed a change in allocation factors or procedures. At this point in time I
21 have only recommended that the Company be essentially required to document current
22 allocation procedures and further document or defend the reasonableness of such
23 procedures. The reporting procedures I am proposing, in conjunction with a CAM, will
24 facilitate reasonable analysis of alternative allocation proposals that may prove more
25 equitable or reasonable. Such analysis is not even reasonably possible given data
26 constraints of the current accounting records being prepared.

27
28 Finally, with regard to the argument that changes in allocation procedures could cause
29 cost recovery shortfalls (as different jurisdictions potentially adopt most-favorable-to-its-

1 constituents allocation methods), I would simply note that this concern arises each and
2 every time a party – be it a utility, commission staff or intervenor – proposes a change in
3 allocation factors. Undeniably, without exception, it is a mathematical certainty that there
4 will be "winners" and "losers" every time an allocation method is changed. This is true
5 whether one is changing allocation methodologies for electric production plants, gas
6 transmission pipelines, corporate/common allocations for utility holding companies or
7 even various customer class allocations. However, if this Commission or any other
8 regulatory commission caved to this "you might create an earnings shortfall crack"
9 argument, things would never change. More specifically, rigid adherence to this argument
10 would lead to a conclusion that a regulatory commission should never propose an
11 allocation change – regardless of inequity to a service territory, a jurisdiction or a rate
12 class – inasmuch as a potential temporary shortfall to investors would always take priority
13 over any injustice to a group or class of customers.

14
15 Q. If that concludes your general comments, please continue by addressing more specifically
16 each major point noted above as being included in Mr. Salser's rebuttal testimony.

17 A. As noted above, Mr. Salser claims that the information that I am recommending be
18 maintained is not currently available. Furthermore, Mr. Salser claims that is not practical
19 to accumulate the data I have requested as it would require the rewriting of software. In
20 my direct testimony I set forth in meticulous detail what AWWSC financial and allocation
21 data I believed was currently available, what significant restrictions such currently-
22 available data places on the auditor, the significant tasks that would have to be undertaken
23 by auditors to analyze and test a number of items, and finally, why I believed such
24 information to be relevant and essential to an audit.

25
26 Mr. Salser has not rebutted any portions of detailed points made in such testimony. He
27 has not stated why he believes such detailed audit steps or any of my conclusions are
28 unreasonable -- other than to broadly and simplistically conclude that customer-count
29 factors are reasonable. Finally, Mr. Salser has not stated how he would envision or

1 suggest that an auditor analyze the reasonableness or impact of alternative allocation
2 procedures. Rather, Mr. Salser ignores such detailed points and simply concludes that
3 such information is not available or practical to accumulate. I will not reiterate all detailed
4 points made in my direct testimony, but would incorporate by reference herein. I would
5 emphasize, however, that the reporting requirements that I am recommending are
6 absolutely essential to accurately assess what the impact of a change in allocation methods
7 would be. In other words, one cannot accurately evaluate what the impact of a proposed
8 change in allocation factor might be if AWWSC/SLCWC does not agree to, or this
9 Commission does not order, the preparation of the new accounting reports I am
10 recommending.

11
12 Q. Has the Company provided any estimates of the time or cost to create and maintain a
13 CAM, or the programming time and costs to implement the reporting that you are
14 recommending to be implemented?

15 A. No. The Company offers no testimony on the question of cost or efforts to implement any
16 of my proposals. Furthermore, in OPC Data Request Nos. 1108 and 1111 I attempted to
17 ascertain exactly what steps would have to be undertaken and what costs would have to
18 be incurred to implement each element of my CAM and reporting requirement proposals.
19 The Company's responses, which are affixed in their entirety as Surrebuttal
20 Schedule__(JRD-1), indicate that no such estimates have been prepared. Thus, even if
21 one were inclined to be sympathetic to the claim that such steps would be expensive to
22 implement and/or maintain, one simply cannot bow to such argument without some kind
23 of indication as to costs.

24
25 Q. Do you have any response to Mr. Salser's comment that any costs to be incurred in
26 facilitating your recommendations would be chargeable exclusively to Missouri ratepayers
27 inasmuch as Missouri would be the only jurisdiction requesting the information?

28 A. First, as just noted, SLCWC has not indicated what the estimated cost of undertaking
29 each recommendation would be.

