KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143

COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS

Item 21 of 80

Witness: Patrick Baryenbruch/Michael Miller

21. Refer to the Direct Testimony of Patrick Baryenbruch.

a. At page 3 of Exhibit PLB-1 of his testimony, Mr. Baryenbruch refers to monthly bills that the Service Company issues to the operating companies. Provide all of the monthly invoices that the Service Company issued to Kentucky-American for the calendar year ended 2006.

b. At page 3 of his testimony, Mr. Baryenbruch states: "KAWC transitioned to the Alton Call Center in October 2003 and to the Pensacola Call Center in June 2005." At page 21, however, he states that the Call Center is in Alton, Illinois.

(1) Identify the Call Center that Kentucky-American currently uses.

(2) If the response to Item 21(b)(1) is the Pensacola Call Center, explain why Kentucky-American switched call centers.

(3) If the response to Item 21(b)(1) is the Pensacola Call Center, provide a cost comparison of the call centers for the forecasted test period. Provide all workpapers, show all calculations, and state all assumptions used to prepare the comparison.

c. Refer to Exhibit PLB-1, page 7.

(1) List and describe each of the $733,724 of Service Company charges that was considered "non-recurring" and state the reason why Kentucky-American considers that charge as non-recurring.

(2) Explain the relevance of the statement "KAWC is not seeking recovery" of these charges considering the charges were incurred during the calendar year ended 2006 and Kentucky-American's forecasted test period used as a basis for rates in this case is the 12 months ended November 30, 2008.

(3) Mr. Baryenbruch states the "recoverable" amount of 2006 Service Company charges as $5,878,690. The forecasted income statement set forth in Kentucky-American's Application, Exhibit 37, Schedule C, page 7 of 55 lists Management Fees of $6,246,717. Reconcile these two amounts

and explain each difference in the charges comprising these amounts. This response should separately itemize the charges of each service company.

d. Refer to Exhibit PLB-1, Schedule 3. Provide for each service company directly assigning or allocating hours to Kentucky-American the job titles and/or classifications of employees that had hours assigned or allocated to Kentucky-American.

e. For each job title and/or classification set forth in Kentucky-American's Response to Item 21(d), provide:

   (1) The minimum education, training, and experience necessary to hold the position.

   (2) The 2006 pay rates and average payroll overhead costs for all employees holding the position. Show the calculation of the average payroll overhead costs.

   (3) The number of hours allocated and directly assigned, stated separately, to Kentucky-American.

   (4) The outside provider position included in Exhibit PLB-1 Schedules 5, 6, 7, and 8 that is the comparable position.

f. Refer to Exhibit PLB-1, page 3. List the services that AWWC's Corporate Office provides to American Water subsidiaries.

g. Refer to Exhibit PLB-1, Schedule 2. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

h. Refer to Exhibit PLB-1, Schedule 3. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

i. Refer to Exhibit PLB-1, Schedule 4. Provide all workpapers, show all calculations, and state all assumptions used to develop this Schedule. Provide clear and complete source document references.

j. Refer to Exhibit PLB-1, Schedule 5.

   (1) Provide all pages of the Michigan Lawyers Weekly that Kentucky-American used to develop the Billing Rate Range.

(2) Explain why averaging the hourly rate of an associate and a partner is a reasonable method to calculate the billing rate of a Kentucky attorney.

k. Refer to Exhibit PLB-1, Schedule 6.

(1) Provide all relevant pages from "Operating Ratios For Management Consulting Firms, 2006 Edition."

(2) Explain how each of the percentages for "Typical Percent of Time Spent on a Consulting Project" was determined.

l. Refer to Exhibit PLB-1, Schedule 7.

(1) Provide all relevant pages from the American Institute of Certified Public Accountants' 2006 National PCPS/TSCPA Management of an Accounting Practice Survey.

(2) Explain how each of the percentages for "Typical Percent of Time Spent on an Accounting Assignment" was determined

m. Refer to Exhibit PLB-1, Schedule 8.

(1) Provide all documents and state all assumptions that were used to develop the average billing rates for Firm #1 and Firm #2.

(2) Explain how each of the percentages for "Typical Percent of Time on an Engineering Assignment" was determined

n. Refer to Exhibit PLB-1, page 18. Describe how Mr. Baryenbruch determined the "New Positions' Salary" level as $85,000 and 52 percent of this level as the cost of benefits associated with the new position. Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination.

o. Refer to Exhibit PLB-1, page 19. Provide Belleville Lab survey results for 2005 and 2006.

p. Refer to Exhibit PLB-1, Schedule 9, page 1 of 2.

(1) For each listed item in "Labor," state whether the Call Center performs that task for Kentucky-American.

(2) For each listed item in "Materials and Expense," state whether the Call Center performs that task on behalf of Kentucky-American.

q. Refer to Exhibit PLB-1, page 24.

(1) State the source of "[e]lectric utility industry's avg calls/customer" of 2.5. Provide all documents used to derive this ratio.

