MAWC 38

Exhibit No.:
Issues: Service Company, Business Transformation

Witness: Gary M. VerDouw

Exhibit Type: Direct
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2015-0301
WR-2015-0302
Date: July 31, 2015

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2015-0301
CASE NO. WR-2015-0302

DIRECT TESTIMONY

OF

GARY M. VERDOUW

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 RATES FOR WATER AND SEWER SERVICE	)))))	**CASE NO. WR-2015-0301** **CASE NO. SR-2015-0302**

AFFIDAVIT OF GARY M. VERDOUW

Gary M. VerDouw, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Gary M. VerDouw"; that said testimony and schedules were 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.

Gary M. VerDouw

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
Before me this 14th **day of** July **2015.**

Donna S. Singler
Notary Public

My commission expires: July 17, 2016

DONNA S. SINGLER
Notary Public, Notary Seal
State of Missouri
St. Louis County
Commission # 12368409
My Commission Expires July 17, 2016

DIRECT TESTIMONY
GARY M. VERDOUW
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2015-0301
CASE NO. WR-2015-0302

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DIRECT TESTIMONY

GARY M. VERDOUW

I. WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gary M. VerDouw, and my business address is 727 Craig Road, Saint Louis, Missouri 63141.

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

A. I am employed by American Water Works Service Company ("AWWSC" or "Service Company") as the Director of Rates – Central Division. The Service Company is a subsidiary of American Water Works Company, Inc. ("American Water") that provides support services to American Water's subsidiaries, including Missouri-American Water Company, Inc. ("Missouri-American" or the "Company").

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from the University of Mary in Bismarck, North Dakota in 1981 with a Bachelor of Science degree in Business Administration. I returned to the University of Mary and completed a second major in Accounting in May of 1988. I have attended the Utility Rate Seminar sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") Water Committee and have participated in various continuing education programs sponsored by my former employers and by the Service Company. I am a member of the American Water

Works Association ("AWWA") and a former member of the Indiana Utility Regulatory Commission ("IURC" or "Commission") Water Rate Design Committee. I am also a member of the University of Missouri Financial Research Institute ("FRI") Advisory Committee.

Q. PLEASE OUTLINE YOUR BUSINESS EXPERIENCE.

A. I began my employment in February of 1981, when I was hired as Reconciliation and Funds Administrator for the North Dakota State Treasurer's Office in Bismarck, North Dakota. In December of 1981, I was hired as a Field Accountant for ANG Coal Gasification Company, which was constructing North America's first commercial scale coal gasification project near Beulah, North Dakota. I was promoted to Accounts Payable Supervisor in 1982 and to Cash Manager in 1984, where I oversaw daily cash management of over $1.5 billion in secured debt and over $400 million in daily cash balances. In 1988, I was hired as Business Manager for Capital Electric Cooperative, Inc., which is located in Bismarck, North Dakota. My responsibilities there included the supervision and oversight of all accounting, finance, billing, budget, insurance, human resources, cash management, rate studies, and other functions for a growing electric distribution cooperative that currently serves approximately 18,000 consumers.

In 2005, I accepted the position of Senior Financial Analyst – Rates and Regulations with the Service Company in its Saint Louis, Missouri office. In this role I provided rate and regulatory support, including acting as the lead on rate case preparation, in the six states that comprised American Water's Central Region. I was promoted to Manager of Rates and Regulation in 2008, where I was responsible for all rate and

regulatory issues and filings for American Water operations in the states of Indiana, Ohio, and Michigan. I was promoted to Director of Rates – Eastern Division in January 2011, where I was responsible for rates and rate issues for the nine regulated subsidiaries that comprised the Eastern Division of American Water. In November of 2011, American Water restructured its divisional alignment, and I was named Director of Rates for the newly created Central Division, where I am responsible for rates and rate issues for the seven regulated subsidiaries that comprise the Central Division of American Water, including Missouri-American.

Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AGENCIES WITH RESPECT TO REGULATORY MATTERS?

A. Yes. I have testified in numerous regulatory proceedings before the Indiana Utility Regulatory Commission, the Public Utilities Commission of Ohio, the Tennessee Regulatory Authority, the Kentucky Public Service Commission, the Iowa Utilities Board, and the Illinois Commerce Commission.

II. SCOPE OF TESTIMONY

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

A. The purpose of my testimony is to sponsor Support Services Expense as part of Missouri-American's Operation and Maintenance Expense. In addition, I am supporting the proposed ratemaking treatment of the Company's Business Transformation program costs.

