

Exhibit No.:

35

Issues:

Employee Expense;
Relocation Expense;
Customer Service Bonus

Witness:

Jeremy K. Hagemeyer

Sponsoring Party:

MoPSC Staff

Type of Exhibit:

Rebuttal Testimony

Case Nos.:

WR-2003-0500
and WC-2004-0168

Date Testimony Prepared:

November 10, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

FILED

REBUTTAL TESTIMONY

JAN 23 2004

OF

Missouri Public
Service Commission

JEREMY K. HAGEMEYER

MISSOURI-AMERICAN WATER COMPANY

CASE NOS. WR-2003-0500

AND WC-2004-0168

*Jefferson City, Missouri
November 2003*

Exhibit No.

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OF

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AND WC-2004-0168**

*Jefferson City, Missouri
November 2003*

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JEREMY K. HAGEMEYER
MISSOURI-AMERICAN WATER COMPANY
CASE NOS. WR-2003-0500 & WC-2004-0168

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Rebuttal Testimony of
Jeremy K. Hagemeyer

1 A. Mr. Maul made an adjustment to the test year by adding a three-year
2 average (1999 through 2001) of the employee expense accounts for miscellaneous items,
3 meals and travel. To this amount he added a two-year average (2000 and 2001) of the
4 conference and registration account. The resulting sum was divided by the three-year
5 average of year-end employees to get a per employee expense total. The per employee
6 expense total was then multiplied by the Company's annualized number of employees.
7 The result was the annualized employee expense. Test year employee expense was
8 subtracted from this amount to calculate the corresponding adjustment.

9 Q. Has the Company explained it's rationale for the decision to exclude 2002
10 from any averages used to calculate an annualized level of employee expense?

11 A. Yes, in response to the Commission's Staff (Staff) Data Request No. 271,
12 the Company stated that due to rising pension expense the Company had adopted
13 cost-cutting measures. This explanation indicates to the Staff that the Company felt that
14 the 2002 level of expense did not reflect an appropriate level of expense and therefore
15 should not be included in an average.

16 Q. Does Staff agree with Mr. Maul's adjustment?

17 A. No. Staff believes that the most reasonable level of employee expense to
18 allow in the cost of service is the test year amount, less those items that have been
19 specifically disallowed in the adjustments discussed in the direct testimony of Staff
20 witness Lisa K. Hanneken, and those adjustments that I discussed in my direct testimony.
21 These adjustments eliminate employee expenses that provide no benefit to the ratepayers.

22 Staff believes that it was inappropriate to use an average to calculate an on-going
23 level of employee expenses. This belief is based on multiple factors. First, Staff notes

Rebuttal Testimony of
Jeremy K. Hagemeyer

1 that for all years after 1999, the Company has experienced a steady trend of declining
2 employee expenses. Staff has also identified a corresponding downward trend in the
3 number of employees actually incurring these expenses. In response to Staff Data
4 Request No. 272, Company indicated that in 1999, 261 employees incurred employee
5 expenses. This number of employees has decreased in an uninterrupted trend to the 2002
6 level of 216 employees incurring employee expenses. Staff has also found that there has
7 been a progressive decline in the dollar amount per employee spent on these types of
8 expenses. In 1999, the dollar amount spent on these expenses was \$2,068. This level has
9 consistently declined to the 2002 level of \$1,377, which represents a decline of \$691 per
10 employee incurring employee expense.

11 Q. Does the Staff believe the period examined by the Company is
12 representative of on-going levels?

13 A. No. The Staff feels that the years utilized in this adjustment do not reflect
14 a “normal” period for the Company with regard to employee levels. During this period
15 the Company has experienced massive changes in its corporate structure. According to a
16 Company response to an email, and a response to Staff Data Request No. 433, the
17 Company outlined these various and significant changes. Beginning in June of 1999, the
18 Company acquired the St. Louis County Water Company. This purchase alone resulted
19 in a tripling of the Company’s customer base. With this purchase came the transition of
20 Company headquarters to the St. Louis area and a decline in overall employee levels.
21 The Company went on to acquire United Missouri Water, Inc. in 2000. In addition to
22 these acquisitions, the Company has also transferred various accounting and financial
23 duties to the shared services center in New Jersey, and transferred various customer

Rebuttal Testimony of
Jeremy K. Hagemeyer

1 service duties and employees to the call center in Alton, Illinois. Based on these facts,
2 the Staff believes that this level of employee movement, Company change and structure
3 reorganization is unlikely to be repeated in the near future.