1 Second, the CAM and additional report generation requirements should be beneficial to
2 the entire AWWC system. Indeed, I believe the creation and maintenance of a CAM as
3 well as the new accounting report detail should be of interest and value to any regulatory
4 jurisdiction, regardless of what particular position a regulatory staff, commission or
5 intervenor might take on an allocation issue. As I stated in direct testimony, I believe such
6 a document would significantly streamline, abbreviate and enhance the regulatory review
7 process. I believe it is possible – if not probable – that creation and maintenance of such a
8 document would reduce regulatory costs as information that is probably routinely
9 requested and responded to in a multitude of jurisdictions on an ad hoc basis would be
10 assembled in one up-to-date document. In other words, it seems possible that the cost of
11 maintenance of such a document may be less than the recurring cost of responding to
12 duplicative and recurring discovery requests in water rate applications occurring
13 throughout AWWC's various service territories.
14

15 Q. Mr. Salser also throws in an objection that some jurisdictions would require approval of a
16 CAM. Should this be of concern to this Commission?

17 A. No. What other jurisdictions require in the way of approval of a CAM should be of no
18 concern or consequence to this Commission. I continue to assert, as I have previously in
19 this surrebuttal testimony as well as in my prefiled direct testimony, that adoption of a
20 CAM is reasonable, provides the Company as well as regulators, their staffs as well as
21 intervenors meaningful and useful information, and ultimately could "save" more
22 regulatory costs that it "causes" to be incurred.
23

24 Q. Mr. Salser quotes your testimony wherein you state the allocation of "residual costs is not
25 a precise science." He also alleges problems with "Mr. Dittmer's allocation methods."
26 How do you respond to such comments?

27 A. First, I remind this Commission, as I did earlier in this surrebuttal testimony, that at this
28 point in time I am not formally or officially recommending a change in allocation methods.
29 Further, in my direct testimony I did show the preliminary impact of changing to

1 composite allocation factors that consider revenues, payroll costs and investment. I
2 remind the Commission that such allocation factors have been used frequently by other
3 utilities, including Missouri utilities, for allocating "residual" costs.

4
5 Mr. Salser begins to effectively rebut these factors before they are even officially
6 recommended. Such rebuttal is a bit premature. Again, my primary recommendation is to
7 simply obtain better support for what is being done by the Company as well as to obtain
8 the data necessary to perform a more detailed and precise analysis of other allocation
9 methodologies.

10
11 Q. What are some of Mr. Salser's criticisms of your suggestions for use of alternative or
12 composite allocation factors which consider components such as revenues, payroll and
13 investment?

14 A. In relevant part, Mr. Salser states:

15 Mr. Dittmer's allocation methods have their own inadequacies. For example, his
16 Revenue Allocator would assume that each of the twenty-one state commissions
17 has granted the same return on equity, used the same test year (historical, true-up,
18 forecast test-year, future rate year) have filed rate cases on the same intervals, do
19 not have access to a DSIC program, and pass through rate increases and step rate
20 increases. In Missouri, the difference that this can make can be seen by the fact
21 that Missouri-American Water Company was granted a rate increase of over 10
22 million dollars effect [SIC] in September 2000. This increase is not reflected in Mr.
23 Dittmer's schedule.

24
25 Mr. Dittmer's Payroll Allocator would erroneously assume that the wage levels are
26 the same in California, New York, Connecticut, New Jersey, Ohio, Indian [SIC],
27 West Virginia, Kentucky, Tennessee, and Missouri. The level of payroll would also
28 not take into account employee level variances that result from differences
29 between a well system, a surface water supply and a company that purchased the
30 majority of its water.

31
32 Mr. Dittmer's Plant and Non-Utility Investment would also not take into account
33 variances resulting from the capital requirement difference between a well system,
34 a surface water supply and a company that purchases a majority of its water. The

1 Company's numbers reflected in Mr. Dittmer's table do not reflect the investment
2 in plant that would result from the Main Replacement Program (MRP). Such
3 investment would likely increase the allocations to the Company. Also, while the
4 table does take into account Missouri-American Water Company's recent
5 investment in the St. Joseph treatment plant and related facilities, it does not show
6 the dramatic increase in service company fees that would have resulted using a net
7 plant allocation method when Missouri-America's net plant was increased by
8 approximately 100% from this investment. (James Salser rebuttal testimony, pages
9 4 and 5)
10

11 Q. Do you find any of Mr. Salser's comments or criticism persuasive?

12 A. For the most part, no. While there may be factual truth in his comments, by and large
13 such comments represent "nit picking" in a broad attempt to paint the picture that any
14 allocation scheme may be subject to criticism, so therefore, the Company's current strict
15 adherence to a customer-count factor might as well be continued.
16

