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August 22, 2011

Jeff Derouen  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

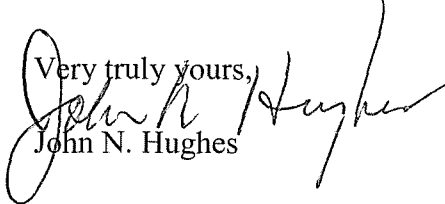
Re: Case No. 2010-00476

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Dear Mr. Derouen:

Attached is the brief for Water Service Corporation of Kentucky. A copy has been served on the Attorney General and the Hickman County Attorney.

If you have any questions about this matter, please contact me.

Very truly yours,  
  
John N. Hughes  
Attorney for WSCK

attachment

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Application of Kentucky Water )  
Service Corporation of Kentucky ) Case No. 2010-00476  
For an Adjustment of Rates )

**BRIEF**

**I. The Company**

Water Service Corporation of Kentucky (“WSCK” or the “Company”), is a wholly owned subsidiary of Utilities, Inc. (UI). It currently serves approximately 7,349 water connections. These customers are located in Hickman and Bell Counties. WSCK maintains an operations office in both Clinton and Middlesboro. Administrative functions such as accounting, data processing, and human resources are performed from the Utilities, Inc. office in Northbrook, Illinois and management from its Charlotte, NC regional office. The company has three national call centers to handle customer service issues.

As explained by Mr. Shrake in his prefiled testimony, WSCK’s parent, UI, is unique within the water and sewer industry in many respects. From its inception almost 40 years ago UI has concentrated on the purchase, formation and expansion of smaller water and/or sewer utility systems. Currently, UI has over 70 systems that provide service to approximately 270,000 customers in 15 states. This affiliation with UI has

many benefits for WSCK customers. One of the primary benefits is that WSCK has access to a large pool of human resources to draw upon. There are experts in various critical areas, such as construction, engineering operations, accounting, data processing, billing, regulation, customer service, etc. UI has the highest level of combined expertise and level of experience in a more cost effective manner.

By concentrating on operating water and sewer systems, UI personnel have the ability to meet the challenges of the rapidly changing utility industry. Because the UI companies are focused on the water and sewer industry, its companies can leverage its market placement. For example, UI's access to capital is available for improvements and expansion at a reasonable cost to all of its operating companies. With increasingly more stringent health and environmental standards, ready access to capital will prove vital to continued quality service in the water and sewer utility business.

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In addition, the UI group of companies has national purchasing power that results in lower costs to rate payers. Expenditures for insurance, vehicles, chemicals and meters are a few examples of purchases where national contracts provide tangible benefits to rate-payers. The Commission has recognized the benefits of consolidated water operations. In Administrative Case 366, Order dated August 19, 1998, page 4, the Commission commented that small water utilities might not be able to meet SDWA requirements. It also said that economies of scale would provide larger utilities to be better positioned than smaller ones to develop adequate plant facilities and staff resources. UI provides WSCK the very economies of scale that the Commission believes necessary for the safe efficient operation of small water utilities.

However, even with the benefits of UI, WSCK is not able to meet its operating

costs and earn a reasonable return on its investment in the WSKC system with its present rates. WSKC's current income statement is shown in the Application, Schedule B.

For the test year ended September 30, 2009, WSKC had an operating ratio of 114% which is 36% higher than the 88% ratio generally allowed by the Commission.

Without satisfactory rate relief, WSKC's ability to continue to provide safe, reliable and efficient water and sewer utility services to its customers will be placed in jeopardy, and WSKC will be unable to meet its financial obligations.

To meet its financial requirements, WSKC filed an application for a retail rate adjustment on January 24, 2011 with an effective date of the proposed rates of February 24, 2011. A "no deficiency letter" dated January 31, 2011 found that the application met the Commission's filing requirements. On February 23, 2011 the Commission notified

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WSKC that its application was deficient and that it must re-file the proposed tariff sheets. On February 24, 2011, the revised tariff sheets were filed with an effective date of March 29, 2011. No action was taken by the Commission on the revised effective date and no suspension of the rates was ordered. WSKC has not placed the proposed rates into effect.

Extensive discovery by the staff and Attorney General proceeded over several months. A hearing was held on July 14, 2011, with the Attorney General and Hickman County intervening.

## **II. Revenue Requirement Issues**

To accurately calculate the cost of WSKC's operations, the following adjustments were made to the test year income statement:

- Revenues are annualized at proposed rates using the average test year customers;

- Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues in the test year applied to pro forma proposed revenues;
  - Salaries, Wages and Benefits are adjusted to annualize as of the end of the year;
  - Regulatory Commission Expense has been adjusted to reflect the cost of the current rate case over 3 years;
  - Depreciation and Amortization Expense are annualized. Depreciation expense represents gross depreciable plant at the end of the year plus pro forma projects multiplied by their respective depreciation rates;
  - Taxes other than Income is adjusted for annualized payroll taxes, Utility Commission Taxes, and Gross Receipts Taxes;
  - Income Taxes are computed on taxable income at current rates;
- 
- AFUDC is eliminated for rate making purposes;
  - Interest on debt is computed using a 50.11%/48.89% debt/equity ratio and a 6.58% cost of debt; and;
  - Expenses for Clinton sewer operations have been reduced to actual expense reductions.

Additionally, the following adjustments were made to rate base:

- Working capital has been calculated based on pro forma expenses;
- Pro forma plant is adjusted for a pro-forma project and CC&B (new billing system) closed out after the test year but before the filing of the rate case;
- Accumulated depreciation, CIAI and AIAC have been restated to reflect a 2% depreciation rate from the year recorded;

- Gross plant in service has been restated to account for an asset that was not booked at the time of acquisition;
- Working capital has been recalculated based on pro forma expenses;
- Transportation equipment has been reduced due to operator time for Clinton sewer operations.

The impact of these adjustments necessitates an annual increase in water revenues for WSCK of \$448,723, (Application Exhibit 4, Schedule B) which results in an approximate 21% increase in the current rates for customers in Middlesboro and Clinton. (Application Exhibit 2)

The company used an operating ratio of 88% to calculate its revenue requirement. This simplified method reduces the cost of the application and allows the company to recover its actual expenses. With the exception of a few minor pro forma adjustments to reflect actual changes in the operating expenses of the company, only actual test year expense levels are being recovered. There is no projection of capital costs or additions to plant, employee levels or other operating expenses. The increase in rates is necessary for the company to meet its obligations, service its customers and maintain its current level of operations.

The 21% increase in rates is simply additional dollars to pay the increased costs experienced since the last rate case in 2008. WSCK must continue to operate as efficiently as possible and to get by on less available money because even with this increase in rates, costs continue to increase. Even if allowed the full 21% increase, expenses such as electricity, chemicals, capital, insurance and other expenses outside the control of the company continue to increase. WSCK will have to continue to economize

just to be able to meet current expenses. It has no cushion built into the rate request to deal with these uncontrollable cost increases.

### **III. Project Phoenix Allocations**

One of the primary issues in this case is the reasonableness of the allocations to WSCK of expenses related to the implementation of a new computer billing and record keeping system known as Project Phoenix. Water Service Corporation, a subsidiary of Utilities, Inc. is the company that actually charges WSCK for the allocations. All employees of WSCK are actually employees of WSC. Throughout the testimony and documents, reference to UI and WSC are sometimes made interchangeably. (Lubertozzi video@15:34)

WSC is a wholly owned subsidiary of Utilities, Inc. ("UI"). WSC manages the operation of all of UI's water and wastewater systems, including WSC of KY. WSC provides management, administration, engineering, accounting, billing, customer relations, data processing, and regulatory services for its subsidiaries. WSC's expenses and rate base items are assigned directly to a utility, when applicable, or distributed to the various companies pursuant to a formula. The formula is the number of Equivalent Residential Connections (ERC'S) for the specific subsidiary divided by the total number of ERC's served by WSC. These allocated costs are accounted for via intercompany transactions, and services rendered by WSC to WSC of KY are provided at cost without a markup for profit. (Lubertozzi Prefiled pp. 2-3).

There are several significant improvements to the operations of WSCK which affect improved service to customers and which impact the need for additional rates.

UI and its predecessors had not made a significant investment in technology in quite some time. Antiquated systems, lack of integration, and the lack of standardization were beginning to have an adverse effect on the Company and its customers. (Lubertozzi video@ 15:54) Accordingly, UI set out to improve the Company's capabilities and processes in the accounting, customer service, customer billing and financial and regulatory reporting areas.

Project Phoenix began in early 2006 with a series of internal and external evaluations, which culminated in a business case presentation by Deloitte to the Company in September 2006. The business case identified: Drivers for Change, Current State Overview, Recommended Solutions, Future State, and Benefits to Stakeholders. The business case presentation confirmed UI's initial evaluations that fragmented and non-standardized processes were complex and inefficient, with an attendant risk of error and control breakdown. The infrastructure unnecessarily placed stress on the Company's human capital. The Company's legacy financial and customer care systems were either fully customized or unsupported, or both, which resulted in a risk of breakdown and impeded management's ability to obtain information to make decisions, and use of spreadsheets made ensuring accuracy and control difficult, resulting in the potential for errors in operation and regulatory reports. After the business case presentation and an evaluation of potential solutions, UI management selected JD Edwards Enterprise One ("JDE") as the financial system, including asset management, and Oracle's Customer Care and Billing System ("CC&B") as the customer information system. These systems are integrated in a manner that allows for the sharing of crucial information between the Company's different operational organizations. (Lubertozzi prefiled, p.6).



