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|-------------------|--|
| Exhibit No.:      |  |
| Issues:           | Labor and Labor-Related Expenses<br>and Postage Expense. |
| Witness:          | Peter J. Thakadiyil                                      |
| Exhibit Type:     | Direct   |
| Sponsoring Party: | Missouri-American Water Company                          |
| Case No.:         | WR-2008-XXXX, SR-2008-XXXX                               |
| Date:             | March 31, 2008   |

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. WR-2008-XXXX  
SR-2008-XXXX**

**DIRECT TESTIMONY**

**OF**

**PETER J. THAKADIYIL**

**ON BEHALF OF**

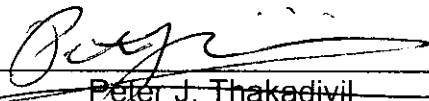
**MISSOURI-AMERICAN WATER COMPANY**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

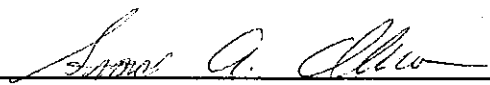
|                                      |                       |
|--------------------------------------|-----------------------|
| IN THE MATTER OF MISSOURI-AMERICAN ) |                       |
| WATER COMPANY FOR AUTHORITY TO )     |                       |
| FILE TARIFFS REFLECTING INCREASED )  | CASE NO. WR-2008-XXXX |
| RATES FOR WATER AND SEWER )          | CASE NO. SR-2008-XXX  |
| SERVICE )                            |                       |

**AFFIDAVIT OF PETER J. THAKADIYIL**

Peter J. Thakadiyil, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Peter J. Thakadiyil"; 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.

  
\_\_\_\_\_  
Peter J. Thakadiyil

State of Missouri  
County of St. Louis  
SUBSCRIBED and sworn to  
Before me this 19<sup>th</sup> day of March 2008.

  
\_\_\_\_\_  
Notary Public

My commission expires:

Staci A. Olsen  
Notary Public - Notary Seal  
State of Missouri  
St. Charles County  
Commission # 05519210  
My Commission Expires: March 20, 2009

**DIRECT TESTIMONY  
PETER J. THAKADIYIL  
MISSOURI-AMERICAN WATER COMPANY  
CASE NO.WR.2008.XXXX  
CASE NO.SR.2008.XXXX**

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**DIRECT TESTIMONY**

**PETER J. THAKADIYIL**

**WITNESS INTRODUCTION**

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

2   **A.   My name is Peter J. Thakadiyil, and my business address is 727 Craig Road,**  
3       St. Louis, Missouri 63141.

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

5   **A.   I am employed by American Water Works Service Company ("Service**  
6       Company") as a Financial Analyst II in Rates & Regulation. The Service  
7       Company is a subsidiary of American Water Works Company, Inc.  
8       ("American") that provides support services to American's water utility  
9       subsidiaries.

10  **Q.   WHAT IS YOUR EDUCATIONAL BACKGROUND?**

11  **A.   I graduated from the University of Missouri – Columbia, College of Business**  
12       with a Bachelor of Science degree in Business Administration with a major in  
13       Finance in 2005.

14  **Q.   PLEASE ELABORATE UPON YOUR DUTIES AS A FINANCIAL ANALYST,**  
15       **RATES AND REGULATION.**

16  **A.   My responsibilities as a Financial Analyst II, Rates & Regulation involve**  
17       providing the following services to American's water utility subsidiaries in the  
18       Central Region, including Missouri-American Water Company, Inc. ("MAWC"  
19       or "Company"):

- 1) Preparing and presenting rate increase applications and supporting documents and exhibits in conformance with management policies, guidelines and regulatory commission requirements;
- 2) Preparing rate analyses and studies to evaluate the effect of proposed rates on the revenues, rate of return and tariff structures;
- 3) Executing the implementation of rate orders, including development of the revised tariff pricing necessary to produce the proposed revenue level;
- 4) Assisting with the preparation of revenue and capital requirements budgets and analyses;
- 5) Providing support for financial analysis of proposed acquisitions and expansion of service territory, including preparation of applicable regulatory commission filings.

**Q. HAVE YOU PREVIOUSLY PARTICIPATED IN REGULATORY MATTERS?**

**A.** Yes. I have presented testimony to the Missouri Public Service Commission and the Public Utilities Commission of Ohio. In addition, I have assisted with the preparation of rate cases before the Indiana Regulatory Commission, the Illinois Commerce Commission and the Iowa Utilities Board.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to support and explain the pro forma accounting adjustments to the operating statement, which affect labor, labor related expenses, and postage expense.