Q. PLEASE IDENTIFY THE SCHEDULES YOU WILL BE SPONSORING AND FOR WHICH YOU WILL BE PROVIDING TESTIMONY.

A. I am supporting the following schedules:

- Schedule CAS-9, Support Services Expense
- Schedule CAS-13, Support Services Expense
- Schedule GMV-1, Business Transformation Costs

Q. WERE SCHEDULES CAS-9, CAS-13 AND SCHEDULE GMV-1 EACH PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes, they were.

Q. WHAT WERE THE SOURCES OF THE DATA USED TO PREPARE SCHEDULES CAS-9, CAS-13 AND SCHEDULE GMV-1?

A. The data used to prepare these schedules were acquired from the books of account and business records of Missouri-American, the officers and associates of Missouri-American with knowledge of the facts based on their job responsibilities and activities, and other sources that I examined in the course of my investigation of the matters addressed in this testimony.

Q. DO YOU CONSIDER THIS DATA TO BE RELIABLE AND OF A TYPE THAT IS NORMALLY USED AND RELIED ON IN YOUR BUSINESS FOR SUCH PURPOSES?

A. Yes, I do.

Q. DO SCHEDULES CAS-9, CAS-13, AND SCHEDULE GMV-1, INCLUSIVE, ACCURATELY SUMMARIZE SUCH DATA AND THE RESULTS OF ANALYSIS USING SUCH DATA?

A. Yes, they do.

III. SERVICE COMPANY EXPENSE

Q. WHAT ADJUSTMENT WAS MADE TO THE COMPANY'S TEST YEAR LEVEL OF SUPPORT SERVICES?

A. Service Company Expense or Support Service Expense, relate to services provided to Missouri-American by the American Water Works Service Company ("AWWSC", or "Service Company"), a wholly owned subsidiary of American Water Works Company, Inc., the parent company of Missouri-American Water Company. The services provided include, but are not limited to, billing, customer service, engineering, accounting, finance, legal, rates and regulation, human resources, and environmental. Services provided by the Service Company are billed either directly to Missouri-American (i.e., direct assignment) or on a per customer allocation across the various American Water companies. An overall pro forma decrease in the amount of -$1,307,360 was made to the test year Service Company expense of $29,989,323. After the adjustments, Service Company expense for the pro forma period is $28,681,963. This is based on the Service Company actual expense for the test period and adjusted, where appropriate, to reflect known and measurable changes in operating conditions. These amounts are shown on Line 6, Support Services, of Schedule: CAS-9, Summary of Operations and Maintenance Expenses, Depreciation, Amortization and General Taxes.

The adjusted Support Services expense of $28,681,963 is $3,372,182 less than the adjusted Support Services expense of $32,054,145 filed by Missouri-American in its most recent rate case (Case No. WR-2011-0337).

The Company's test year Support Services expenses were adjusted to eliminate one-time costs, Business Transformation related items, charitable contributions, lobby expense, penalties, and advertising expense. Additionally, the test year costs were adjusted to reflect current ongoing levels for labor and labor related costs, including anticipated labor merit increases. The test year costs associated with Other costs were adjusted for ongoing levels of depreciation, capital lease interest, contracted services and maintenance costs for Information Technology Services (ITS).

An explanation of the adjustments made to Support Services Expense is included below. Details of the adjustments can be found on the "Summary" and the "Total" pages of Schedule CAS-13 Support.

Q. WHAT SPECIFIC ADJUSTMENTS WERE MADE TO SUPPORT SERVICES LABOR EXPENSE?

A. Two adjustments were made to Labor Expense. The first adjustment was made to normalize Labor Expense. Using the 2014 average Service Company merit increase of 2.53% (non-union), an adjustment to normalize the merit increase effective on Apil 1, 2014 was made for the January-March 2014 Labor and Labor related expenses. For union employees, the applicable contract rate was used to normalize for the test year. The total adjustment made to normalize Labor Expense was $96,396. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment is detailed in Column (2) of the "Summary" page and is

included as part of the -$678,725 amount shown at the bottom of Column (4) on the CAS-13 Support page entitled "Support Services Total Costs". The second adjustment was made to reflect 2015 merit and contract increases to Labor Expense. An adjustment was made for non-union merit increases and was calculated using the 2015 average Service Company merit increase of 2.61%. For union employees, the applicable contract rate increase in effect in 2015 was used. The total adjustment made for merit and contract increases to Labor Expense was $406,101. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment is detailed in Column (5) of the "Summary" page and is included as part of the $637,095 amount shown at the bottom of Column (7) on the CAS-13 Support page entitled "Support Services Total Costs". The two adjustments made to Labor Expense increase Support Services Expense by $502,497.