JDE is a web-based software system that allows easy access from multiple locations. It is composed of the following modules: Accounts Payable, Human Resources / Time Capture, Requisitioning, Capital Projects, Fixed Assets, Equipment Management, and General Ledger. Each of these modules includes enhanced tracking and integration components, which should improve the Company's ability to record and retrieve data. The system has enhanced record keeping and retrieval functions, making production of financial and regulatory reports easier. In addition, the reports are more accurate, which benefits customers by improving the management decision making process and allowing the Company to more efficiently deliver reliable information to regulators. (Lubertozzi video@15:55) The system also reduces manual effort and reliance on spreadsheets, which again improves the reliability of reports. The Capital Projects module allows employees to view and track projects in real-time. (Sasic video@16:41) Employees are able to manage projects and costs in a more effective manner, which benefits the Company and customers

JDE was officially placed in service on December 3, 2007. The total cost of the JDE system as of 09/30/10 was \$13,995,789. Approximately \$368,089 or 2.63% of the total cost of the project was assigned to WSC of KY. (Lubertozzi prefiled, p. 8)

CC&B is a web-based software system. The web-based feature allows for quicker return of information to the user and allows for "quicker fixes" should the system go down involuntarily, or need to go down for routine maintenance. CC&B is composed of the following modules: Customer Management and Service, Billing, Accounts Receivables & Collections, Device Management, and Meter Reading. UI's legacy customer care and billing system was fully customized and unsupported. The system had

several weaknesses. Customer and premise information were linked in one account. As residents moved, the service order history at the premise was purged and prior service activities eventually became unavailable for viewing. This resulted in the loss of valuable information. In addition, field personnel were sent daily service orders through either email or fax. They did not have access to the legacy billing system. Upon completion of the service orders, the information was emailed or faxed back to the billing office for closure of the orders. The process was manually intensive and led to untimely responses due to incomplete fax transmissions. Additionally, as residents moved from one premise to another within the Company, they were issued a new account number. There was no efficient means of tracking a customer and transferring payment information, service history and billed services (debt) from one account to another.

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CC&B offers the ability to focus on either a customer or a premise. Field activity information at a premise is stored in the records indefinitely, allowing field personnel to retain prior history of past service issues at a residence. This allows them to act in a cost effective manner when considering repair or replacement of equipment or lines at a premise. In addition, CC&B automates field activities to the field. A background process makes key decisions about assignments and timing. CC&B automates field activity dispatching and allows for uploading and downloading to hand-held devices. The system allows the field operators to complete field activities in a live environment so that CSR's (customer service representatives) have the information available to them as soon as the order is completed. In this regard, UI deployed "tough books" in each field vehicle. (Lubertozi, prefiled and video@ 15:51).

The new system also provides a three way matching of information that improves customer service, provides an audit trail and information not previously available.

(Lubertozi video@ 15:52-53). Customer bills can be reviewed prior to issuance for errors, bills can be paid locally with real time information availability and payments can be accessed immediately, which avoids unnecessary cut offs or cut off notices.

(Lubertozi video@ 15:53-55)

CC&B was placed into service on June 2, 2008. CC&B is used on a daily basis to look up customer accounts to answer billing questions. Billing issues are identified and resolved immediately before the customer receives their bill. Mail and walk in payments are posted to the customer's account in real time. (Lubertozi video@ 15:54, Sasic video@16:41) All corrections or adjustments to a customer's account are entered into

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CC&B and, again, posted in real time. Customer Service personnel use CC&B to look up customer's accounts and review meter reads, payment history, consumption history and mailing addresses. (Sasic video @ 16:41) All pertinent information is displayed on one screen, which helps Customer Service answer questions quickly. New customers are signed up through CC&B. Customers discontinuing their service are taken care of through CC&B. (Lubertozi, prefiled p. 10- 11)

The total cost of the CC&B system as of 09/30/10 was \$7,126,679. Approximately \$187,432 or 2.63% of the total cost of the project was assigned to WSC of KY. (Lubertozi prefiled, p. 11) These assets are currently in service and providing a benefit to all of WSC of KY's customers. The original vendor no longer supported the legacy accounting and billing system. In addition, the legacy system did not contain certain internal controls that are commonly present in most accounting systems, like the

three way match. (Lubertozi, video@ 15:52). The three-way match allows the Company to compare the purchase order to the actual goods received to the voucher sent by the vendor. The billing system conversion allows the Company to track usage and service issues at a premise regardless of the customer. In addition, the Company's past practice when dealing with customer service issues was to fax service orders to the local operators. However, the new system allows for instant communication between the operator and the customer service representative, which reduces delay time to the customer. These are just a few of the benefits to the customer. Keeping the legacy systems was not in the best interest of ratepayers and the Company. (Lubertozi, prefiled , p. 12).

Reinforcing and supplementing the testimony of Mr. Lubertozi, Patrick

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Baryenbruch testified that the expenses allocated to WSCK by WSC are reasonable. His prefiled testimony addressed three questions concerning the services provided by WSC WSCK:

1. Are the costs of administrative and general (A&G) services provided by WSC to WSCK reasonable?
2. Was WSCK charged the lower of cost or market for managerial and professional services provided by WSC during the 12 months ended September 30, 2010?
3. Are the services WSCK receives from WSC necessary? (Baryenbruch, prefiled, p. 3)

His study of the service charges allocated to WSCK concluded that the charges are necessary and reasonable. (Baryenbruch, prefiled, p.4-5).

During the cross examination of Mr. Baryenbruch, the Attorney General attempted to discredit his methodology and particularly his reliance on FERC 60 data. That effort was unsuccessful. Mr. Baryenbruch testified that he uses the best and most

readily available data. There is no such data for water companies. The FERC 60 Form is consistent, audited information. Using only the data related to administrative and general expenses, not operations and maintenance, which can vary significantly from company to company and industry to industry, he is able to make valid comparisons of the relationships of these expenses among companies. (Baryenbruch, video @ 10:28-10:35). He goes on to say that available water company information is not uniformly available and is not audited, so it is not reliable. (Baryenbruch, video @ 10:41)

Use of the consistent information available in the FERC 60 Form allows comparison of similar services such as accounting, legal, finance, and other activities generally performed by regulated utilities. (Baryenbruch, video @ 10:55) and uses the best information available (Baryenbruch, video@ 11:23; 11:32). The information provides a large sample to make valid comparisons. (Baryenbruch, video@ 11:07). It should be noted that Mr. Baryenbruch has testified in several Kentucky American Water Company rate cases and has used the same methodology, the same data sources and the same analysis to support the allocations of American Water Company to KAWC. The Commission has accepted the methodology and the use of the supporting data. See for example, Kentucky American Water Company Case No. 2010-00036. He also testified in Tennessee Regulatory Authority, Case No. 10-00189, Tennessee American Water Company about these issues. (Baryenbruch video@11:30 ). A copy of the rebuttal testimony he referred to is attached. Nothing in the testimony in this case supports a deviation from that prior recognition of the validity of the methodology or of the conclusions of the study in this case.

Next the Attorney General and the staff attempt to create a phantom “stand alone” company to compare to WSCK. The assumption that both the AG and the staff base their attack is that WSCK would be able to acquire the services provided through WSC at a lower cost than allocated to it by WSC. There is nothing in the record to support this assumption. There is no data, study or other evidence of the cost to WSCK independently acquiring the services provided through WSC. There is no data, study or other evidence of the cost of WSCK operating as an independent, stand-alone utility. For the Attorney General and the staff to make any comparison of the allocated costs from WSC to WSCK and the cost of similar services acquired by WSCK as a stand-alone company, they must provide some evidence of those costs and their applicability to WSCK. No such evidence has been provided. Assumptions, speculation and “what-ifs” are not substantial evidence.

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In contrast to the total lack of support for their non-existent stand-alone company, Mr. Baryenbruch provided detailed comparisons of costs and the reasonableness of those costs to WSCK. If WSCK was not allocated its proportionate share of the costs of PP and CC&B, his study shows that the cost of contracting for those services independently by WSCK would be significantly higher. (Baryenbruch, video@11:49) The services allocated to WSCK by WSC are necessary and the services are allocated by WSC at cost to WSCK and are reasonable. (Baryenbruch video@10:38). WSCK uses all of the elements of the PP and CC&B and those are services generally required of and used by similar utilities. (Baryenbruch video@ 11:42-11:44).

In response to a question by the Hickman County Attorney about the non-existent stand-alone company that is the focus of the intervenors, Mr. Baryenbruch testified that

the cost to WSCK for the PP and CC&B systems is not unreasonable and the amount allocated is not inappropriate for IT services and is prudent. He also said the cost of WSCK providing its own employees and facilities to perform these allocated service would exceed the cost currently being incurred. (Baryenbruch, video@11:40-44). In addition to the reasonableness of the cost, he pointed out that the current system replaced an unsupported software system and provides direct benefits to WSCK. (Baryenbruch video@11:36-36). If WSC had to purchase the elements of service provided by PP and CC&B, his study shows that the cost of those functions purchased independently would exceed the current allocated cost. (Baryenbruch video@ 11:50 54, prefiled testimony, p.3).

This case is about WSCK as an operating company of WSC. It is not about WSCK as a stand-alone fully functioning utility. The attempt to segregate the allocated expense for PP and CC&B is inappropriate. If this one item of expense is treated independently of the total operating costs of the company, all other expense items are distorted. For example, WSCK is allocated a portion of cost of capital. Because WSC can borrow money on better terms than a smaller company, such as the imaginary stand-alone WSCK, the total cost of capital allocated to WSCK is lower than it otherwise would be. Yet, WSCK gets no recognition of this benefit in its rates. It recovers only the actual cost allocation -similarly with other benefits such as insurance or retirement. WSCK does not get an enhanced revenue requirement for what those additional costs would be if it was a stand-alone company, rather than part of a larger organization that can obtain more economically priced goods and services. The effort to fabricate a non-existent entity as a surrogate for reality simply leads to an unrealistic, distorted result that

does not fairly represent the operations of WSCK. It is not reasonable to recognize the economies of scale and related benefits that WSCK receives from WSC, yet reject the expenses associated with one service provided by WSC, because it appears to some, though without any evidentiary support, to be excessive.

The benefit of PP and CC&B is apparent in this case. All of the data in the application and data responses as well as several of the hearing data requests have been prepared using those systems. The information provided by the systems would not have been available in the format, detail and time frame requested by the Commission. For the Commission to find that the use of these systems is unreasonable and to disallow the entire cost of the services is unlawful. The services have been proven to be provided to the ratepayers and are of benefit to them and the Commission, itself.

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The only evidence in the record is the actual test year expense allocated to WSCK. Because the services are provided and WSC incurs the expense in providing the services, WSCK is obligated to pay a reasonable share of those expenses. Even if the Commission believes the expenses are excessive, it must provide a basis for disallowance other than the un-quantified, unsubstantiated conclusion of unreasonableness. Some level of expense for these services is warranted. The Applicant has provided detailed proof of the expense and its reasonableness. A blanket rejection of the entire amount without any facts, justification or comparison is arbitrary. As the court said in Kentucky Power Co. v. Energy Regulatory Commission, KY, 623 S.W. 2d 904, 905 (1985): "...The testimony of the Company's witnesses...standing virtually uncontradicted, had probative value sufficient to compel a finding consistent with it..." (Emphasis added)



In this case the testimony was completely uncontradicted. No evidence was produced by any party of the unreasonableness of the Project Phoenix or the CC&B expenses. Questions from the Attorney General and the staff attempted to develop support for the notion that the costs of billing, accounting, human resources and all other services allocated to WSCK through Project Phoenix and CC&B could be obtained at a lower cost if contracted locally by WSCK at each of its Kentucky service locations. However, none of WSCK's witnesses agreed with that notion and no evidence is in the record to support a finding that the cost for the services allocated to WSCK would be or could be lower if obtained independently from WSC.