17 In particular, I believe Mr. Salser "stretches" to suggest that a payroll allocator would
18 somehow have to be adjusted for differences in wage levels in different jurisdictions in
19 order to have accuracy or validity. Or that a revenue allocator would need to take into
20 account differences in test year approaches or rates of return granted. As stated in my
21 direct testimony, numerous other jurisdictions – including Missouri – have employed these
22 multi-part composite allocation factors. Indeed, one of the advantages of employment of
23 a three-part or four-part allocation factor to allocate residual costs is that in the event
24 there are legitimate criticisms applicable to one element, such "defects" would only get a
25 partial weighting in the formula – perhaps offsetting other "defects" in other elements of
26 the factor.
27

28 I believe Mr. Salser raises one element or concern that needs to be addressed in more
29 detail in the future. Specifically, additional thought or study should be given to the impact
30 that various water supplies (i.e., a well system, a surface water supply system or exclusive
31 purchases) may have upon the equity of various composite allocation factors being
32 considered. However, this "concern" is not different from the issues that arise when an

1 electric holding company has subsidiaries or divisions that generate in some instance while
2 exclusively purchasing in other instances. These are legitimate concerns. They deserve
3 study and thought. But I believe it is ludicrous to entirely abandon the concept of
4 composite allocation factors because of these admittedly-legitimate concerns while rigidly
5 adhering to the customer-count factor. Finally, I note that the Company's current
6 customer-count factor provides absolutely no additional precision to more equitably
7 distinguish cost causation of common costs between "purchasing" water utilities versus
8 water utilities that construct or produce their own water supplies.

9
10 In short and in sum on the issue of creation of a CAM and additional accounting reports, I
11 would encourage the Commission to ignore Mr. Salser's criticisms of my proposals. My
12 proposal on a CAM is already a requirement of electric and gas utilities in Missouri by
13 virtue of this Commission's rulemaking decision. My proposal to implement additional
14 accounting reports is absolutely essential for meaningful analysis of alternative allocation
15 methodologies. (I again refer to my direct testimony for more detail on this important
16 point.) Finally, at this point in time I have not specifically recommended an alternative
17 allocation methodology. It would be logical and reasonable to implement the data
18 reporting I have proposed as well as the CAM I have proposed prior to attempting to
19 assess the reasonableness of, or need for, alternative allocation methodologies.
20

21 **Incentive Compensation**

22 Q. If that completes your surrebuttal points on the CAM and other reporting requirement
23 issues, please continue by summarizing your position regarding the ratemaking treatment
24 to be afforded the cost of St. Louis County Water Company's incentive compensation?

25 A. In my prefiled direct testimony I recommend the removal of all incentive compensation
26 cost that is largely or exclusively driven by achievement of financial success. Further, of
27 the incentive compensation that is determined to be driven by achievement of non-financial
28 performance goals, I recommend that 50% of such targeted amounts be included within
29 the revenue requirement determination.

1 Q. Please summarize the criticisms of your incentive compensation proposal that are included
2 in Mr. Edward Grubb's rebuttal testimony?

3 A. Mr. Grubb's rebuttal testimony regarding my incentive compensation proposal can be
4 reduced to the following:

- 5 • Incentive compensation programs are "prudent" inasmuch as, at least according to
6 one cited study, 83% of organizations in general, and 94% of utility companies,
7 have a bonus program in place.
- 8 • The Company's incentive compensation programs are "reasonable" inasmuch as
9 the Company's incentive compensation payout, as a percent of base salary, was
10 just slightly above a cited utility survey.
- 11 • Ratepayers benefit from incentive compensation inasmuch as savings generated
12 from such programs accrue to stockholders only until the utility's next rate case, at
13 which time all savings are passed entirely to the customers in the form of lower
14 rates.

15
16 Q. How do you respond to the points that Mr. Grubb makes regarding your incentive
17 compensation adjustment?

18 A. At the outset I would remind the Commission of the two bases for my incentive
19 compensation adjustment. First, I have recommended excluding incentive compensation
20 that is based wholly or primarily upon achievement of financial goals. Second, of the
21 remaining incentive compensation (i.e., the compensation not driven by financial goals), I
22 have proposed that one-half of such costs be disallowed on the premise that targeted
23 incentive compensation may not be earned or paid out in any given year.