Q. WERE THERE ADDITIONAL ADJUSTMENTS MADE TO LABOR EXPENSE AND CONTRACTED LABOR EXPENSE?

A. Yes, there were. In the Regulated Operations function, an adjustment was made to remove Labor and Labor related costs performed by non-central divisional persons. In addition, an adjustment was made to include Central Division Rates, Central Division Administration & General, and Corporate Regulated Operations. The net of these adjustments is a decrease of -$132,217 for the Regulated Operations function. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment is detailed in Column (4) of the "Summary" page and is included as part of the $637,095 amount shown at the bottom of Column (7) on the CAS-13 Support page entitled "Support Services Total Costs".

In the Customer Service Center (CSC) function, an adjustment to decrease labor and labor related expense was made for the attrition experienced in 2014 for an average of 52 persons, -$491,019 and additional decrease for the estimated attrition in 2015 for an average of 96 persons, -$904,451. The total adjustment made for actual and planned attrition in the Customer Service Center function is -$1,395,470. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment is included as part of the $637,095 amount shown at the bottom of Column (7) on the CAS-13 Support page entitled "Support Services Total Costs".

An adjustment was made to the Information Technology Services (ITS) function to increase the total by $968,107 to account for the hiring of permanent employees. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment is included as part of the $637,095 amount shown at the bottom of Column (7) on the CAS-13 Support page entitled "Support Services Total Costs". This was offset by adjustments made to decrease ITS contracted services for other and temporary labor -$414,595, which results in a net increase adjustment for the Information Technology Services function of $553,512. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment is included as part of the -$1,099,167 amount shown at the bottom of Column (8) on the CAS-13 Support page entitled "Support Services Total Costs".

For the Finance function, an adjustment was made in the amount $92,025 to account for the hiring of permanent employees, which has been offset by an adjustment to decrease Finance contracted services for other and temporary labor -$227,242. The result is a net decrease adjustment of -$135,217 for the Finance function. Refer to

schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, the $92,025 adjustment is included as part of the $637,095 amount shown at the bottom of Column (7) on the CAS-13 Support page entitled "Support Services Total Costs". The -$227,242 adjustment is included as part of the -$1,099,167 decrease shown at the bottom of Column (8) on the CAS-13 Support page entitled "Support Services Total Costs".

Additionally, other functional areas had a net increase of $698,549 to account for the hiring of permanent employees, which has been offset by an adjustment to decrease contracted services for other and temporary labor -$193,041. The result is a net increase adjustment of $505,508. Refer to schedule CAS-13 Support workpapers for summary of adjustments. Specifically, this adjustment is included as part of the -$1,099,167 amount shown at the bottom of Column (8) on the CAS-13 Support page entitled "Support Services Total Costs".

Q. WHAT OTHER ADJUSTMENTS HAVE BEEN MADE TO SUPPORT SERVICES EXPENSE?

A. There were a number of additional adjustments to Support Services Expense. The first set of adjustments was made to remove costs for charitable contributions -$18,552, Advertising -$723, Lobbying -$138, and Contracted Services related to BT and Outplacement -$131,918. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment is included as part of the -$163,311 amount shown at the bottom of Column (5) on the CAS-13 Support page entitled "Support Services Total Costs".

Second, a set of adjustments was made to remove the costs for the Business Transformation function and the Cost Center 332059, Corporate Administration, of -$243,539. This is the sum of -$231,559 on the Adjustments – Labor and -$11,980 on the Adjustments – Other. All costs regarding the Business Transformation function, both labor and other, were removed, as this project was completed in 2013. As such, no expense for the project should be included in the test year. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, the -$231,559 adjustment is included as part of the -$678,725 amount shown at the bottom of Column (4) on the CAS-13 Support page entitled "Support Services Total Costs". The -$11,980 adjustment is included as part of the -$163,311 amount shown at the bottom of Column (5) on the CAS-13 Support page entitled "Support Services Total Costs".