Mr. Lubertozi testified that the services available through the PP and CC&B systems would have to be provided at a higher cost to Kentucky ratepayers if the local companies hired employees to perform those same services. The salaries and benefits for employees performing the work of PP and CC&B would exceed the allocated cost of those systems. (Lubertozi video@ 16:14) There is a direct financial benefit to Kentucky from the economies of scale that UI and its implementation of PP and CC&B provides. (Lubertozi video@ 16:16). The cost of interfacing stand-alone operating and accounting information into the PP and CC&B systems would result in additional costs to Middlesboro and Clinton. (Lubertozi video@ 16:19).

Based on the responses to staff questions at the hearing, the cost to WSCK customers of PP is \$1.07 per month, which is less than the average cost per UI customer of \$1.47 per month. (Hearing Response 13). It is also less than the cost per month of WSCK office supplies ( $\$102,242 \div 7,349 \div 12 = \$1.16$ ). See Schedule B, page 2/4 Exhibit 4 of the Application). In the context of the undisputed benefits to the customers and to the

regulatory process of PP and CC&B, the cost is fully justified and reasonable when compared to actual, known and measurable expenses.

A finding to support a conclusion that there are no benefits to Kentucky customers from the PP and CC&B systems or that the cost is unreasonable cannot be based on assumptions unsupported by direct evidence and speculation about unknown, unverified and non-existent lower costs. As the United States Supreme Court said in Lindheimer, et al. v. Illinois Bell Telephone Co., 292 U.S. 151, 163; 54 S. Ct. 658 (1934): “The actual experience of the company is more convincing than tabulations of estimates.” Rather than depriving WSK of an actual expense reasonably incurred, actually used for the benefit of the customers, and actually used to comply with Commission regulations as to certain service standards such as billing, record keeping, regulatory reporting and other aspects of utility operations, the Commission is obligated to allow WSK to recover its costs of operations. “It must be determined whether the rates complained of are yielding and will yield...a sum sufficient to constitute just compensation for the use of the property employed to furnish service...” McCardle v. Indianapolis Water Co., 272 U.S. 400, 408-09; 47 S. Ct. 144 (1926). Disallowance of the entire expense associated with the allocations of services for Project Phoenix and CC&B is unjustified, unsupported by the evidence and unlawful.

'The facts that the work is done by a central agency, and that the precise allocation of benefit on the one hand and cost on the other, cannot be apportioned among the respective subsidiaries with mathematical precision, are no good reason for the refusal of a state regulatory authority to refuse to allow a utility under its jurisdiction to contribute, as part of its operating expense, a fair proportion of the cost of maintaining the service.' *State ex rel. Pacific Tel. & Tel. Co. v. Department of Pub. Serv.*, 19 Wash.2d 200, 249, 142 P.2d 498, 522 (1943). See *Pacific Tel. & Tel. Co. v. Flagg*, 189 Or. 370, 389--395, 220 P.2d 522 (1950), and cases cited.

New England Tel. & Tel. Co. v. Department of Public Utilities, 354 N.E.2d 860, 371 Mass. 67 (1976).

The evidence in the case proves that the allocations of the Project Phoenix and CC&B expenses are related to services necessary to provide utility service to the Kentucky customers, are not duplicative of services available from WSCK's local workforce, produce tangible benefits to the ratepayers and the Commission and are at or below the cost of the market value of the services. These are factors the Commission discussed in "Adjustment of Rates of Salem Telephone Co", Case No. 91-217, Order dated January 19, 1993 as being necessary to justify the corporate allocations of expenses.

WSCK has met its burden of proving the necessity of the expenses, the benefit to the customers of the expenses and the reasonableness of the allocations. Nothing in the record provides the Commission with any basis for disallowance of the allocations. Mere speculation that they may be excessive or that some other utility of similar size unaffiliated with a corporate parent might not be able or willing to incur the level of expenses or any other unconfirmed possibility is sufficient to make a legally supportable finding that the allocation is unreasonable.

As of now, Kentucky stands alone among fourteen states that have reviewed PP and CC&B in finding no benefits to customers and stands alone in rejecting the recovery of the costs of those systems in rates. (Hearing Response 1). Even states that have UI operating companies smaller than Clinton and Middlesboro have approved the allocation of these expenses. (Lubertozi video@16:18). It is unfair and unreasonable for the non-Kentucky UI customers to continue to subsidize the WSCK operations, when every other

regulatory agency that has reviewed the projects has determined that there is a benefit from PP and CC&B and that the expense associated with the benefit is reasonable for ratemaking.

#### **IV. Customer Service Issues**

There were several questions about customer service issues at the hearing. Customer disconnections have not increased due to PP or CC&B. (Sasic video@16:34). The company also filed a post hearing data response that confirms that there has been no significant change in disconnections. (Hearing response 4)

The company's policy related to disconnections is consistent with the Commission's regulations. (Sasic video@ 16:31) Notices are provided to customers at 20 days and five days as 807 KAR 5:006 (14) requires. 807 KAR 5:006 sections 13 and 14 require notice of the potential disconnect and an opportunity for the customer to enter into a payment plan or budget billing plan. Ms. Sasic confirmed those options in her testimony (Sasic video@16:33)

There was a question about the company's program to provide assistance to customers that are facing disconnect. Ms. Sasic stated that the company has an internal policy for customer assistance. (Sasic video@16:34) However, as the Commission has specifically disallowed direct discount or assistance programs, the company has not considered one for Kentucky. See for example, "Kentucky American Water Company", Case Nos. 2004-00103, February 28, 2005 and 2010-00036, December 14, 2010.

Several questions about the Clinton church that reported a \$1000.00 monthly bill were asked. The company removed the meter after the hearing and submitted it to a certified testing agency. The results of the test were supplied in response to the post

hearing data responses. The test confirmed that the meter was operating within PSC standards. (Hearing response 15)

Finally, the response time for customer complaints has remained within company norms after implementation of CC&B.

Clinton

Objective	Measure	2011 Target	Jan	Feb	Mar	Apr	May	June
Field Activities Completed On Time	% Completed by Due Date	95%	100%	98.94%	100%	100%	100%	100%

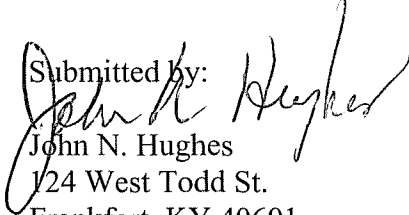
Middlesboro

Objective	Measure	2011 Target	Jan	Feb	Mar	Apr	May	June
Field Activities Completed On Time	% Completed by Due Date	95%	100.00%	99.35%	100.00%	99.41%	98.84%	99.57%

**V. Conclusion**

WSCK realizes the impact of any rate increase on its customers. However, unlike other companies, it has a public service obligation to make water service available to all of its customers. It cannot simply reduce service, lay off employees or limit its hours of operations. It must maintain its facilities to meet the customers' peak day demand. It cannot shut off a portion of its treatment plant or close off a portion of its distribution system. Those obligations incur ongoing expenses, many of which are beyond the company's control. For example, chemicals, electricity, insurance, fuel, etc., continue to increase. Without recovery of the costs of these items, the company cannot continue to operate. This rate case seeks recovery of only the minimum amount of expenses needed to maintain its financial and service obligations.

For these reasons, the Company requests that it be granted the rates and revenue increase proposed in its Application.

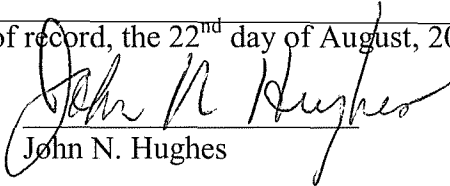
Submitted by:   
John N. Hughes  
124 West Todd St.  
Frankfort, KY 40601

Attorney for Water Service  
Corporation of Kentucky

Certificate of Service:

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A copy of this Brief was mailed to parties of record, the 22<sup>nd</sup> day of August, 2011.

  
John N. Hughes

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**TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE  
DOCKET NO. 10-00189**

**TAWC EXHIBIT \_\_\_\_\_**

**REBUTTAL TESTIMONY OF  
PATRICK L. BARYENBRUCH**

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**TENNESSEE-AMERICAN WATER COMPANY**

**FEBRUARY 8, 2011**

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SCHEDULES



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REBUTTAL TESTIMONY

1

**I – WITNESS INTRODUCTION**

2

**1. Q. Please state your name and business address.**

3

A. Patrick L. Baryenbruch, 2832 Claremont Road, Raleigh, North Carolina 27608.

4

**2. Q. Did you previously file direct testimony in this case?**

5

A. Yes, I filed direct testimony and a study that evaluated the necessity of services provided by American Water Works Service Company, Inc. (“Service Company”) to Tennessee American Water Company (“TAWC”) and the reasonableness of those charges.

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My study answered four questions concerning the services provided by the Service Company to TAWC, each of which bears on the appropriateness of those charges as incurred during the 12 months ended March 31, 2010. First, are the Service Company's charges to TAWC during the 12 months ended March 31, 2010 reasonable? Second, was TAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during those 12 months? Third, were the costs of the Service Company's customer accounts services, including those of the National Call Centers, comparable to those of other utilities for those 12 months? Fourth, are the services TAWC receives from the Service Company necessary?

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**II – PURPOSE OF TESTIMONY**

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**3. Q. Please describe the reason for your rebuttal testimony.**

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1 A. I am responding to the following sections from the direct testimony of Kimberly H.  
2 Dismukes, witness for the City of Chattanooga:

3 • Are the Service Company's charges to TAWC during the 12 months ended  
4 March 31, 2010 reasonable? – Dismukes: Section VI

5 • Was TAWC charged the lower of cost or market for managerial and  
6 professional services provided by the Service Company during the 12 months  
7 ended March 31, 2010? – Dismukes: Section VII

8 • Were the 12 months ended March 31, 2010 costs of the Service Company's  
9 customer accounts services, including those of the National Call Centers,  
10 comparable to those of other utilities? – Dismukes: Section VIII

11 • Are the services TAWC receives from the Service Company necessary? –  
12 Dismukes: Section IX

13 **III – MS. DISMUKES' TESTIMONY CONCERNING**  
14 **SERVICE COMPANY COST COMPARISON**

15 **4. Q. What is Ms. Dismukes' argument against your answer to the question**  
16 **regarding the reasonableness of Service Company costs?**

17 A. The benchmarking I employ in answering this question compares A&G costs per  
18 customer for TAWC's Service Company charges to the same charges for electric  
19 and combination electric/gas services companies that must file the Form 60 with  
20 the FERC.