24
25 Mr. Grubb's testimony implies that I have excluded all incentive compensation on the
26 grounds that such expenses are unreasonable, imprudent or of no benefit to ratepayers.
27 Such implications are simply untrue.

1 Q. Do you have a specific response to the distinct points included in Mr. Grubb's testimony
2 noted above?

3 A. Yes. First, Mr. Grubb notes that incentive compensation plans are an integral part of total
4 compensation plans now offered by utilities and industries in general. In support of such
5 conclusion, Mr. Grubb cites a recent survey performed by Watson Wyatt Data Services.
6

7 In my direct testimony I did not contend that incentive compensation programs were
8 unusual or abnormal. Rather, my position in part, was that as a matter of regulatory
9 policy, this Commission should not incorporate within the determination of base rates
10 incentive compensation that is driven in whole or primarily by achievement of financial
11 success. At one point in his rebuttal testimony Mr. Grubb asserts that my arguments are
12 simply my "opinion and are not based on any regulatory theory for rate recovery." I
13 would agree it is my opinion; but I would also submit that my argument is based upon
14 regulatory theory which I stated in direct testimony. Specifically, "theories" offered in my
15 direct testimony included:

- 16 • Incentive compensation plans driven by earnings achievement can be paid out of
17 the superior earnings which drive the incentive payment; conversely, if the
18 incentive compensation payment amount is incorporated within base rates,
19 ratepayers will "pay" the incentive compensation expense even though it is not
20 "earned" by, or "paid to" eligible employees.
- 21 • It is unwise to allow rate recovery of incentive compensation plans that are
22 primarily driven by achievement of earnings. Such action could encourage
23 deterioration of service quality at the expense of short term earnings achievement.
24 Allowance of financially-driven incentive compensation plans could promote
25 higher-than-can-be justified rate requests.

26
27 Q. Are you aware of regulatory commissions that have accepted or adopted any "opinions" or
28 "theories" that you offer in this case?

1 A. Yes. In a 1995 US West Communications rate order the Utah Public Service Commission
2 found the following:

3 In Docket No. 92-049-05, the Division sought disallowance of the expenses of the
4 Company's long-term incentive compensation plan for executives. The plan
5 consisted of stock options and job performance shares, both of which provide
6 additional compensation to the Company executives if US West, Inc.'s stock price
7 increases in the long run. The Commission determined that costs of incentive
8 bonus plans could be recovered from ratepayers if the plans were based on criteria
9 which benefit ratepayers such as individual performance, productivity, and
10 customer service. Plans based on financial criteria, benefitting shareholders, could
11 not be recovered from ratepayers. The Commission dismissed the Company claim
12 that bonuses tied to financial performance indirectly benefit ratepayers through
13 higher stock prices and reduced cost of service. The Commission stated: "The
14 indirect ratepayer benefit claimed by the Company is little more than words. We
15 wish to see specific criteria of the sort just mentioned [individual performance,
16 productivity, and customer service] guiding the program before we will consider
17 the expenses suitable for recovery from ratepayers" (Report and Order, April 15,
18 1993, Docket No. 92-049, page 45). The Commission disallowed recovery of the
19 expenses of the executive long-term incentive compensation. (Corrected Report
20 and Order Docket No. 95-049-05, issued November 27, 1995)
21

22 The Hawaii Public Utilities Commission has routinely rejected inclusion of incentive
23 compensation programs within the determination of the jurisdictional cost of service. In a
24 1995 GTE Hawaiian Telephone Company case the Hawaii Commission stated the
25 following:
26

27 Incentive compensations generally are not allowable as an expense for purposes of
28 ratemaking. In GTE Hawaiian Tel's last rate case, Docket No. 5114, Decision and
29 Order No. 8711 (1986), and again in In Re Hawaiian Elec. Co., Ltd., Docket No.
30 6531, Decision and Order No. 11317 (1991), we disallowed incentive
31 compensations as unnecessary and expressed our expectation that executive level
32 employees would perform their responsibilities at the basic salaries being paid to
33 them. It has been our consistent position that ratepayers should not be burdened
34 with additional compensations for performance at expected and optimum levels.

1 Q. Has this Commission previously taken a position on incentive compensation, and in
2 particular, the issue of incentive compensation driven by financial success?