Third, adjustments were made to Depreciation Expense and Laurel Oak Properties (LOP) capital lease interest for existing as well as estimated new additions through the respective pro forma period, -$341,117 and -$3,249 for 2015 and 2016, respectively. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, the -$341,117 adjustment is included as part of the -$1,099,167 amount shown at the bottom of Column (8) on the CAS-13 Support page entitled "Support Services Total Costs". The -$3,249 adjustment is shown at the bottom of Column (11) on the CAS-13 Support page entitled "Support Services Total Costs".

Finally, an adjustment was made to Maintenance Expense to increase Information Technology Services maintenance (relative to software license costs) by $76,829 to reflect an increase in estimated 2015 costs. Refer to schedule CAS-13 Support

workpapers for a summary of the adjustments. Specifically, this adjustment is included as part of the -$1,099,167 amount shown at the bottom of Column (8) on the CAS-13 Support page entitled "Support Services Total Costs".

Q. WHAT IS THE FINAL ADJUSTMENT MADE TO SUPPORT SERVICES EXPENSE?

A. Test year Support Services Expense includes $724,747 in severance expenses. Severance is an expense paid to achieve the respective efficiency savings for the Service Company. The Company is proposing to remove $543,561, or three fourths, of the severance expense from test year Support Services Expense. By leaving one-fourth of the severance expense, this adjustment will reflect a four year amortization of the expense. Refer to schedule CAS-9, Support Service workpaper for summary of adjustments, "Total" tab; this adjustment is included in the -$678,725 in Column 4 at the bottom. Refer to schedule CAS-13 Support workpapers for a summary of the adjustments. Specifically, this adjustment detailed in Column (2) the "Summary" page and is included as part of the -$678,725 amount shown at the bottom of Column (4) on the CAS-13 Support page entitled "Support Services Total Costs".

In summary, an overall pro forma decrease in the amount of -$1,307,360 was made to the test year Service Company expense of $29,989,323. After the adjustments, Service Company expense for the pro forma period is $28,681,963.

IV. BUSINESS TRANSFORMATION COSTS

Q. MR. VERDOUW, PLEASE EXPLAIN THE BUSINESS TRANSFORMATION PROGRAM ("BT").

A. The term "Business Transformation" or "BT" refers to the development and system-wide deployment of new, integrated information technology systems and the process of implementing the new systems in a manner that properly aligns business processes with the increased capabilities of the new systems. Over the life of the BT program, there were four primary areas of focus:

- Replace legacy systems that are at or near the end of their useful lives;
- Promote operating excellence, efficiency, and economies of scale;
- Enhance the customer experience; and
- Increase employee effectiveness and satisfaction.

The scope of the BT program included a range of core functional areas, including: human resources, finance and accounting, purchasing and inventory management, capital planning, cash management, and customer and field services.

Q. WHAT ARE THE PROJECTS THAT COMPRISE THE BT PROGRAM?

A. The BT program was a unique capital project both in scope and complexity. There were three projects that comprised the core of the BT program: Enterprise Resource Planning ("ERP"); Enterprise Asset Management ("EAM"), and Customer Information System ("CIS"). ERP includes human resource, finance and accounting, supply chain, and procurement management. EAM includes the management of asset lifecycles including the design, construction, commissioning, operations, maintenance and decommissioning/replacement of plant, equipment and facilities as well as work

management for both customer service field work (service turn-ons, leak inspections, etc.) and transmission & distribution system work. CIS includes all billing and personal data about our customers, including billing rates, water consumption, associated charges, meter information, and the strategy for managing and nurturing our interactions with our customers. Through these projects, Missouri-American will enhance its ability to continue delivering high-quality water and wastewater services to its customers.

Q. WHY WAS IT NECESSARY FOR MISSOURI-AMERICAN TO UNDERTAKE THE BT PROGRAM?

A. To state it simply, Missouri-American's technology had become antiquated, and its information technology systems needed to be replaced. In 2008-09, the BT team completed a comprehensive review and analysis of American Water's information technology systems and then made recommendations for their improvement. As a result of this comprehensive review and analysis, American Water identified the investments necessary to replace and upgrade applicable system components.

Q. WHAT DID THE REVIEW FIND WITH RESPECT TO MISSOURI-AMERICAN'S INFORMATION TECHNOLOGY SYSTEMS THAT WERE IN EXISTENCE AT THAT TIME?