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1 Ms. Dismukes would prefer that I use data only from other water companies.  
2 This is impossible because no publicly available cost information exists for water  
3 service companies. Very few water companies have a centralized service  
4 company arrangement. Those that do are not overseen by a single regulatory  
5 authority that requires standard informational filings, as does the FERC.

6 Ms. Dismukes contends it is impossible to compare any costs of water utilities to  
7 those of electric utilities. On page 4 of her testimony, Ms. Dismukes states that I  
8 have "provided no evidence that the service company charges of electric

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9 companies are comparable to or should be compared to the service company  
10 charges of water companies."

11 Ms. Dismukes attempts to argue against the service company comparison group  
12 by discussing the various ways electric generation, transmission and distribution  
13 are different from water treatment and distribution. She is correct in noting that  
14 these operating and maintenance (O&M) functions are completely different for  
15 the two industries. This is not relevant to the question, however, because I do  
16 not make comparisons of O&M expenses. I compare American Water's Service  
17 Company costs for administrative and general (A&G) expenses to the same  
18 costs for electric and electric/gas utility service companies. In pages 27 through  
19 38, Ms. Dismukes presents various arguments against my comparison group  
20 approach. She tries to extrapolate differences in utility O&M functions to A&G  
21 services, although A&G services involve similar processes across utilities. I will

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1 demonstrate in this rebuttal testimony that her arguments are flawed. In this  
2 rebuttal testimony, I will demonstrate why A&G service activities are similar  
3 among different utility types.

4 **5. Q. Please define what comprises the A&G services that you include in your**  
5 **service company cost comparison.**

6 A. A&G functions include the following:

- 7 • Legal
- 8 • Internal Auditing

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- 9 • Accounting & Property Records
- 10 • Taxes
- 11 • Budgeting and Reporting
- 12 • Information Technology
- 13 • Rates and Regulatory
- 14 • Procurement
- 15 • Human Resources
- 16 • Customer Services
- 17 • Executive Management

18 The question Ms. Dismukes should have addressed in her direct testimony is  
19 “Are there significant differences in the nature of these A&G-related services  
20 between water and electric utilities?” I will demonstrate that A&G services

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1 provided by utility service companies are generally similar and, therefore, valid  
2 cost comparisons can be made across utility industry types.

3 **6. Q. Please describe your experience to make this determination.**

4 A. Based on Ms. Dismukes' description of her background in her direct testimony,  
5 the focus of her career has been in representing parties on the opposite side of  
6 regulated utilities in regulatory proceedings. Her lack of direct work experience  
7 within utility organizations is evident in her analysis and presentation of her water  
8 sample group and unsupported assertions about service company organizations  
9 in general as pointed out in this testimony.

10 In contrast to Ms. Dismukes' background, I have significant experience working  
11 for utility clients over 35 years, performing a wide variety of consulting  
12 assignments that provide me a thorough understanding of their structure,  
13 organization, operations and business processes. I have worked for 46 investor-  
14 owned utility companies and 8 public power entities. My clients include several  
15 utilities served by service companies in this study's comparison group, including  
16 Allegheny, Dominion, Duke Energy, Entergy, E-On, Exelon, First Energy,  
17 NiSource, Northeast and Progress Energy.

18 For the past several years, I have helped manage a number of information  
19 technology projects involving over 500,000 hours of work. These projects require  
20 a detailed understanding of the utility client's processes affected by the new  
21 systems.

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1 I have performed consulting assignments at several nuclear stations, including  
2 Brunswick, Robinson, Harris, Limerick, Grand Gulf, ANO 1, Waterford, Salem,  
3 Hope Creek, Comanche Peak and Diablo Canyon.

4 During 2004, I helped Duke Energy manage its implementation of Sarbanes-  
5 Oxley 404, a project that involved the work of hundreds of employees and  
6 outside consultants. I later assisted Duke Energy with its 2006 merger with  
7 Cinergy, helping to integrate the two companies' financial systems, charts of  
8 accounts and business processes.

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9 Besides working directly for utility clients, I have worked for their regulators,  
10 participating in the 22 commission-ordered general management audits. In  
11 addition, my firm conducted the 2002-2005 audits of Southern California Edison's  
12 affiliate transactions for compliance with the California Public Utilities  
13 Commission's regulations.

14 This extensive utility industry experience puts me in a position to determine that  
15 the cost of administrative and general services can be validly compared across  
16 different utility types. This is so because A&G processes are similar even though  
17 the utility services differ.

18 **7. Q. Please provide examples of how A&G services are similar across different**  
19 **utility types.**

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

8 Investor-owned utilities of any type have similar processes for tax accounting and  
9 compliance. They all have to deal with federal and state income, property, sales  
10 and use taxes. In general, tax personnel are responsible for determining tax  
11 provisions and preparing and filing various tax returns.

12 Information technology services cover a broad range of activities that are also  
13 generally quite similar among utilities. Employees are provided with  
14 workstations, email, Microsoft Office, phone service, internet connections and  
15 access to financial, human resources and various other corporate applications.  
16 Many of the same applications are used by different utilities. For example,  
17 American Water uses an application called PowerPlant for project and fixed  
18 asset accounting. My clients Duke Energy and Progress Energy use the same  
19 application.

20 Information technology hardware and software is operated and maintained in the  
21 same way regardless of utility type. Servers reside in a data center that is

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1 operated and maintained by the central IT organization. Telecom and network  
2 services are handled in the same centralized way. Corporate applications are  
3 supported by technical personnel in the central IT organizations of any type of  
4 utility. Thus, American Water's data center in Harrisburg, Pennsylvania, provides  
5 the same type of services as the data centers of electric service companies.

6 The processes and activities associated with delivering other A&G services, such  
7 as legal, procurement, human resources, customer services and executive  
8 management are likewise similar among different types of utilities.

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9 For all these reasons, I believe my comparison provides a valid and useful way to  
10 put into perspective the A&G-related charges from American Water's service  
11 company compared to the cost of other utility service companies.

12 **8. Q. What is Ms. Dismukes' first mischaracterization of utility A&G differences?**

13 A. Beginning with line 21 on page 28, Ms. Dismukes contends the level of regulation  
14 of electric utilities is monumentally greater than that faced by water companies.  
15 Her statement that "electric companies are regulated by numerous agencies"  
16 suggests that water companies face little regulation. This, of course, is not the  
17 case. Water is ingested and is highly regulated by federal and state authorities.  
18 For instance, TAWC must comply with many regulations established by the  
19 Tennessee Division of Water Supply and US Environmental Protection Agency  
20 ("EPA"). In states where American Water utilities have water impoundments or  
21 stream supplies, they may face regulation related to dams and fish and wildlife



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1 agencies. Some American Water utilities are also subject to regulation by the  
2 Army Corps of Engineers and National Oceanic and Atmospheric Administration.

3 On page 29, Ms. Dismukes includes an excerpt from an Exelon statement that  
4 describes the aspects of its nuclear generation stations that are regulated by the  
5 Nuclear Regulatory Commission ("NRC"). She then contends the "operating and  
6 regulatory framework of nuclear power generators and water treatment plants is  
7 so dissimilar it is unrealistic to think their A&G expenses would be in any way  
8 comparable."

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9 If, as Ms. Dismukes contends, regulatory costs of electric/gas utilities were highly  
10 significant, that would be reflected in their affiliate service company charges  
11 associated with FERC Account 928 – Regulatory Commission Expenses.  
12 However, as shown in Schedule PLB-1, the 2009 cost per customer for such  
13 charges are not material. The 2009 average annual cost per customer was only  
14 \$0.55, which represents 1% of total service company A&G charges.

15 Also, if regulatory costs for nuclear utility companies are driven up significantly by  
16 the NRC's regulation, as Ms. Dismukes contends, you would expect their A&G  
17 costs to be much higher than non-nuclear utility companies. However, an  
18 analysis of the underlying numbers shows this to be untrue. As shown in  
19 Schedule PLB-2, the service companies that have affiliates with nuclear  
20 generation actually have a lower total A&G annual cost per customer (\$95)  
21 compared to those without nuclear generation (\$97). Furthermore, a review of

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1 each utility's per-customer costs in Schedule PLB-2 shows there is no  
2 relationship between A&G costs and the extent of a utility company's nuclear  
3 generation.

4 In conclusion, an analysis of the relevant data shows Ms. Dismukes to overstate  
5 the impact of nuclear regulation on electric utility A&G costs.

6 **9. Q. What is Ms. Dismukes' next mischaracterization of utility A&G differences?**

7 A. Beginning on page 30, line 1, Ms. Dismukes describes the operational aspects of  
8 ~~running an electric utility generation fleet. In this aspect she is correct that these~~  
9 are clearly different and more complex than running water company treatment  
10 facilities. The problem with her application of this finding, however, is that  
11 expenses associated with the generation plant functions she describes are all  
12 recorded in FERC O&M accounts 500-545 and are largely recorded on the books  
13 of the regulated utility itself, not its service company. They are irrelevant to the  
14 study of service company costs. My cost comparison focuses on service  
15 company A&G costs which are recorded in the 900 series of FERC accounts.  
16 Again, Ms. Dismukes is mistaken in her contention that the nature of electric  
17 utility A&G costs is different than water company A&G costs.

18 **10.Q. What is Ms. Dismukes' next mischaracterization of utility A&G differences?**

19 A. Starting on line 14 on page 30, Ms. Dismukes states that electric generating  
20 plants "...demand a more skilled workforce which also requires a more skilled

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1 and higher paid management team, including those that are employed by the  
2 service company and those in an administrative capacity.”

3 The cost of the more highly skilled generation station workers, their supervisors  
4 and the layers of plant and group management are recorded in FERC O&M  
5 accounts 500-554. If service company executives are primarily responsible for  
6 generation-related functions, then FERC requires that their salaries be charged  
7 to the appropriate O&M, not A&G, account. This is required by FERC’s order  
8 684 (issued October 19, 2006), which required electric utility service companies

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9 to record transactions to the same set of accounts to which they would be  
10 recorded if regulated utility affiliates had directly incurred the costs. Thus, if a  
11 service company employee is performing generation-related services, the  
12 associated costs must be charged by the service company to the applicable  
13 O&M account.