3 A. I know of at least one decision where this Commission spoke very directly to this issue.
4 Specifically, in a 1996 Missouri Gas Energy rate order the MPSC found the following:

5 The Commission finds that the costs of MGE's incentive compensation program
6 should not be included in MGE's revenue requirement because the incentive
7 compensation programs is driven at least primarily, if not solely, by the goal of
8 shareholder wealth maximization, and it is not significantly driven by the interest of
9 ratepayers. (Missouri Gas Energy GR-96-285; issued January 22, 1997)

10
11 I believe such quoted order is completely consistent with the position set forth within my
12 prefiled direct testimony.

13
14 In short and in summary on Mr. Grubb's first point, I do not believe the mere
15 identification of incentive compensation plans as commonly used is an adequate
16 demonstration that the Company's incentive compensation plans are prudent and should
17 automatically be recovered within the cost of service. Furthermore, I take issue with Mr.
18 Grubb's characterization that my positions are just my opinions. I have stated my opinion
19 as well as the regulatory theory supporting such opinions within my prefiled direct
20 testimony. Finally, not only have I clearly stated the regulatory theories underlying my
21 position, I note within this surrebuttal testimony that similar, if not identical, theories have
22 been adopted by this Commission as well as other regulatory commissions.

23
24 Q. Is it your testimony that most state regulators adopt adjustments and theories which you
25 have espoused in direct testimony?

26 A. I have not surveyed, and I do not know, how "most" regulatory bodies treat incentive
27 compensation. No doubt there has been "acceptance" of utilities' requests for inclusion of
28 incentive compensation within revenue requirement determinations. However, as noted
29 above, there have certainly been occasions where regulatory bodies have rejected recovery
30 of incentive compensation costs. And at least in some of those decisions regulators have

1 relied upon similar, if not identical, arguments as I have stated in direct testimony as a
2 basis for disallowing recovery of incentive compensation costs.

3
4 In summary on this point, I do not believe this Commission should be persuaded by Mr.
5 Grubb's implications that, just because many companies offer incentive compensation
6 plans, the regulator always or even "usually" includes all of such costs in the revenue
7 requirement determination.

8
9 Q. What of Mr. Grubb's second point, that the Company's incentive compensation programs
10 are "reasonable" inasmuch as the Company's incentive compensation payout, as a percent
11 of base salary, is just slightly above a cited utility survey? Does such comment necessarily
12 persuade you that the cost of the Company's incentive compensation plan is reasonable for
13 rate recovery?

14 A. No. Again, the mere identification of other incentive compensation plans being in
15 existence does not demonstrate that the Company's plan – and in particular, the financial
16 performance goals – are in the best interest of ratepayers. And also, the fact that utility
17 companies may be awarding incentive compensation pay should not necessarily imply that
18 regulators are routinely allowing full recovery of such costs.

19
20 Q. Mr. Grubb's third points was that incentive compensation costs should be allowed
21 inasmuch as ratepayers benefit from incentive compensation since savings generated from
22 such programs accrue to stockholders only until the utility rate case, at which time all
23 savings are passed entirely to the customers in the form of lower rates. Do you find this
24 argument persuasive?

25 A. No. Mr. Grubb's statement implies that, without question, the Company's incentive
26 compensation plan is generating savings. He offers no proof of such of linkage between
27 incentive compensation and verifiable savings, but instead, makes such an assertion as if it
28 were an uncontroverted fact.

1 In rejecting cost recovery of a Union Electric incentive compensation plan, this
2 Commission found that there should be ascertainable benefits "reasonably related" to
3 incentive compensation plans. In relevant part this Commission stated the following:

4 Staff opposes this (incentive compensation) adjustment on three grounds: (1) the
5 Company has not determined the savings resulting from the plan and has made no
6 offset to the cost of the plan by such savings; there is no guarantee that the
7 Company will incur the cost associated with the plan; and (3) only four of the
8 seven goals call for improvement over 1986 performance. The Commission
9 believes that programs designed to improve management should be encouraged
10 and is not opposed, in principle, to cost of service recovery of the costs associated
11 with such programs. However, the Staff's criticism of the Company's plan for
12 ratemaking purposes is well taken. At a minimum, an acceptable management
13 performance plan should contain goals that improve existing performance, and the
14 benefits of the plan should be ascertainable and reasonably related to the incentive
15 plan. The Company's management incentive plan meets neither of these minimum
16 standards. Accordingly, the Commission determines that the Company's
17 adjustment should be rejected. (Case Nos. EC-87-114 and EC-87-115, MPSC
18 order issued June 22, 1987)

19
20 Finally with regard to Mr. Grubb's third point, assuming *arguendo* that the Company's
21 incentive plans were creating savings, by Mr. Grubb's own admission, the shareholders
22 will retain such savings until the Company's next rate case. In other words, assuming
23 incentive compensation-related savings are real, to an extent the plan is self funding since
24 the savings allegedly stemming from the program would be available to fund the program.