A. The Company's information technology systems that were in existence at that time were customized, stand-alone systems for use by specific departments or functions within a company. The lack of systems integrations within those systems resulted in isolated information "silos." The information technology systems that were in

existence at that time had reached the end of their useful life. JD Edwards (the system for accounting, procurement, and human resources functions) was first implemented for American Water in 1997 and for Missouri-American in 1998. ECIS (the customer service and information system) was first implemented for American Water in 2001 and for Missouri-American in 2003. Both the JD Edwards system and the ECIS system had more than reached the end of their useful software life.

Q. WERE THE LEGACY INFORMATION TECHNOLOGY SYSTEMS ADEQUATE TO SUPPORT MISSOURI-AMERICAN'S CUSTOMER AND BUSINESS REQUIREMENTS?

A. No. When Missouri-American's existing information technology systems were implemented in the late-1990s and early 2000s, they met its customer and business needs at that time. These systems were not integrated and had limited automation and functionality. American Water fully maximized the information technology systems in existence at that time and used by its operating subsidiaries by implementing significant customizations or workarounds, in part, to meet requirements and expectations that the original software was not equipped to support. For example, by the time the software was retired, there were approximately 65 JD Edwards and approximately 305 ECIS customizations made to the software systems. Those customizations addressed the needs of the business at that time, but the systems reached a point where additional customizations would be inefficient and increasingly costly to maintain.

Because the software had such a large number of customizations, system upgrades would have been cost prohibitive and still would have resulted in limited

functionality. In addition, when customizations were too costly or impractical, manual processes were put in place. Those manual solutions were not optimal because they introduced redundancy and inconsistency of data, required additional manual steps, and limited information availability. The increasing complexity of today's business and customer needs had grown beyond what those systems were designed to accommodate, and the information technology systems in existence at that time had become outdated and inflexible. Over the last 15 to 20 years, more has changed than just technology. Customer expectations have also shifted. As always, Missouri-American's customers expect to receive high quality, reliable water service. Service, however, consists of more than just delivering water to the tap. Consider the technological advances that have taken place over just the last five years. Today, our customers and employees can access the internet on a hand-held smart phone at a faster speed than they could from a personal computer only five years ago. Consequently, today's customers also expect more functionality than our previous information technology systems could readily support. The technology in place at that time was outdated, and lacked the functionality to meet today's customer expectations. BT has enabled Missouri-American to better meet those expectations.

Q. WHAT IS THE TOTAL COST OF BT TO MISSOURI-AMERICAN WATER?

A. The cost of BT to Missouri-American is estimated to be $46.5 million, which is based upon a total estimated BT program cost of $326.2 million to American Water. The costs of BT have been allocated to each of the American Water regulated utilities based on the percentage of their customer counts to the overall regulated utility customer count of American Water, as provided for in the Service Company

Agreement. The attached Schedule GMV-1 reflects the total Business Transformation Costs shown in total, as well as the percentage of the BT costs attributable to Missouri-American. The Enterprise Resource Planning ("ERP") portion of BT went live in August of 2012, and the Enterprise Asset Management ("EAM") and Customer Information Systems ("CIS") costs went live in May of 2013.

Q. PLEASE DESCRIBE THE CORE ENTERPRISE SOFTWARE FOR THE BT PROGRAM.

A. In early 2010, American Water selected Systems, Applications and Products ("SAP") software as its new software solution platform. Based on the information gathered, the BT team determined that SAP was the best platform for our enterprise-wide systems. SAP is a leader in enterprise software development and its products and services have an excellent track record and are used widely by successful companies around the world. The "enterprise" software concept, which was pioneered by SAP, integrates functions and departments across a company into a single technology system, allowing all business processes to operate in a common data base sharing the information simultaneously across all functions in real time. Thus, enterprise computing is a new concept of business and information management. As such, it is best understood in contrast to older software systems, which were customized, stand-alone systems for use by specific departments or functions within a company, resulting in isolated departments and functions in its own information "silo." Enterprise computing breaks down information barriers while also giving each department or function within a company the enterprise-compatible module it needs to do its job. In this way, enterprise computing bridges information gaps, reduces

redundancy and opportunities for error, and is a more powerful tool for effectively managing the business. The SAP software solution is a fully integrated software application that offers better real-time functionality to meet our current and future business requirements.

Q. PLEASE DESCRIBE THE SOLUTION IMPLEMENTER SELECTED FOR THE BT PROGRAM.

A. Later in 2010, American Water selected Accenture to help implement the new software solutions. As the solution implementer, Accenture was responsible for working closely with American Water operating utilities and the BT team to realize the potential of our new technology implementation by helping to confirm that American Water's business processes are aligned with the new software. Accenture has worked successfully with many companies over the years to implement SAP software and, like SAP, is highly regarded and has a strong track record of effectively meeting its customers' needs. Accenture and SAP provided support and guidance and shared their skills and knowledge about the new systems with American Water throughout the implementation process.