14 **11.Q. What is the next erroneous assertion in Ms. Dismukes’ testimony regarding**  
15 **utility A&G differences?**

16 A. On page 30, starting on line 21, she points out that electric utility chief executive  
17 compensation is greater than water utility chief executive compensation. In her  
18 schedule KHD-8, Ms. Dismukes shows absolute compensation amounts in an  
19 attempt to show that the higher cost structure of electric utilities proves the lack  
20 of comparability to water companies.

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1 The flaw in this argument is her failure to factor in the much larger size of the  
2 electric utility companies than the water companies. When chief executive officer  
3 (CEO) compensation is appropriately denominated in terms of cost per customer,  
4 her argument falls apart. As shown in Schedule PLB-3, the average annual cost  
5 per customer for water company CEOs is actually higher than that of electric  
6 companies (\$0.41 versus \$0.31). Total CEO compensation cost per customer for  
7 electric companies (\$2.36 per customer) is not significantly higher than that of  
8 water companies (\$2.19 per customer). My entire service company cost

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9 comparison is denominated in costs per customer, so CEO compensation must  
10 also be analyzed on a cost-per-customer basis. Once again, an analysis of the  
11 relevant data proves Ms. Dismukes' contention to be false.

12 Schedule PLB-3 illustrates one other very important point. Total compensation  
13 per customer for American Water's CEO is the lowest of any utility—water or  
14 electric—in the comparison group. This is another data point that supports the  
15 reasonableness of Service Company charges.

16 **12.Q. What is the next erroneous assertion in Ms. Dismukes' testimony regarding**  
17 **utility A&G differences?**

18 A. On page 31, starting on line 10, Ms. Dismukes cites the existence of more rate  
19 schedules and riders for one electric utility, Kingsport Power Company,  
20 compared to TAWC. While she does not state it directly, I assume she offers this  
21 as further evidence of electric utilities higher A&G cost structure.

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1 An analysis of the underlying data shows Ms. Dismukes' arguments again to be  
2 without merit. Presented in Schedule PLB-4 is an analysis of Kingsport Power  
3 Company's customers, revenues and Mwh sales by rate schedule per the  
4 company's FERC Form 1. The vast majority (87%) fall into one customer  
5 category—Residential Sales.

6 Ms. Dismukes may not be aware that every Kingsport Power Company customer  
7 service representative does not have to be proficient in every rate schedule.  
8 Thus, the majority of representatives spend their time working with residential

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9 service customers who have one rate schedule. A certain amount of  
10 specialization occurs, whereby the most experienced service representatives are  
11 assigned the more complex schedules. Thus, the existence of more electric/gas  
12 utility rate schedules does not create a significantly greater customer services-  
13 related workload compared to water utilities.

14 **13.Q. What is the next erroneous assertion in Ms. Dismukes' testimony regarding**  
15 **utility A&G differences?**

16 A. On page 32, starting on line 25, she states that electric utilities have fewer  
17 customers per employee because of the number of personnel required to run  
18 their generating stations. Here again, I point to the fact that the costs of  
19 operating and maintaining generating stations are charged to FERC O&M  
20 accounts 500-554. My cost comparison is based on A&G costs recorded in the

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1 900 series of FERC accounts. These are the types of services that are similar  
2 between water and electric/gas utilities.

3 I might point out an error in her analysis of customers per employee, as shown in  
4 Schedule KHD-9. Ms. Dismukes calculates customers per corporate employee  
5 for both water and electric utilities. By using total corporate employees in her  
6 analysis, however, she understates electric utilities' customer-to-employee ratio  
7 because some electric utility companies have considerable unregulated revenues  
8 and employees. To show the effect of her error, in the top half of Schedule PLB-

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9 5, I calculate Duke Energy's total revenues by segment. Only 74% of Duke's  
10 total revenues come from regulated revenues. The remainder is produced by  
11 Duke's unregulated business segments. In order to produce an apples-to-apples  
12 comparison, Ms. Dismukes should have removed unregulated customers from  
13 her electric utility calculation, comparing regulated customer per regulated  
14 employee. As shown in the lower half of Schedule PLB-5, that adjustment would  
15 have increased Duke Energy's regulated customers per regulated employee to  
16 324. Ms. Dismukes' calculation understated Duke's ratio by 35%.

17 **14.Q. Ms. Dismukes has set forth a number of issues with the way you calculate**  
18 **the comparison group's A&G cost per customer. Would you briefly**  
19 **describe how you selected the FERC accounts to include in your cost**  
20 **calculation?**

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1 A. I selected the following 13 of 24 FERC A&G-related accounts for inclusion in my  
2 calculation of the comparison group's cost per customer:

- 3 • 901 Supervision
- 4 • 903 Customer Records and Collection Expenses
- 5 • 905 Miscellaneous Customer Accounts Expenses
- 6 • 907 Supervision
- 7 • 910 Miscellaneous Customer Service and Information Expenses
- 8 • 911 Supervision

- 
- 9 • 920 Administrative and General Salaries
  - 10 • 921 Office Supplies and Expenses
  - 11 • 923 Outside Services Employed
  - 12 • 928 Regulatory Commission Expenses
  - 13 • 930.2 Miscellaneous General Expenses
  - 14 • 931 Rents
  - 15 • 935 Maintenance of Structures and Equipment

16 **15.Q. Which FERC accounts did you exclude from the comparison group cost-**  
17 **per-customer calculation?**

18 A. I excluded 12 A&G-related FERC accounts from the calculation for the reasons  
19 described below:

- 20 • Account 902 Meter Reading Expenses – Generally, meter reading is a  
21 function that resides within the regulated utility and not the service

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1           company. Any charges to this account from a service company would be  
2           unusual, so the account is excluded from my cost calculations.

3           • Account 904 Uncollectible Accounts – The regulated utility and not the  
4           service company generally incurs this expense, the size of which could be  
5           influenced by regulations that vary from state to state.

6           • Account 908 Customer Assistance Expenses – The regulated utility and  
7           not the service company generally incurs this expense, the size of which  
8           could be influenced by regulations that vary from state to state.

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9           • Account 909 Informational and Instructional Advertising Expenses – This  
10          is an expense that is generally recorded on the books of the regulated  
11          utility.

12          • Account 912 Demonstrating and Selling Expenses – I exclude all  
13          advertising and sales-related expenses from my cost calculations.

14          • Account 913 Advertising Expenses – I exclude all advertising and sales-  
15          related expenses from my cost calculations.

16          • Account 916 Miscellaneous Sales Expenses - I exclude all advertising and  
17          sales-related expenses from my cost calculations.

18          • Account 924 Property Insurance – There may be instances where the  
19          property insurance expenses in this account relate to property owned by  
20          the regulated utility, not just the service company.



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- 1           • Account 925 Injuries and Damages - This is an expense that is generally  
2           recorded on the books of the regulated utility.
- 3           • Account 926 Employee Pensions and Benefits – Pension and benefit plan  
4           costs for service company employees are charged to this account, which  
5           has one of the largest balances of any A&G account. My cost calculation  
6           excludes this account because the pension and benefits costs pertain to  
7           all service company employees, including those involved in O&M-related  
8           services (e.g., power generation and transmission services, engineering).

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9           Thus, some portion of this account does not relate to the cost of providing  
10          A&G services. To be conservative, I excluded the entire balance from my  
11          cost calculation. The impact of this exclusion is considerable. In PLB-  
12          Schedule 6, I calculate the estimated A&G-related cost per customer for  
13          pensions and benefits was \$9 for the comparison group. Had I included  
14          these pension and benefits costs, the total service company A&G  
15          expenses per customer for the comparison group would have increased  
16          from \$95 to \$104. When I calculated TAWC's \$59 per customer A&G  
17          expenses, however, I included pension and benefit costs. The effect is to  
18          increase the calculated cost of TAWC's Service Company relative to the  
19          comparison group. This is just one instance of the very conservative  
20          approach I take in my market cost comparisons.

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- 1           • Account 930.1 General Advertising Expenses - I exclude all advertising  
2           and sales-related expenses from my cost calculations.

3           **16.Q. Would you respond to Ms. Dismukes' first issue with your calculation of**  
4           **the comparison group A&G cost per customer?**

5           A. In two places (starting on page 35, line 9 and starting on page 36, line 16), Ms.  
6           Dismukes contends that supervision costs associated with the FERC accounts  
7           not included in my comparison group should also be excluded. For instance, she  
8           contends a portion of the included FERC account 901 Supervision should be  
9           excluded because it relates to supervision of meter readers, whose expenses are  
10          recorded in the excluded FERC account 902.

11          She does not calculate what the exclusion should be and how that would affect  
12          the comparison group's \$95 average per-customer cost. This is a pattern with  
13          most of her complaints about my comparison group cost calculations. She  
14          attempts to cast doubt on my methodology without employing facts to back up  
15          her position.

16          I disagree with her proposal for two reasons. First, it is not possible to tell from  
17          the FERC Form 60 how much of the supervisory costs in the included accounts  
18          in question (901 and 911) are associated with the excluded FERC accounts.

19          Second, the average balances in the included accounts 901 and 911 are not  
20          material and do not warrant adjustment. As shown in Schedule PLB-7, the 2009  
21          average comparison group costs per customer for account 901 was 32 cents and

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1 for account 911 was less than a penny. These amounts are immaterial  
2 compared to the \$95 total A&G cost per customer. The issue is insignificant  
3 when subjected to factual analysis.

4 My approach in performing market cost-comparison studies is to use data from  
5 publicly available sources and to keep the numbers intact without making  
6 adjustments that have insignificant effects. In this way, it is easier for reviewers  
7 to trace the numbers in my calculations back to their original source.

8 **17.Q. What is Ms. Dismukes' next issue with your calculation of the comparison**  
9 **group A&G cost per customer?**

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10 A. Starting on page 37, line 1, she contends that some portion of FERC account  
11 920 Administrative and General Salaries, which I include in comparison group  
12 cost calculation, should be excluded because it relates in some vague way to the  
13 excluded FERC account 930.1 General Advertising. I am unaware of any  
14 relationship between these accounts.

15 Ms. Dismukes provides no data to back up her claim and again does not attempt  
16 to analyze the impact of the issue. I am puzzled by her insistence on its  
17 importance.

