

Exhibit No. 2

Exhibit No.:
Issues: Support Services
Witness: Patrick L. Baryenbruch
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2022-0303
Date: January 18, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2022-0303

REBUTTAL TESTIMONY

OF

PATRICK L. BARYENBRUCH

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

AFFIDAVIT

I, Patrick Baryenbruch, under penalty of perjury, and pursuant to Section 509.030, RSMo, state that I am President for Baryenbruch & Company, LLC, that the accompanying testimony has been prepared by me or under my direction and supervision; that if inquiries were made as to the facts in said testimony, I would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of my knowledge and belief.



Patrick Baryenbruch

January 13, 2023

Dated

**REBUTTAL TESTIMONY
PATRICK L. BARYENBRUCH
MISSOURI-AMERICAN WATER COMPANY
CASE NO.: WR-2022-0303**

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PATRICK L. BARYENBRUCH

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Q. Please state your name and business address.

A. My name is Patrick L. Baryenbruch. My business address is 2832 Claremont Road, Raleigh, North Carolina 27608.

Q. Are you the same Patrick L. Baryenbruch who previously submitted Direct Testimony in this proceeding?

A. Yes.

II. PROXY GROUPS

Q. Office of the Public Counsel (OPC) witness Angela Schaben suggested in her Direct Testimony that comparing electric utilities to water utilities is inappropriate and that doing so would be “like comparing apples to oranges.”¹ How do you respond to Ms. Schaben’s contention, that water utility and electric utility operations are so different that valid cost comparisons are impossible?

A. I reject that contention. Water utilities are very different than electric utilities with respect to their utility infrastructure, regulation and operations and maintenance (O&M) work activities. Those expenses are not comparable. However, I do not benchmark O&M expenses, I only benchmark administrative and general (A&G) expenses.

Every utility service company provides A&G-related services to utility operating company affiliates. These services are similar across different types of utilities. Consider the following examples:

¹ Schaben DT, p. 15.

- 1 • Accounting – Regardless of utility type, the work of accountants revolves around
2 their assigned set of general ledger accounts; they ensure transactions have been
3 processed and properly posted to their accounts, reconcile accounts to subsidiary
4 ledgers, prepare journal entries, compile budget versus actual data, research
5 variances and prepare cost performance reports for operating managers. These
6 activities take place in water utilities in the same way as in electric utilities.

- 7 • Taxes – Utilities of any type have similar processes for tax accounting and
8 compliance. They all have federal and state income, local property, sales and use
9 taxes. In general, tax personnel are responsible for determining tax provisions and
10 preparing and filing tax returns.

- 11 • Information Technology – IT services cover a broad range of activities that are also
12 quite similar among utilities. Employees are provided with workstations, email,
13 Microsoft Office, phone service, internet connections and access to financial,
14 human resources and various other corporate applications. IT hardware and
15 software are operated and maintained in the same way regardless of utility type.
16 Application systems run either on the utility’s own data center or on a cloud service
17 provider. They are generally operated and maintained by a centralized IT
18 organization or by an outside service provider.

- 19 • Other Services - The processes and work activities associated with delivering other
20 A&G services, such as procurement, human resources, legal and customer services
21 are likewise similar among different types of utilities.

22 For all these reasons, my A&G cost comparison between the Service Company and
23 utility service companies that file a Form 60 is appropriate.

1 Q. **What other evidence supports the fact that A&G functions are similar across utility**
2 **types?**

3 A. The similarity in A&G work is also evidenced by the fact that the same business
4 applications are used across utility types. For instance, American Water uses SAP as its
5 enterprise resource planning (ERP) system to support the finance, accounting, tax, financial
6 planning and analysis, internal audit, and procurement functions. SAP is also the ERP
7 system used by my electric utility clients Dominion Energy and SCE Corporation. Human
8 resource functions for utilities can also be managed by the same applications from vendors
9 such as Oracle, SAP and Peoplesoft. Systems used to run IT services (e.g., asset
10 management, development, production, help desk, security) are likewise similar across
11 utility types.

12 These applications have built-in workflows that standardize business processes for
13 A&G functions. This further demonstrates that the nature of A&G services and the way
14 they are managed and delivered are similar across utility types.

15 Q. **What work experience do you have that supports the conclusion that A&G services**
16 **are similar across utility types?**

17 A. I have provided professional services to the utility industry during my 45-year+ career in
18 public accounting and management consulting. This has given me a thorough
19 understanding of the industry's structure, organization, operation and business processes.
20 My clients have included water, electric, gas and telephone companies.

21 For 10 years of my career, I was a member of a client utility's project management
22 organization (PMO), acting as a project manager or member of the project management
23 team for 20 large IT systems projects for a utility client's business applications involving

1 more than 800,000 hours of work from hundreds of client employees and outside
2 contractors. These assignments provided me with a deep understanding A&G services and
3 the associated business processes that are involved in delivering those services.

4 I helped Duke Energy manage its implementation of Sarbanes-Oxley 404, a project
5 that involved the work of hundreds of employees and outside consultants. I later assisted
6 Duke Energy with its mergers with Cinergy and Progress Energy, helping to manage the
7 integration of the companies' financial systems, charts of accounts and business processes.

8 Of the 21 utility holding companies in my service company comparison group, 15
9 (AEP, Aliant, Avangrid, CenterPoint, Dominion, Duke Energy, Entergy, Eversource,
10 Exelon, First Energy, National Grid, NiSource, PPL Energy, Southern Company, WE)
11 have been my clients over the course of my career.

12 This extensive utility industry experience puts me in a position to determine that
13 the cost of A&G services can be validly compared across different utility types.

14 **Q. Do you continue to stand by your conclusion that the cost of Service Company services**
15 **are reasonable in this case?**

16 A. Yes. MAWC was charged \$73 per customer for A&G-related services provided by the
17 Service Company. This compares favorably to the average of \$115 per customer for the
18 comparison group service companies. Eighteen of the 24 utility service companies that
19 filed a FERC Form 60 for 2020 had a higher per-customer A&G cost than MAWC's
20 charges from the Service Company.

21 **Q. Ms. Schaben agreed that "Mr. Baryenbruch has established that the Service**
22 **Company's cost per customer is more reasonable than several electric utility service**

1 **companies within a proxy group of electric utility service companies.”²**

2 A. Yes. She did.

3 **Q. She went on to suggest that “the vital question here is whether the Service Company**
4 **costs are distributed in such a manner as to not provide financial advantages to**
5 **affiliates, either regulated or non-regulated.”³ As part of your study, did you review**
6 **the cost allocation process for the Service Company?**

7 A. No. Cost allocations are not within the scope of my study. Please refer to the Rebuttal
8 Testimony of Company witness John Watkins supporting the fact that the Service
9 Company costs are allocated so that MAWC’s affiliates are not provided with a financial
10 or competitive advantage by virtue of the affiliation with MAWC.

11 **Q. Does this conclude your Rebuttal Testimony?**

12 A. Yes.

² Schaben DT, p. 30.

³ *Id.*