Q. HOW WERE THE SERVICE PROVIDERS SELECTED?

A. Key service providers (e.g., SAP and Accenture) were selected through competitive bidding processes. The BT team, advisory council members, and other American Water employees, including Missouri-American employees, participated in this process. They attended software demonstrations and considered both core software applications (Oracle and SAP) and potential bolt-on software functionality. BT team

members also participated in site visits to companies currently using enterprise software, and conducted telephone reference checks.

For its solution implementer, American Water considered several consultants that are expert in the field, including: Accenture, CSC, Deloitte, HCL AXON, IBM, and Quintel. A Request for Proposal ("RFP") was developed to create a competitive bidding process to determine the right consultant for the job. As part of the solution implementer evaluation process, the BT team reviewed and evaluated several iterations of RFP responses from multiple candidates, reviewed and evaluated additional written Question and Answer ("Q&A") responses from multiple candidates, hosted several group oral presentations and Q&A sessions with some of the candidates, and conducted dozens of individual interviews over approximately a six month period. In July of 2010, the field of solution implementers was narrowed to two-Accenture and HCL AXON. The BT team then pursued parallel negotiations with both Accenture and HCL AXON. Accenture was the lowest bidder that met the RFP requirements, and ultimately, American Water determined that Accenture was the consultant best able to deliver the program needed.

Q. IN ADDITION TO THE COMPETITIVE BIDDING PROCESS, WHAT OTHER STEPS WERE TAKEN TO ENSURE BT WAS UNDERTAKEN AT A REASONABLE COST?

A. Missouri-American is a registered licensee for the SAP software and, therefore, will be able to access the full and complete software applications resulting from the BT project for a fraction of the total license fees that it would have to pay were it to procure the licenses on its own. This is an example of how the Service Company

model benefits the American Water operating subsidiaries' customers. American Water negotiated fixed price agreements with Accenture for its support and guidance throughout the entire BT program. The Master Service Agreement with Accenture is the umbrella agreement that governs the Statements of Work ("SOWs") that have been negotiated to support each phase of the BT program. The SOWs had the flexibility of being negotiated as either Time & Material or Fixed Price contracts. The Blueprint SOW for Accenture was negotiated for a fixed price plus expenses not to exceed a percentage of the fixed price. Soon after the Blueprint phase was completed, American Water and Accenture completed the SOW negotiations for the remainder of the BT program implementation (ERP, CIS, and EAM) at a fixed price plus expenses not to exceed a percentage of the fixed price.

Q. WHEN DID THE NEW INFORMATION TECHNOLOGY SYSTEMS GO INTO SERVICE?

A. The new enterprise systems were deployed from 2012 through 2013 in two phases. ERP was implemented in Phase 1, in the August of 2012. EAM and CIS were deployed to Missouri-American in May of 2013. These systems are in use by our employees and are providing service to our customers.

Q. GIVEN THAT THE BT PROGRAM COSTS WERE PRUDENTLY INCURRED, HOW SHOULD THEY BE RECOVERED BY MISSOURI-AMERICAN?

A. BT is a capital investment. At a cost to Missouri-American of approximately $46.5 million, the program is intended to provide benefits to the Company and its customers

for the ten year projected useful life of the investment. As such, Missouri-American's total investment of $46.5 million is included in the Company's rate base and depreciation or amortization expense is recorded monthly, just as for every other capital asset.

Q. PLEASE DESCRIBE THE COST CATEGORIES FOR THE BT PROGRAM.

A. There are four distinct areas of cost related to the BT project: (i) physical assets (e.g., primarily servers, networking equipment, etc.), (ii) software licenses, (iii) capitalized labor costs required to design, modify the base software package as required, develop transition routines to transfer historical data from existing systems, modify business processes to be compatible with the new software, implement the go-live use of the software, and train employees on the use of the new software, and (iv) the initial planning studies. The accounting for each of the four areas of BT costs will be described separately below.

Q. PLEASE DESCRIBE THE ACCOUNTING FOR THE HARDWARE PORTION OF THE BT COSTS.

A. The hardware procured for BT has been purchased by Laurel Oak Properties ("LOP"), leased to the Service Company, and a percentage of that leasing expense is distributed to each of the regulated utilities based on the percentage of their customer base to the overall regulated utility customer base of American Water. The capital lease charges to the regulated utilities will include the equivalent of depreciation expense plus a finance cost.