18 As shown in Schedule PLB-8, the total balance in account 930.1 represents  
19 around 1% of the total of account 920. Eliminating the portion of account 920  
20 associated with the insignificant amount in account 930.1 would produce very  
21 little change in the \$95 overall comparison group cost per customer. This is

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1 demonstrated in Schedule PLB-9, which shows that eliminating an amount equal  
2 to even the entire balance of account 930.1 would produce a drop of only \$0.60  
3 per customer.

4 **18.Q. What is Ms. Dismukes' next issue with your calculation of the comparison**  
5 **group A&G cost per customer?**

6 A. On page 37, starting on line 16, Ms. Dismukes criticizes my method for  
7 estimating service company charges by A&G account to their regulated utility  
8 affiliates.

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9 The Form 60 does not report charges by FERC Account to every individual  
10 affiliate. Thus, I must estimate those charges. I do so based on the overall  
11 percent of total charges from service companies to regulated and unregulated  
12 affiliates. This is the most reasonable method absent more detailed information.  
13 On page 38, Ms. Dismukes alleges "Use of the average percentage of service  
14 company costs charged to regulated companies as opposed to actual amount  
15 (sic) charged to the regulated accounts overestimates the amount of  
16 administrative and general service company expenses charged to the regulated  
17 electric and electric/gas companies." Perhaps Ms. Dismukes mistakenly  
18 assumes there is a source from which to obtain the "actual amount" of charges  
19 by FERC Account to each affiliate. That information is similarly not available.  
20 Therefore, it is necessary to develop a reasonable estimation of those charges in  
21 my analysis.

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1 **19.Q. Ms. Dismukes goes on to contend that your estimating method overstates**  
2 **service company A&G expenses to regulated utility affiliates. What is your**  
3 **response?**

4 A. Ms. Dismukes' allegation is based on her schedule KHD-14, in which she  
5 compares my total service company A&G expenses charged to regulated utility  
6 affiliates to total A&G expenses per affiliate in FERC Form 1. In some cases, my  
7 estimate of total A&G service company charges exceeds the total she developed  
8 from her Form 1 analysis. If her analysis were correct, this would be the most  
9 substantive of her complaints.

10 Ms. Dismukes' Schedule KHD-14 is wrong, however; she includes only electric  
11 utility affiliate A&G expenses from FERC Form 1s. She misses regulated A&G  
12 expenses for gas utility affiliates, which do not file a FERC Form 1 – Report of  
13 Major Electric Utilities. My tabulation of A&G expenses included comparison of  
14 group service company charges to both gas and electric utility affiliates. As  
15 shown in Schedule PLB-10, in a number of cases, the comparison group of utility  
16 companies have significant numbers of retail gas customers. I have highlighted  
17 the percent of retail gas to total customers and Ms. Dismukes' "percent of FERC  
18 Form 1 expenses." In most cases where Ms. Dismukes' A&G percentage is high,  
19 the utility company had both retail electric and gas customers. For instance,  
20 schedule PLB-11 shows the retail gas affiliates Ms. Dismukes failed to include in

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1 her calculation for the three utility companies with the largest A&G percentages  
2 in KHD-14.

3 Unlike regulated electric utilities, retail gas distribution utilities are not regulated  
4 by FERC, so they are not required to submit an annual report to FERC. Thus,  
5 there is no single source of retail gas utility data with which to tabulate their A&G  
6 charges. Ms. Dismukes' desired comparison cannot be made.

7 **20.Q. Does this mean Ms. Dismukes' re-calculation of comparison group service**  
8 **company A&G charges of \$79 per customer is incorrect?**

---

9 A. Yes. I have demonstrated that her Schedule KHD-14 incorrectly excludes A&G  
10 charges to affiliate retail gas distribution utilities. Her cost per customer is  
11 therefore wrong because she based it on flawed data in Schedule KHD-14. She  
12 has therefore failed to disprove the accuracy of my comparison group per  
13 customer amount of \$95.

14 **21.Q. Why is it important that this claim of Ms. Dismukes be refuted?**

15 A. This particular criticism, supported by the faulty Schedule KHD-14, is the  
16 centerpiece of Ms. Dismukes' attack on my service company cost comparison.  
17 Her mistaken analysis does not detract from the validity of my methodology for  
18 calculating service company cost comparisons. Nor can her inaccurate analysis  
19 cast doubt on the accuracy of my results, which show TAWC's Service Company  
20 A&G charges of \$59 to be less than the comparison group's \$95 average.

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1 Ms. Dismukes uses her false critique as an opening for introducing what she  
2 calls her "superior analysis" A&G comparison, which I will address next.

3 **22.Q. What are your overall thoughts on Ms. Dismukes' comparative analysis,**  
4 **which she introduces on page 39 of her testimony?**

5 A. Before I get into the details of why Ms. Dismukes' comparison should be  
6 rejected, I would like us to contemplate what she recommends based on her  
7 flawed comparison. In her schedule KHD-17, she recommends a disallowance  
8 of \$4,089,360, or 100%, of total attrition-year A&G charges. The only possible  
9 conclusion is that, in her professional opinion, the services currently provided to  
10 TAWC can continue to be rendered at zero cost.

11 It is inconceivable that her recommendation could be taken seriously or  
12 considered as credible evidence as to the delivery of corporate services through  
13 a service company arrangement. If she is going to recommend such an  
14 enormous disallowance, then she needs to be held accountable for defining  
15 exactly how TAWC will continue to deliver water service to its customers without  
16 the Service Company's administrative and management support.

17 **23.Q. Is the scope of Ms. Dismukes' comparison the same as your service**  
18 **company cost comparison?**

19 A. The scope of my cost comparison is TAWC's A&G charges from its Service  
20 Company affiliate. Ms. Dismukes' comparison is broadened to cover those

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1 charges plus A&G expenses that were incurred directly by and recorded on the  
2 books of TAWC. Thus, her comparison is not an alternative to mine because it  
3 does not cover the same base of A&G charges.

4 **24.Q. Did you find anything unusual with the cost data used by Ms. Dismukes?**

5 A. Yes. By coincidence, I am acting as an expert witness in a September 30, 2010  
6 rate case for Water Service Corporation of Kentucky ("WSCK"), one of the  
7 regulated utilities in Ms. Dismukes' comparison group. What caught my attention  
8 in first reading Ms. Dismukes' testimony was the enormous discrepancy between  
9 her numbers for WSCK in KHD-15 and the actual numbers from WSCK's rate  
10 case filing. In Schedule KHD-15, Ms. Dismukes calculates an annual A&G cost  
11 per customer of \$5 for WSCK compared to an A&G cost per customer of \$72  
12 from my rate case study. The actual WSCK A&G costs per customer are over 14  
13 times greater than Ms. Dismukes alleges.

14 **25.Q. Are you familiar enough with Water Service Corporation of Kentucky's**  
15 **service company to calculate their cost per customer?**

16 A. I have knowledge of Water Service Corporation ("WSC"), WSCK's service  
17 company affiliate and its operation. WSCK has no employees of its own. All  
18 Kentucky operations personnel are employees of the service company, WSC.  
19 Off-site A&G and O&M services are provided by WSC personnel:



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- 1           • Executive management, accounting, legal, rates and regulatory,  
2           information technology, human resources, billing and customer relations,  
3           engineering, construction and operations (in the Northbrook, Illinois  
4           headquarters)
- 5           • Regional management, operations, engineering (regional offices)
- 6           • National call centers (Charlotte, North Carolina, Altamonte Springs,  
7           Florida and Pahrump, Nevada)

8           Schedule PLB-12 shows WSC's positions that serve its regulated utility affiliates  
9           such as WSCK.

---

10       **26.Q. How does your calculation of WSCK's A&G cost per customer compare to**  
11       **Ms. Dismukes' calculation?**

12       A. The top portion of Schedule PLB-13 shows my calculation of WSCK's \$72 A&G  
13       cost per customer based on the many services it receives from its affiliate service  
14       company. The lower half of Schedule PLB-13 shows Ms. Dismukes' \$5 per  
15       customer calculation, which has only one cost element—contractual services-  
16       other.

17       **27.Q. Do you believe a regulated utility can function on \$5 per customer in A&G**  
18       **spending?**

19       A. No. The idea that a utility can function on Ms. Dismukes' A&G costs of \$5 per  
20       customer (or \$37,000 per year for WSCK) is preposterous and should have been  
21       a sign to her there are serious problems with her data on WSCK. She should

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1 have eliminated WSCK from her analysis. Instead, she kept WSCK in her  
2 comparison group with the effect of driving down the group's average cost and  
3 increasing the size of her recommended disallowance. This discrepancy  
4 illustrates the massive flaws in her entire cost comparison, which has the sole  
5 purpose of generating an enormous and erroneous disallowance of TAWC's  
6 Service Company charges.

7 **28.Q. Do you suspect numbers for any other utilities in Ms. Dismukes'**  
8 **comparison group?**

---

9 A. Yes. Numbers for the following utilities in her comparison group do not make  
10 sense:

- 11 • Carolina Water Services has a negative \$110,912 in salaries.
- 12 • The Empire District Electric Company has relatively little salaries  
13 (\$17,645) and no contractual services charges. This level of salaries  
14 amounts to \$5 per customer. Just as with WSCK, this is unbelievably low.

15 Data aberrations like this should have caused Ms. Dismukes to eliminate these  
16 utilities, as well, from her comparison group.

17 **29.Q. Do these unusual numbers reflect on the source of Ms. Dismukes' data?**

18 A. Yes. These problems with Ms. Dismukes' data illustrates perfectly why I do not  
19 use water companies' annual reports to perform my cost comparisons. The  
20 reliability of the data is sometimes questionable. There is obviously some  
21 discretion in how expenses are functionalized (i.e., designated as O&M, A&G,

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1 customer services) and reported in these water utility annual reports. This differs  
2 markedly from FERC Form 60 filers. Electric utility service companies must  
3 follow the FERC's uniform system of accounts, which have discrete accounts for  
4 every function (e.g., account 574 – Maintenance of Transmission Plant, 920 –  
5 Administrative and General Salaries). Finally, the FERC checks Form 60  
6 submissions and periodically conducts audits that may involve detailed reviews  
7 of the Form 60. The data available from the Form 60 have a high degree of  
8 reliability.

---

9 **30.Q. Do you agree with the costs Ms. Dismukes included in her A&G cost**  
10 **calculation?**

11 A. No. She excluded charges from the following two accounts that are listed as  
12 A&G-related expenses in the annual reports.