4 Q. Has the Company justified its adjustment in its direct testimony?

5 A. No. There is no rationale for this adjustment offered by the Company in
6 their direct testimony. When specifically asked to justify the proposed increase, in Staff
7 Data Request No. 271, the Company merely restated the desire to move back to prior
8 years' level of expenses. Nowhere in the response did Company cite a need for the
9 expenses, merely the desire for an increase. In this response and in subsequent
10 discussions with Staff, the Company indicated that it had made a concerted effort to
11 reduce employee expenses to offset rising pension costs.

12 Q. Does the Company believe or indicate its pension expense will continue to
13 rise?

14 A. Yes. An examination of the Company's accounting schedule 15, page 3
15 of 26, shows that the Company has included an increase of \$2.8 million for pension
16 expense. The continued increase in pension expense, as projected by the Company,
17 would lead the Staff to believe that the Company will continue to monitor the employee
18 expense level as it has done in the past and thus no increase in this expense should be
19 experienced.

20 Q. Please summarize the Staff's position.

21 A. Due to the factors described above, the Staff opposes making an
22 adjustment to the test year level of employee expense. The Company has shown that it

1 can operate with lower levels of employee expense and has provided no justification for
2 an increase from the test year level.

3 **Relocation Expense**

4 Q. Please explain the adjustment made by Company witness Maul relating to
5 relocation expense.

6 A. Mr. Maul made an adjustment to the test year to include the three-year
7 average of relocation expense based on the years 2000 through 2002.

8 Q. Does Staff agree with Mr. Maul's adjustment?

9 A. No. Staff believes that the adjustment is unwarranted. The three years
10 used in this average are unrepresentative of on-going levels of relocation expense for
11 several of the same reasons detailed in Staff's discussion of employee expenses, earlier in
12 this testimony. Due to the relocation of the corporate headquarters, and the various
13 acquisitions, relocation expenses are well above what they would have been had this
14 rapid period of growth not occurred. In Staff's opinion the Company would be very
15 unlikely to relocate the Company's corporate headquarters anytime in the near future,
16 especially when one considers that the current lease contract for the Company's corporate
17 office does not expire until after May 31, 2005.

18 Q. Are the Company's relocation expenses trending down?

19 A. Yes. In 2000 and 2001, the Company experienced significant highs in
20 the level of relocation expense. The test year amount of relocation expense is down
21 by 55% from 2001. Staff also notes that for the six months ended June 30, 2003,
22 relocation expense was \$54,969 which would be substantially less if projected over a year
23 (\$54,969 x 2 = \$109,938) than what was incurred during the test year (\$133,848).

Rebuttal Testimony of
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1 Q. Has the Company justified its adjustment in its direct testimony?

2 A. No. There is no rationale for the adjustment in the direct testimony of the
3 Company. When specifically asked to justify the proposed increase, in Staff Data
4 Request No. 429, the Company merely restated the method used. Nowhere in the
5 response did Company cite a need for the increase in expense.

6 Q. What is Staff's recommendation for relocation expense?

7 A. Staff's position is to leave relocation expense at test year levels. Based on
8 the events of the last three years and the current trend in these expenses, no increase
9 above the test year level is justified.

10 **Customer Service Bonus**

11 Q. In his calculation of test year per book labor expenses, did Company
12 witness Grubb include the Bonus that MAWC recorded in the test year as part of the
13 NARUC account 920, Administrative and General (A&G) Salaries expense?

14 A. No.

15 Q. Please describe the effect of this exclusion.

16 A. The effect of this exclusion is that any adjustment made to the per book
17 level of payroll expense as recorded on Company Accounting Schedule 15 would be
18 overstated by the test year level of the Bonus. During the test year the Company recorded
19 \$368,096 to the A&G Salaries expense associated with the Bonus.

20 Q. Did Staff's level of test year per book payroll expense include the Bonus?

21 A. Yes. However, the Staff's annualization of payroll expenses removed the
22 Bonus.

23 Q. Please describe the Bonus.

1 A. The Bonus is awarded to all American Water personnel. It is based on the
2 same survey (attached as Schedule 1) that is used in the determination of the customer
3 service portion of the Annual Incentive Plan (AIP). If a district scores 85% or above on
4 the survey, the eligible employees each receive approximately \$750. If the total
5 Company score on the survey is above 85%, corporate personnel are also eligible for this
6 Bonus, including those who may receive the AIP.

7 Q. Please describe Staff's position on the Bonus.

8 A. Staff's position is dependent on whether the Company agrees that their
9 past practice of paying customer service bonuses to union employees results in an on-
10 going obligation, or the Company makes these bonuses part of the union contracts, if the
11 Company exercises either option, the Staff will include this amount in the cost of service
12 for union employees, due to the statutory requirement of Section 386.315 RSMo 2000,
13 which states: "In establishing public utility rates the commission shall not reduce or
14 otherwise change any wage rate, benefit, working condition, or other term or condition of
15 employment that is the subject of a collective bargaining agreement between the public
16 utility and a labor organization." If the Company exercises neither of these options, the
17 Staff recommends a total disallowance of the Bonus for union employees. For
18 management and non-union employees, the Staff recommends a total disallowance.