Q. PLEASE DESCRIBE THE ACCOUNTING FOR THE SOFTWARE LICENSES.

A. A portion of the software license fees included in the BT project is being accounted for on the books of the Company. Missouri-American is an authorized licensee and has the right to use the licensed software as a permitted licensee under the license agreements. The license fees will be billed to the Company by the Service Company, but appropriately capitalized because Missouri-American is a separate licensee for the software. Missouri-American will pay its share of the license fees through the Service Company to be more efficient so that the vendor will not issue individual invoices to each participating regulated utility. The method of payment does not change the appropriate accounting for costs at the regulated utilities. The regulated utilities' assets listed as software are licenses, and legal ownership of the software is retained by the licensor.

Q. PLEASE DESCRIBE THE ACCOUNTING FOR THE CAPITALIZED LABOR PORTION OF THE BT COSTS.

A. The capitalized labor and overheads portion of the BT costs are being accounted for in the same manner that the regulated utilities have accounted for comparable costs in the past. They are being charged to the utility plant asset created at each regulated utility, including Missouri-American. Capitalization of Service Company labor charges to Missouri-American is a normal process and is consistent with the Service Company Agreement.

Q. PLEASE DESCRIBE THE ACCOUNTING FOR THE BT PLANNING STUDIES.

A. The costs related to the planning studies are being capitalized as part of the BT costs.

Q. WHAT IS THE APPROPRIATE DEPRECIATION RATE FOR THE ASSETS THAT COMPRISE THE BT PROGRAM?

A. The appropriate annual depreciation rate for the BT assets is ten percent as included in the Depreciation Study performed by Company witness John Spanos and made a part of this rate case filing.

Q. PLEASE SUMMARIZE THE BT PROGRAM.

A. Missouri-American's information technology systems were at or near the end of their useful lives and needed to be replaced. Therefore, the decision to replace these systems was prudent. The BT program is a unique capital project both in scope and complexity, and is prudent and necessary for Missouri-American. As indicated above, the costs of BT were reasonable, and the BT team carefully managed the costs of the BT program in an effort to provide customers and other stakeholders with the greatest value at a reasonable cost. American Water conscientiously and successfully pursued the goal of choosing the best solutions and consultants for the BT program at the most reasonable price. In other words, the BT program was prudently planned, designed, constructed and implemented at a reasonable cost and in a timely manner.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SCHEDULE GMV-1
Business Transformation Project
Project Costs By Year
As of 12/31/2014

Year	1010-Indiana American Water Co	1011-Iowa American Water Co	1012-Kentucky American Water Co	1013-Maryland American Water Co	1015-California American Water Co	1016-Michigan American Water Co	1017-Missouri American Water Co	1018-New Jersey American Water Co	1024-Pennsylvania American Water Co	1025-Illinois American Water Co	1026-Tennessee American Water Co
2009	$503,190.82	$108,051.63	$211,055.62	$8,863.57	$293,734.03	$6,274.30	$812,047.99	$1,135,611.87	$1,118,450.38	$530,640.32	$132,653.41
2010	2,397,064.38	517,278.89	1,012,320.25	42,443.51	1,410,326.52	17,659.49	3,951,999.04	5,445,563.30	5,556,675.44	2,565,822.10	631,650.03
2011	8,975,218.66	1,933,221.88	3,812,515.88	154,700.03	5,210,595.59	85,850.23	14,495,632.18	20,486,564.53	20,229,217.23	9,549,632.07	2,372,139.10
2012	10,420,847.89	2,269,297.92	4,397,751.70	176,147.16	5,844,498.38	89,325.59	17,061,733.84	23,864,760.60	22,190,201.01	10,717,305.72	2,823,166.20
2013	5,509,547.29	1,216,791.10	2,501,591.98	108,646.49	3,551,445.30	(45,760.87)	9,145,877.68	13,001,133.43	12,700,780.59	5,784,397.44	1,414,356.97
2014	804,486.74	170,890.39	350,420.77	13,690.16	475,257.17	1,488.60	1,002,665.96	1,699,825.36	1,738,773.90	909,027.26	220,970.12
Grand Total	$28,610,355.78	$6,215,531.81	$12,285,656.20	$504,490.92	$16,785,856.99	$154,837.34	$46,469,956.69	$66,233,459.09	$63,534,098.55	$30,056,824.91	$7,594,935.83