- 13 • 642–Rental of equipment
- 14 • 650–Transportation expenses

15 She also includes pension and benefits expenses in her calculation. Normally,  
16 these are a cost of service. However, pension and benefit costs reported vary  
17 wildly among the water utilities. Four water companies reported no pension and  
18 benefits charges to 604-Employee Pension and Benefits. One reported the  
19 equivalent of \$91 per customer. Even when the cost reported falls within a  
20 reasonable range, the data are unreliable. Charges to this account cover  
21 pension and benefit costs of all utility personnel, including those involved in O&M

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1 functions. Thus, these are not entirely a cost of A&G services. For these  
2 reasons, I believe pension and benefit costs should be removed from the A&G  
3 cost calculation to arrive at an apples-to-apples comparison showing TAWC's  
4 cost position relative to Ms. Dismukes' utility group.

5 **31.Q. What is TAWC's A&G cost per customer when pension and benefits costs**  
6 **are removed?**

7 A. Schedule PLB-14 shows TAWC's A&G costs per customer to be \$74, which is  
8 close to Ms. Dismukes' cost of \$76 when recalculated to remove pension and  
9 benefit costs. (Ms. Dismukes used an incorrect amount for Service Company  
10 charges which accounts for the \$2 difference in our calculations.)

11 **32.Q. What happens when you remove water utility data aberrations and pension**  
12 **and benefits from Ms. Dismukes' comparison group cost calculation?**

13 A. When I make the previously discussed adjustments to get costs on an apples-to-  
14 apples comparative basis, the result is quite different than Ms. Dismukes  
15 calculation in Schedule KHD-15. Schedule PLB-15 shows the water utility  
16 comparison group average to be \$63. TAWC costs fall within the mid-range of  
17 the comparison group. Six water utilities had higher A&G costs than TAWC.  
18 This is a considerably different result than that produced by Ms. Dismukes'  
19 aberrant comparison group cost calculation.

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1     **33.Q. Please summarize your thoughts on Ms. Dismukes' overall critique of your**  
2     **service company cost comparison.**

3     A. Ms. Dismukes first presented a series of arguments to exaggerate the  
4     differences in water and electric utility A&G functions in order to discredit my use  
5     of service company A&G cost data from the FERC Form 60. I successfully  
6     refuted each of her points with analyses of relevant data.

7     She then criticizes my methodology for calculating A&G expenses per customer  
8     based on data from the FERC Form 60. The foundation for her criticism

---

9     crumbled when I showed she had forgotten to include in her Schedule KHD-14  
10    my comparison group service companies' A&G charges to regulated gas utility  
11    affiliates.

12    Finally, Ms. Dismukes attempted to perform an alternative cost comparison. She  
13    did not benchmark service company charges. Instead, she looked at the broader  
14    measure of total utility A&G expenses. She selected 19 water utilities, three of  
15    which had severe data aberrations and should not have been included in her  
16    comparison group. Her calculation includes total utility pension and benefits  
17    costs which creates an apples-to-oranges comparison effect. I corrected all of  
18    these issues and recalculated the average A&G cost per customer for the  
19    adjusted set of water utilities based on the seriously deficient data in her sample.  
20    Even with these shortcomings, in the end, TAWC's A&G cost per customer  
21    turned out to be very close to the water utility comparison group. Most

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1           importantly, the enormous disallowance Ms. Dismukes produced with her  
2           erroneous cost comparison turned out to be fictitious.

3           I believe Ms. Dismukes' testimony and schedules related to my service company  
4           cost comparison should be completely disregarded. My original conclusion that  
5           the Service Company's charges to TAWC during the 12 months ended March 31,  
6           2010 still holds.

7           **34. Please respond to Ms. Dismukes' complaint concerning the spreadsheet you**  
8           **provided with service company data used in your cost comparison.**

---

9           A.     The spreadsheet to which Ms. Dismukes refers should have contained  
10           2009 FERC Form 60 data for my service company comparison group. Instead, I  
11           mistakenly provided 2008 data. This was caused when I used a data request  
12           template from a previous American Water 2008 cost comparison study. I used  
13           this spreadsheet because it already had headers, footers, page numbers and  
14           print areas set. Unfortunately, I pasted the TAWC study's 2009 data in only 4 of  
15           7 tabs of the spreadsheet. I was unaware of this mistake until I read Ms.  
16           Dismukes' testimony. I apologize for the extra effort it took her to retrieve the  
17           data from the FERC website and replicate my analysis.

18           The data contained in the spreadsheet was copied in as absolute values  
19           because many of the tabs are linked and an incorrect keystroke can break the  
20           formulas and cause the final analysis to be off from my report tables. Again, I  
21           apologize for this causing Ms. Dismukes additional work.

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1                                   **IV – MS. DISMUKES’ TESTIMONY CONCERNING**  
2                                   **COST COMPARISON OF CUSTOMER ACCOUNTS SERVICES**

3       **35.Q. Would you please describe the customer services and costs you evaluated**  
4                                   **in answering your study’s second question?**

5           A. I evaluated the cost of the following customer services provided to TAWC by the  
6           Service Company:

- 7           • Customer Call Center Support – customer calls/contact, credit, order  
8           taking/disposition, bill collection efforts, outage calls
- 
- 9           • Call Center and Customer System Support – maintenance of phone banks,  
10           voice recognition units, call center software applications, telecommunications,  
11           customer system maintenance and support
- 12          • Customer Billing – bill printing, stuffing, and mailing

13           During the test period ended March 31, 2010, the Service Company charged  
14           TAWC \$1,120,000 for customer services. I tested these charges plus other  
15           customer services-related charges incurred directly by TAWC.

16           I benchmarked these costs against the same charges for Tennessee and  
17           neighboring states’ electric utilities that must file a Form 1 with the FERC.

18       **36.Q. What is Ms. Dismukes’ argument against your comparison methodology?**

19           A. As with my service company A&G cost comparison, Ms. Dismukes would prefer  
20           that I use data only from other water companies. Here too, this is impossible  
21           because no publicly available cost information exists for water service

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1 companies. Very few water companies have a centralized service company  
2 arrangement. Those that do are not overseen by a single regulatory authority  
3 that requires standard informational filings, as does the FERC.

4 In her testimony, Ms. Dismukes repeats her arguments that electric and water  
5 customer services functions are so dramatically different that cost comparisons  
6 are impossible. In fact, customer services functions are quite similar across  
7 utility types.

8 **37.Q. Do you make adjustments for the one difference between water and electric**  
9 **call center costs?**

---

10 A. Yes. Electric utilities customers make more call center calls on average  
11 compared to other utility types due to a greater occurrence of service problems. I  
12 adjust for this difference by increasing the cost pool I use to calculate TAWC's  
13 cost per customer.

14 Ms. Dismukes contends electric utilities also experience longer call durations.  
15 Her testimony provides no evidence to back up this assertion or its alleged  
16 impact on the cost-per-customer calculation. When asked for that support in  
17 interrogatory TAWC 2-16, Ms. Dismukes provided 17 pages of documents  
18 containing statistics from only two utilities--Aqua America and Connecticut Light  
19 & Power—with no explanation as to which data prove her point. This is hardly  
20 enough evidence to reach her definitive conclusion on call duration.



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1     **38.Q. What is your assessment of Ms. Dismukes alternative customer service**  
2     **cost comparison?**

3     A. As with her A&G cost comparison, she attempts to use data from utility annual  
4     reports filed with state commissions to calculate a cost per customer for  
5     customer services. This analysis suffers from the same data problems as her  
6     A&G cost comparison. Two of her utilities, incredibly, had no customer services  
7     expenses. One of these water companies, North Sumter Utility Company, LLC,  
8     disclosed on its annual report page E-10(a), that it has affiliate transactions with  
9     an affiliate that provides "Billing, accounting, customer service and management"  
10    services at a cost of \$1,031,809 for 2009. Yet North Sumter Utility Company  
11    reported no customer accounts expenses for that year. As evidence, Schedule  
12    PLB-16 shows a copy of North Sumter's affiliate transactions disclosure page  
13    and its water service income statement with no customer accounts charges  
14    listed. This annual report is obviously incorrect.

15    In addition, three other utilities in Ms. Dismukes' comparison group have no  
16    salaries and no contractual services charges. It is not credible that customer  
17    services can be delivered to their customers without any labor costs.

18    Here again, data aberrations like this should have caused Ms. Dismukes to  
19    eliminate these utilities from her comparison group.

WITNESS: P.BARYENBRUCH

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1 Quality and reliability is not a problem with the FERC Form 1, the source of my  
2 comparative data. FERC requires the Form 1 be audited and that the CPA firm's  
3 opinion letter contain the following language:

4 "In connection with our regular examination of the financial statements of  
5 \_\_\_\_\_ for the year ended on which we have reported separately under  
6 date of \_\_\_\_\_, we have also reviewed schedules \_\_\_\_\_ of FERC  
7 Form No. 1 for the year filed with the Federal Energy Regulatory Commission, for  
8 conformity in all material respects with the requirements of the Federal Energy

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9 Regulatory Commission as set forth in its applicable Uniform System of Accounts  
10 and published accounting releases. Our review for this purpose included such  
11 tests of the accounting records and such other auditing procedures as we  
12 considered necessary in the circumstances. Based on our review, in our opinion  
13 the accompanying schedules identified in the preceding paragraph (except as  
14 noted below) conform in all material respects with the accounting requirements of  
15 the Federal Energy Regulatory Commission as set forth in its applicable Uniform  
16 System of Accounts and published accounting releases." (FERC Form 1  
17 instructions, page ii)

18 **39.Q. What happens when you remove water utility data aberrations from Ms.**  
19 **Dismukes' comparison group cost calculation?**

20 A. When I remove the costs of utilities with data aberrations in order to get costs on  
21 an apples-to-apples comparative basis, the result is quite different than Ms.

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1 Dismukes' calculation in Schedule KHD-16. Schedule PLB-18 shows TAWC's  
2 customer services cost of \$30 per customer to be relatively close to the water  
3 utility comparison group average of \$26. Three water utilities had higher  
4 customer services costs than TAWC. Again, as with the analysis of the A&G  
5 costs, the data for her water utility comparison group is seriously flawed and  
6 should not be relied upon to draw any valid conclusion.