19 Q. Please explain the Staff's disallowance.

20 A. According to the Company's reply in connection with Staff Data Request
21 Nos. 436 and 442, "All American Water employees are eligible to receive the bonus".
22 However only the St. Louis operation was paid this bonus in 2001, and in 2002 only
23 St. Louis, St. Charles, Jefferson City, and Mexico operations received the Bonus. No

1 program was in place prior to 2001. Since the payment of the Bonus is dependent on
2 achieving a certain score on a survey, the on-going, future occurrence of the expense is
3 speculative and not certain to occur. As will be discussed later in my testimony, the
4 survey contains numerous questions which do not pertain to customer service and are
5 beyond the control of MAWC employees. Next year, depending on the survey results, no
6 one could receive the Bonus. In addition, the program can be terminated at any time by
7 the Company. Expenses which the Company is not obligated to pay, do not represent on-
8 going known and measurable expenses and are triggered by an irrelevant survey should
9 not be included in on-going rates.

10 Q. What is the Staff's assessment of the survey?

11 A. In reading the survey used in the determination of the Bonus, Staff finds
12 that the survey measures a customers' perception of the Company, rather than measuring
13 the quality of service. The survey lacks real metrics or a basis with which one can gauge
14 the responsiveness of and the general service provided by the Company's employees.
15 For example, in question 2, customers are asked if they feel that MAWC "Is a leader in
16 the water industry" and whether the customer believes that the Company "Operates in the
17 best interest of its customers". These questions have nothing to do with the actual quality
18 of service provided by the Company's employees.

19 Q. Does Staff feel that all of the questions on the survey relate solely to
20 MAWC operations?

21 A. No. There are two questions concerning operations that are not related to
22 MAWC. Question 4 of the survey asks the customer, "Are you aware that your water
23 company is part of American Water Works Company, Inc., which has operations in

Rebuttal Testimony of
Jeremy K. Hagemeyer

1 27 states and 3 Canadian Provinces?” This question has absolutely nothing to do with the
2 level of customer service provided by MAWC personnel. Question 10 asks
3 “How satisfied are you that the water company employee(s) you spoke with on the phone
4 provided quality service overall?” The phone number on bills, that a customer with a
5 concern about their service would call, is that of the American Water Service Company
6 Call Center. The Call Center is an unregulated affiliated company. MAWC employees
7 are not responsible for the handling of this customer contact. Since all of the questions in
8 the survey are equally weighted, the inclusion of these irrelevant question can bias the
9 survey to provide a high overall score that results in the payment of a Bonus. High scores
10 on irrelevant questions can offset low scores on relevant questions.

11 Q. How many customers responded to this survey in 2002?

12 A. Approximately 12,700 customers responded. This represents only three
13 percent of the approximately 400,000 MAWC customers.

14 Q. Please summarize the Staff's evaluation of the survey.

15 A. Staff feels that if a survey is to be utilized in the determination of the
16 customer service bonus, it should, unlike the present survey, provide a more meaningful
17 measure of the performance of the customer service operations of the Company. The
18 information gained from this survey and the corresponding Bonus do not result in and are
19 not necessary for the provision of safe and adequate utility service. For all of these
20 reasons Staff opposes the inclusion of the Customer Service Bonus in rates.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.

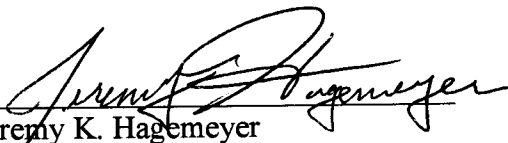
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the General Rate Increase)
for Water and Sewer Service Provided by) Case No. WR-2003-0500
Missouri-American Water Company.)

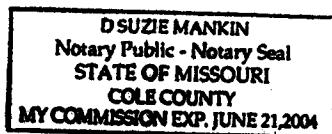
AFFIDAVIT OF JEREMY K. HAGEMEYER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Jeremy K. Hagemeyer, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Jeremy K. Hagemeyer

Subscribed and sworn to before me this 7th day of November 2003.







Missouri American Water Company

TO GUARANTEE CONFIDENTIALITY, REMOVE TOP PORTION OF THIS FORM

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Marking Instructions: Completely darken appropriate circle. Correct: ●

Incorrect: ○ ⊗ ⊙

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Thinking about Missouri-American Water Company, please answer the following questions.