### **ACCOUNTING ADJUSTMENTS**

1 **Q. WHAT SCHEDULE WILL YOU BE SUPPORTING?**

2 **A.** I will be supporting certain aspects of Schedule CAS-15, which is  
3 sponsored by Company Witness Petry.

4 **LABOR AND LABOR-RELATED EXPENSES**

5 **Q. PLEASE EXPLAIN THE COMPANY'S PRO FORMA ADJUSTMENT TO**  
6 **LABOR AND LABOR-RELATED EXPENSES.**

7 **A.** The Company has proposed adjustments to its Labor Expense (including  
8 Incentive Plan), Group Insurance Expense, Pension Expense, 401K, and  
9 Payroll Tax Expense.

10 Shown below is a list of the expense adjustment categories and their  
11 corresponding schedule within the Company's filing. Each of the schedules  
12 provides an explanation of the adjustment. Company Witness Grubb explains  
13 in his testimony the adjustments to Pensions and OPEBs related to Group  
14 Insurance.

| <u>Expense Adjustment</u> | <u>Schedule Reference</u> |
|---------------------------|---------------------------|
| Labor/Incentive Plan      | CAS-15, page 1            |
| Group Insurance           | CAS-15, page 2            |
| 401K                      | CAS-15, page 4            |
| Payroll Taxes             | CAS-15, page 5            |

21 **Q, PLEASE EXPLAIN THE COMPANY'S PRO FORMA ADJUSTMENT TO**  
22 **LABOR.**

1 A. The expenses associated with the labor adjustment include salary,  
2 overtime, incentive pay, and shift premium pay. Base salary is calculated  
3 by the number of work hours in a normal year multiplied by the appropriate  
4 wage rate. The company used 2,088 hours to calculate an employee's  
5 annual salary. The wage rate for a union employee is determined by the  
6 contract rate that will be in effect by September 2008. Non-union  
7 employees' wage rates were increased by the annual wage adjustment.  
8 The Company is using 3.75% for this adjustment. The Operating and  
9 Maintenance expense percentage used to allocate each employee's  
10 salary was based on the difference between the three year average of  
11 capital charged by district and total labor. The Company's adjustment for  
12 overtime was calculated by taking the three year average of overtime  
13 hours by job title multiplied by the pro forma overtime wage rate. The  
14 Company used a three year average to normalize expenses. Employees  
15 who work outside of normal work hours receive shift premium pay in  
16 conformance with their respective collective bargaining agreement. The  
17 Company used the test year O&M expense for shift premium pay.  
18 Incentive pay was calculated based on the employee's pro forma salary  
19 level incentive payout percentage.

20 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO GROUP**  
21 **INSURANCE.**

22 A. The purpose of this adjustment is to annualize the Company's expense  
23 associated with Group Insurance. For current employees, the group

1 insurance rate is based on the actual group insurance rate. For new  
2 employees, the group insurance rate is based on the average rate of all  
3 employees at December 31, 2007. Please see page 2 of CAS-15 for  
4 details of this adjustment.

5 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO 401K.**

6 A. The purpose of this adjustment is to annualize the Company's expense  
7 associated with 401K. The company match for 401K is determined by the  
8 employee contribution rate. For current employees, the 401K contribution  
9 rate is based on the actual contribution rate. For new employees, the  
10 401K contribution rate is based on the average contribution rate of  
11 employees hired on or after January 1, 2006. The Company changed  
12 matching contributions at that time. Please see page 4 of CAS-15 for  
13 details of this adjustment.

14 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO PAYROLL**  
15 **TAX.**

16 A. The purpose of this adjustment is to annualize the Company's expense  
17 associated with Payroll Tax. Please see page 5 of CAS-15 for details of  
18 this adjustment.

19 **POSTAGE EXPENSE**

20 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO OPERATING EXPENSES**  
21 **RELATED TO POSTAGE EXPENSE.**



1   **A.**    The Pro Forma adjustment for Postage Expense was calculated by applying  
2           2008 anticipated postal rates from the latest rate filing by the United States  
3           Postal Service to the number of test year mailings.

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

5   **A.**    Yes, it does.