7 **40.Q. Are there factors Ms. Dismukes does not address in her cost comparison?**

8 A. Yes. Her comparison does not consider different levels of service in calculating  
9 her per customer costs. For instance, the Service Company's call centers offer  
10 TAWC customers the ability to reach a representative every hour of every day.  
11 Customers also receive monthly bills. The water companies' annual reports do  
12 not provide information necessary to delineate service level differences that are  
13 necessary for an accurate cost comparison. These can only be determined  
14 through a more detailed, painstaking benchmarking study. If Ms. Dismukes is  
15 going to use her cost comparisons to recommend disallowances, she needs to  
16 be considerably more precise.

17 **41.Q. Please summarize your views on Ms. Dismukes' customer service cost**  
18 **comparison.**

19 A. Ms. Dismukes is exacting in the use of her cost comparisons—if a utility exceeds  
20 the average cost of her comparison group, then that is definitive evidence of  
21 inefficiency and grounds for disallowance. There are several problems with this

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1 approach. First, I have shown that data from water utility annual reports is not  
2 consistently reliable for valid cost comparisons. Second, her comparisons give  
3 no consideration to service level differences and their cost impacts. Finally, she  
4 declares some costs prudent and others not based on suspect data, and no  
5 studies to detect and correct. When asked to support her claims and assertions  
6 from studies or analysis in discovery she indicated no studies or analysis was  
7 done or referenced. Ms. Dismukes has never managed a customer service  
8 function. Nor has she ever performed a customer services-related consulting  
9 assignment such as implementing a new customer accounting system or  
10 improving related processes on which to develop proper and accurate analysis  
11 and recommendations.

12 Ms. Dismukes recommends a disallowance of \$676,655, or 59%, of attrition year  
13 Service Company customer accounts expenses. I recommend Ms. Dismukes'  
14 disallowance, testimony and alternative cost comparison be completely  
15 disregarded.

16 **V – MS. DISMUKES' TESTIMONY CONCERNING**  
17 **LOWER OF COST OR MARKET PRICING COMPARISON**

18 **42.Q. What issues does Ms. Dismukes take with your market comparison of**  
19 **hourly rates for Service Company services?**

20 A. She cites two issues. First, she complains that I do not consider discounts  
21 outside providers might grant to secure outsourcing contracts. Second, she

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1 contends that not every Service Company position should be a candidate for  
2 outsourcing and therefore should not be considered in my lower of cost or market  
3 pricing analysis.

4 **43.Q. Please address her first issue related to outsourcing discounts.**

5 A. My comparison showed outside providers to be 45% more expensive than the  
6 Service Company. It would have cost TAWC ratepayers \$2 million more if all  
7 Service Company services were outsourced during the 12 months ended March  
8 31, 2009.

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9 There is a possibility that some outside providers might provide discounts but it is  
10 not possible to estimate how much. Such information on outsourcing  
11 arrangements is not generally disclosed due to contractual restrictions. Take one  
12 example, I doubt TAWC would receive a much lower cost per hour than the rate I  
13 calculated for CPA firms, one of my outsourcing comparison groups. An  
14 American Institute of Certified Public Accountants' survey showed the overall  
15 average hourly rate for Tennessee CPAs to be \$108 per hour. This is a very  
16 conservative number because large national CPA firms, who have higher billing  
17 rates, generally do not participate in this survey. I do not believe the firms TAWC  
18 would turn to for outsourcing bids would provide hourly rates substantially lower  
19 than this.

20 Ms. Dismukes does not identify how much of a discount she believes TAWC  
21 would realize in negotiating with outside providers. I do not believe the discount

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1 would be significant and certainly nowhere near my study's 45% differential  
2 between the Service Company and outside providers. Ms. Dismukes is incorrect  
3 when she contends that outside provider discounts would be so significant as to  
4 invalidate my hourly rate comparison.

5 **44.Q. Please address Ms. Dismukes' second issue related to outsourcing**  
6 **discounts?**

7 A. Starting on page 47, line 10, Ms. Dismukes contends that my hourly rate  
8 comparison should only have been applied to certain "skilled" positions because

---

9 those would be outsourced. Other "day-to-day" activities would not be  
10 outsourced she claims and thus should be omitted from my comparison. She is  
11 wrong about this. Outsourcers will take over any function, routine to complex.  
12 They will take over all aspects of functions, as different as payroll accounting,  
13 internal auditing services and information technology. Thus, it is appropriate that  
14 I consider all management and professional positions as candidates for  
15 outsourcing.

16 Her criticisms of my lower of cost or market comparison are invalid, and as a  
17 result, my conclusion stands that Service Company services were provided at the  
18 lower of cost or market. Ms. Dismukes' testimony should be disregarded.

19 **VI – MS. DISMUKES' TESTIMONY CONCERNING**  
20 **THE NEED FOR SERVICE COMPANY SERVICES**

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1 **45.Q. What is Ms. Dismukes stated concern with the final aspect of your study,**  
2 **the necessity of Service Company services?**

3 A. On page 48, starting on line 15, she erroneously asserts that I have failed to  
4 “demonstrate that the level of services provided by AWWSC would be required if  
5 TAWC were a standalone water company”.

6 I demonstrate the Service Company’s services are needed in Exhibit 11 where I  
7 list all the functions and activities any water utility—stand-alone or with a service  
8 company arrangement—must perform to deliver service to its customers. I

---

9 designate which of these activities the Service Company performs for TAWC. I  
10 looked for duplication and overlap and found none. In this way, I proved the  
11 services provided by the Service Company are vital and would be required even  
12 if TAWC were a standalone water company.

13 I dealt with the level of services provided by the Service Company in the first part  
14 of my study which compared the Service Company’s A&G charges to TAWC to a  
15 comparison group of other utility service companies. That analysis showed the  
16 Service Company’s cost per customer to be lower than the comparison group  
17 average. Since the quantity of services affects the cost per customer, I have  
18 demonstrated that the level of Service Company services is appropriate.

19 I believe Ms. Dismukes’ testimony and criticism concerning my determination that  
20 TAWC needs the services it is provided by the Service Company should be  
21 disregarded.

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**VII – OVERALL ASSESSMENT OF MS. DISMUKES’ TESTIMONY  
RELATED TO THE BARYENBRUCH STUDY**

1  
2  
3

4 **46.Q. What is your overall assessment of Ms. Dismukes' testimony covering your**  
5 **work?**

6 A. I have subjected Ms. Dismukes’ testimony to a thorough analysis of the data and  
7 facts surrounding her concerns. In the process, I was able to show Ms.  
8 Dismukes criticisms of my direct testimony and report to be invalid.

9 Ms. Dismukes A&G and customer services costs comparisons were based on

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10 faulty and unreliable data from water company annual reports filed with public  
11 utility commissions. When I adjusted for aberrant data in her numbers, TAWC  
12 and the Service Company’s relative position improved among the comparison  
13 group.

14 In calculating disallowances of Service Company A&G and customer services  
15 charges to TAWC, Ms. Dismukes takes a simplistic and biased approach. Any  
16 costs above the comparison group average are deemed to be imprudent without  
17 regard to the nature and level of services provided. I strongly recommend her  
18 disallowances be disregarded.

19 **VIII MR. BUCKNER’S TESTIMONY CONCERNING ATMOS ENERGY’S**  
20 **SERVICE COMPANY PER CUSTOMER COSTS**

21 **47.Q. Did Mr. Buckner criticize your service company cost comparison?**



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1 A. . Yes. On page 41, starting on line 2 of his direct testimony, Mr. Buckner  
2 indicates "The Consumer Advocate, however, does not believe that TAWC's  
3 service company cost comparisons are particularly meaningful just because they  
4 are easily accessible through FERC."

5 Mr. Buckner is incorrect about the validity of my service company cost  
6 comparisons. I believe my detailed rebuttal of Ms. Dismukes' various criticisms  
7 proved that service company A&G-related functions and costs are similar across  
8 utility industries.

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9 In performing my cost comparisons, I use the best data that is publicly available.  
10 For service company A&G costs, this information comes from the FERC Form  
11 60. Quality of data, not its accessibility, is the most important factor in my choice  
12 of comparative cost information. I have demonstrated, with many examples, the  
13 aberrations in water company annual report information used by Ms. Dismukes.  
14 FERC data is of a higher quality and, therefore, more reliable.

15 **48.Q. Why did you not include Atmos Energy in your service company cost**  
16 **comparison group?**

17 A. . Because Atmos Energy's service company, Atmos Energy Services, LLC, is not  
18 required to file a Form 60 with FERC and I do not have access to their cost data.  
19 It is likely that Atmos Energy Services, LLC has been granted an exemption from  
20 filing the Form 60 because Atmos Energy Corporation's local distribution utilities

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1 are not subject to FERC's regulation as natural gas companies under the natural  
2 gas act.

3 Mr. Buckner indicates that Atmos Energy Services, LLC's charges to its  
4 Tennessee utility affiliate amount to \$39 per customer. I am not familiar with how  
5 this was calculated. Atmos Energy Services, LLC may or may not perform  
6 services for its Tennessee utility affiliate that are similar to those provided by the  
7 Service Company to TAWC. Without the availability of this information, I am not  
8 able to comment on the comparability of Atmos and American Water service

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9 company costs per Tennessee customer. The information Mr. Buckner cites to  
10 support his statement is not provided in a way that consistent with the information  
11 I have relied on from FERC Form 60 filings and therefore cannot be used for  
12 comparison purposes.

13 **VIII – SUMMARY OF REBUTTAL TESTIMONY**

14 **49.Q. Have your market cost comparison studies been accepted by other state**  
15 **utility commissions?**

16 A. Yes. Besides Tennessee, I have acted as a witness in 43 cases before  
17 commissions in the following states:

- 18 • Connecticut
- 19 • Georgia
- 20 • Illinois
- 21 • Kentucky

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- 1           • Massachusetts
  - 2           • Missouri
  - 3           • New Mexico
  - 4           • New York
  - 5           • Ohio
  - 6           • Pennsylvania
  - 7           • Virginia
  - 8           • West Virginia
- 

9           These commissions all have accepted my methodology. One that stands out is  
10          the Virginia State Corporation Commission, which stated the following in order  
11          PUE-2002-00375, dated September 3, 2003:

12          *As this Commission has found previously that the methodology of the*  
13          *Baryenbruch study is satisfactory, we decline today to find that the Company*  
14          *[Virginia American Water Company] failed to meet its burden of proof regarding*  
15          *the reasonableness of the affiliate expenses. Virginia Code paragraph 56-79*  
16          *provides that we may approve such arrangements where reasonable, and we*  
17          *find that it is reasonable in this case to do so.*

18          **50.Q. Does this complete your rebuttal testimony?**

19          A. Yes.