1. Overall, how satisfied are you with the quality of your tap water?	Very Dissatisfied 0	Dissatisfied 0	Neither 0	Satisfied 0	Very Satisfied <input checked="" type="radio"/>
2. How much do you agree with the following statements about your water company?	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
a. Is a leader in the water industry.....	0	0	0	0	<input checked="" type="radio"/>
b. Has modern facilities.....	0	0	0	0	<input checked="" type="radio"/>
c. Is environmentally responsible.....	0	0	0	0	<input checked="" type="radio"/>
d. Uses state-of-the-art treatment technologies.....	0	0	0	0	<input checked="" type="radio"/>
e. Operates in the best interest of its customers.....	0	0	0	0	<input checked="" type="radio"/>
3. Overall, and all things considered, how satisfied are you with your water company?	Very Dissatisfied 0	Dissatisfied 0	Neither 0	Satisfied 0	Very Satisfied <input checked="" type="radio"/>
4. Are you aware that your water company is part of American Water Works Company, Inc., which has operations in 27 states and 3 Canadian Provinces?	No 0	Yes 0			
5. Compared to billing statements you receive from other utilities (e.g., electric, gas, telephone, cable) how would you compare your water billing statement as to the ease of understanding?	Very Poor 0	Poor 0	Neither 0	Good 0	Very Good <input checked="" type="radio"/>
6. Compared to your other household utilities (e.g., electric, gas, telephone, cable) how would you rate the value you receive from your water company for your utility dollar?	Very Poor 0	Poor 0	Neither 0	Good 0	Very Good <input checked="" type="radio"/>
7. How satisfied are you with the cost of your tap water?	Very Dissatisfied 0	Dissatisfied 0	Neither 0	Satisfied 0	Very Satisfied <input checked="" type="radio"/>
8. Thinking about your tap water, indicate your level of satisfaction in the following areas:	Very Dissatisfied	Dissatisfied	Neither	Satisfied	Very Satisfied
a. Taste.....	0	0	0	0	<input checked="" type="radio"/>
b. Smell.....	0	0	0	0	<input checked="" type="radio"/>
c. Appearance.....	0	0	0	0	<input checked="" type="radio"/>
d. Purity.....	0	0	0	0	<input checked="" type="radio"/>
e. Healthfulness.....	0	0	0	0	<input checked="" type="radio"/>
9. If you marked very dissatisfied or dissatisfied with any of the above water quality categories, please indicate the nature of the dissatisfaction. (Choose all that apply)	<input type="radio"/> Minerals <input type="radio"/> Rusty <input type="radio"/> Hardness <input type="radio"/> Bacteria <input type="radio"/> Residue <input type="radio"/> Cloudiness <input type="radio"/> Chlorine <input type="radio"/> Chemicals <input type="radio"/> Other _____				

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Missouri-American Water Company

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Thinking about your contact with Missouri-American Water Company in the past year...

	No Contact	Very Dissatisfied	Dissatisfied	Neither	Satisfied	Very Satisfied
10. How satisfied are you that the water company employee(s) you spoke with on the phone provided quality service overall?	0	0	0	0	0	<input checked="" type="radio"/>
	No Visit	Very Dissatisfied	Dissatisfied	Neither	Satisfied	Very Satisfied
11. If a field visit was required, how satisfied are you that the field service representative who came to your location provided quality service overall?	0	0	0	0	0	<input checked="" type="radio"/>

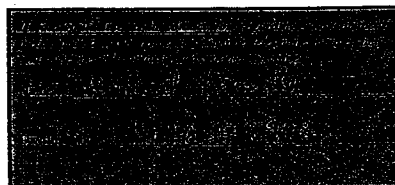
Communications

	No	Yes, at home	Yes, at work
12. Do you currently have access to the Internet? (Choose all that apply)	0	<input checked="" type="radio"/>	<input checked="" type="radio"/>
13. If you would like us to send you updates about our service, please provide your e-mail address			

Customer Information

	1	2	3	4	5	Over 5
14. How many people live in your household?	0	<input checked="" type="radio"/>	0	0	0	0
	Under 6 Years	6-10	11-20	21-30	Over 30 Years	
15. What is the age of your home?	0	0	0	<input checked="" type="radio"/>	0	
	Male	Female				
16. Are you male or female?	<input checked="" type="radio"/>	0				
	Under 26	26-35	36-45	46-55	56-65	Over 65
17. What is your age?	0	<input checked="" type="radio"/>	0	0	0	0
	Own	Rent				
18. Do you own or rent your place of residence?	0	<input checked="" type="radio"/>				
	No	Yes				
19. May we share your individual responses with your water company?	0	<input checked="" type="radio"/>				

Please use the space below to give us feedback about your impressions or experiences with us.



MAILING INSTRUCTIONS:

Please return this questionnaire as soon as possible, in the postage-paid envelope to:
ORC International, 571 Longbow Drive, Maumee, OH 43537

Thank You!