Business Transformation Project
Percent of Project Costs By Year
As of 12/31/2014

Year	1010-Indiana American Water Co	1011-Iowa American Water Co	1012-Kentucky American Water Co	1013-Maryland American Water Co	1015-California American Water Co	1016-Michigan American Water Co	1017-Missouri American Water Co	1018-New Jersey American Water Co	1024-Pennsylvania American Water Co	1025-Illinois American Water Co	1026-Tennessee American Water Co
2009	8.63%	1.85%	3.62%	0.15%	5.04%	0.11%	13.93%	19.48%	19.18%	9.10%	2.27%
2010	8.50%	1.83%	3.59%	0.15%	5.00%	0.06%	14.01%	19.30%	19.69%	9.09%	2.24%
2011	8.64%	1.86%	3.67%	0.15%	5.02%	0.08%	13.95%	19.72%	19.47%	9.19%	2.28%
2012	9.04%	1.97%	3.81%	0.15%	5.07%	0.08%	14.80%	20.70%	19.25%	9.30%	2.45%
2013	8.53%	1.88%	3.87%	0.17%	5.50%	-0.07%	14.15%	21.05%	19.66%	8.95%	2.19%
2014	9.58%	2.03%	4.17%	0.16%	5.66%	0.02%	11.94%	20.23%	20.70%	10.82%	2.63%
Total %	8.77%	1.91%	3.77%	0.15%	5.15%	0.05%	14.24%	20.30%	19.47%	9.21%	2.33%

SCHEDULE GMV-1
Business Transformation Project
Project Costs By Year
As of 12/31/2014

Year	1027-Virginia American Water Co	1028-West Virginia American WaterCo	1030-Hawaii American Water Co	1038-New York American Water Co	2019-New Mexico American Water Co	2022-Ohio American Water Co	2023-Arizona American Water Co	2050-Texas American Water Co	1033-American Water Works ServiceCo	Grand Total
2009	$98,101.32	$303,159.65	$17,751.27	$131,283.73	$30,029.22	$102,638.17	$277,888.17	$9,515.68	$0.00	$5,830,941.15
2010	469,618.66	1,477,643.42	84,487.77	624,967.25	146,467.99	484,551.97	1,332,617.24	45,809.42		28,214,966.67
2011	1,733,968.04	5,454,899.07	313,887.41	2,342,362.81	472.26	655,026.91	3,961.75	(44,501.49)	6,127,187.23	103,892,551.37
2012	1,899,019.94	6,357,090.22	357,152.31	2,660,267.90		(75.45)			4,157,350.23	115,285,841.16
2013	1,135,689.26	3,483,697.13	201,073.29	3,509,689.84					796,626.25	64,615,583.17
2014	160,258.48	474,652.80	25,653.19	338,418.32					14,044.89	8,400,524.11
Grand Total	$5,496,655.70	$17,551,142.29	$1,000,005.24	$9,606,989.85	$176,969.47	$1,242,141.60	$1,614,467.16	$10,823.61	$11,095,208.60	$326,240,407.63

Business Transformation Project
Percent of Project Costs By Year
As of 12/31/2014

Year	1027-Virginia American Water Co	1028-West Virginia American WaterCo	1030-Hawaii American Water Co	1038-New York American Water Co	2019-New Mexico American Water Co	2022-Ohio American Water Co	2023-Arizona American Water Co	2050-Texas American Water Co	1033-American Water Works ServiceCo	Grand Total
2009	1.68%	5.20%	0.30%	2.25%	0.51%	1.76%	4.77%	0.16%	0.00%	100.00%
2010	1.66%	5.24%	0.30%	2.22%	0.52%	1.72%	4.72%	0.16%	0.00%	100.00%
2011	1.67%	5.25%	0.30%	2.25%	0.00%	0.63%	0.00%	-0.04%	5.90%	100.00%
2012	1.65%	5.51%	0.31%	2.31%	0.00%	0.00%	0.00%	0.00%	3.61%	100.00%
2013	1.76%	5.39%	0.31%	5.43%	0.00%	0.00%	0.00%	0.00%	1.23%	100.00%
2014	1.91%	5.65%	0.31%	4.03%	0.00%	0.00%	0.00%	0.00%	0.17%	100.00%
Total %	1.68%	5.38%	0.31%	2.94%	0.05%	0.38%	0.49%	0.00%	3.40%	100.00%