25
26 Thus, in sum, for all reasons stated in my direct as well as this surrebuttal testimony, all
27 incentive compensation that is primarily driven by achievement of financial goals should be
28 excluded and only a portion of remaining incentive compensation should be included in the
29 jurisdictional cost of service as an "ongoing" expense.

30
31 Q. Does that conclude your surrebuttal testimony?

32 A. Yes, it does.

**DATA INFORMATION REQUEST
ST. LOUIS COUNTY WATER COMPANY
CASE NO. WR-2000-844
OFFICE OF THE PUBLIC COUNSEL DATA REQUEST NO. 1108**


Requested From: Jim Salser
Date Requested: 1/02/01
Requested By: Jim Dittmer

Information Requested: At page 2 of his rebuttal testimony Mr. James Salser states that "(p)reparation of a CAM is an expensive and time consuming proposition." Please provide the following regarding this statement.

- a. Provide any and all analyses performed or reviewed in arriving at such a conclusion.
- b. For each specific minimum element of a CAM that Mr. Dittmer proposes at pages 10 and 11 of direct testimony, please provide the following:
 - i. Total estimated hours of in-house company personnel to implement each such element the first time
 - ii. Total estimated hours of in-house company personnel to update each element after the CAM is created the first time
 - iii. Description of probable steps that would have to be undertaken by in-house personnel to implement each element the first time
 - iv. Description of probable steps that would have to be undertaken by in-house personnel to update each element of the CAM after the first year
 - v. Estimated average fully loaded billing rate of in-house personnel who would be employed to develop and update each element
 - vi. Total estimated hours of outside contractors to implement each such element the first time
 - vii. Total estimated hours of outside contractors to update each element after the CAM is created the first time
 - viii. Description of probable steps that would have to be undertaken by outside contractors to implement each element the first time
 - ix. Description of probable steps that would have to be undertaken by outside contractors to update each element of the CAM after the first year
 - x. Estimated average fully loaded billing rate of outside contractors who would be employed to develop and update each element

Information Provided: Mr. Salser has never prepared a CAM as described by Mr. Dittmer. However, Mr. Salser has been involved in supplying outside consultants representing the company and commission staff in a large number of rate cases to evaluate the reasonableness of Service Company charges. To prepare one company's detail of payroll hours, dollars and related overheads requires approximately 100 hours of the in-house personnel time and resources. This information was provided to a consultant to prepare a report comparing the service company charges to outsourcing the same level of services at the location of the operating company.

The information provided in response to the above information request is true and correct based upon present facts known.


Signature

Date Request Received 01/02/2001

Date Response Sent JAN 22 2001

**DATA INFORMATION REQUEST
ST. LOUIS COUNTY WATER COMPANY
CASE NO. WR-2000-844
OFFICE OF THE PUBLIC COUNSEL DATA REQUEST NO. 1111**

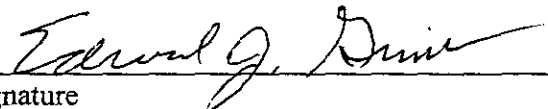
Requested From: Jim Salser
Date Requested: 1/02/01
Requested By: Jim Dittmer

Information Requested: At page 3 of his rebuttal testimony Mr. Salser states certain information that the Company is willing and able to provide. List *each* element of Mr. Dittmer's various proposals that the Company is specifically unwilling to provide. For each element provide:

- a. A narrative description of why the Company is unwilling to provide
- b. The specific steps that would have to be undertaken
- c. The estimated costs provided each element, providing full support stated in terms of number of hours of personnel and billing rates involved
- d. If there is any element that cannot be provided simply because the data is not currently in any data base that currently exists, please specifically identify which data bases may be missing
- e. List specifically which elements that the Company is unwilling to provide that requires a non-programming effort.

Information Provided: Mr. Salser made it clear in his rebuttal testimony the items that the company was willing to provide. All other items Mr. Dittmer is suggesting the company would resist. See response to DR No. 1108 for further explanation.

The information provided in response to the above information request is true and correct based upon present facts known.


Signature

Date Request Received 01/02/2001

Date Response Sent JAN 22 2001