(2) Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination that American Water averages 1.28 calls per customer.

(3) Provide all documents, show all calculations, and state all assumptions upon which Mr. Baryenbruch relied to reach his determination of "Bank charge per item" of $0.1085.

(4) Kentucky-American incurs and reports on its income statement Customer Accounting Expense. The forecasted Customer Accounting Expense in this case is $1,461,534. Provide the analysis of this account for 2006 that was performed to determine that none of these expenses should be included in the calculation of the "2006 Cost Per Kentucky-American Customer" when comparing the amount to those FERC accounts included in the study.

r. Refer to Exhibit PLB-1, page 25. The least cost is $12.43 while the highest cost is $35.82, a difference of $23.39 or 188 percent.

(1) Describe the procedures used to verify that the costs included in the FERC Accounts 903 and 905 by each company listed in the comparison were appropriately classified and reported.

(2) Explain how, if Mr. Baryenbruch did not analyze the information to verify the nature of the amounts charged to these FERC Accounts, the comparison can be relied upon.

(3) Explain the large variance in the results of the comparison.

(4) Explain why, given the large variance in the results, the Commission should rely upon the study.

<u>Response</u>:

a. See the attached monthly invoices. For electronic file, refer to KAW_R_PSCDR2#21a_061807.pdf.

b. (1) Calls from KAWC customers can go to either call center, however, Alton is the primary call center for KAWC customer service. The call centers in Alton and Pensacola work in conjunction with one another and are under common management. The Pensacola call center was established primarily to handle the addition of the Elizabethtown Water Company customer base. The Call Centers are fully integrated with one another and are designed to handle overflow calls from the other Call Center in times of heavy calls and to provide redundancy for the Call Center operations in case one of the Call Centers was unable to provide service for any number of reasons related to weather, natural disasters or other emergency situations.

(2) See the response to part b. (1) above.

(3) See the response to part b. (1) above. The cost of both Call Centers is combined and allocated to the AWW subsidiaries who receive service through the Call Centers.

c. (1) The $733,724 consists of the following one-time, nonrecurring costs relating that were eliminated from the 2006 Service Company charges because those costs are precluded from rate recovery by Commission Orders or due to the non-recurring nature of those expenses no rate recovery is being sought.

Condemnation Costs	- $ 13,333
STEP Project	- $ 25,151
Business Change	- $ 89,322
Divesture Related Costs	- $114,326
Sarbanes-Oxley Implementation	- $491,592
Total	- $733,724

(2) See the response to part c. (1) above.

(3) See the attached schedule. For electronic version, refer to KAW_R_PSCDR2#21c3_061807.pdf. The $5,878,690 represents the 2006 actual Service Company charges as adjusted for elements in part c. (1) above and the $6,246,717 represents the amount of Service Company charges included in the Company forecasted test-year for the twelve months ended November 2008.

d. See documents attached. Please refer to the following electronic files:

KAW_R_PSCDR2#21d_Part1_061807.pdf
KAW_R_PSCDR2#21d_Part2_061807.pdf
KAW_R_PSCDR2#21d_Part3_061807.pdf
KAW_R_PSCDR2#21d_Part4_061807.pdf

These documents consists of nearly 900 pages of information. The documents are sorted by Service Company Office, Department and employee and provide by month for 2006 the hours, dollars, and labor overheads charged to KAWC during 2006. The job title for each employee by department.

e. (1) The Company is assembling the applicable information for the hundreds of Service Company positions, but has not completed that task as of the filing of this response. The requested information would be invaluable material to the Company's competitors and the Company will provide this information to the parties once completed and appropriate confidentiality agreements are executed.

(2) Please see the response to part d. above.

(3) The Company has not been able to complete the data sorting required to provide the information in the requested format in the time allocated to the responses to this request. The accounting system does not currently capture the requested data in a manner that is easily formatted as requested. The Company will provide the requested information as soon as the data set is completed.

(4) Mr. Baryenbrunch obtains the information used in his study by department in order to compare those functions to outside providers. The Company is in the process and categorizing that information by employee and has not completed the information in the time allotted. The information will be provided in the requested format as soon as the data set is completed.

f. See attached documents. For electronic version, refer to KAW_R_PSCDR2_21f_061807.pdf.

g. See attached documents. For electronic version, refer to KAW_R_PSCDR2_21g_061807.pdf.

h. See attached documents. For electronic version, refer to KAW_R_PSCDR2_21h_061807.pdf.

i. See attached documents. For electronic version, refer to KAW_R_PSCDR2_21i_061807.pdf.

j. (1) See hard copy attached of: "Michigan's Largest Law Firms", Michigan Lawyers Weekly, September 22, 2006. For electronic version, refer to KAW_R_PSCDR2_21j1_061807.pdf.

(2) The Michigan Lawyers Weekly survey contains a high-low range for associate and partner billing rates. The average billing rate for each firm was calculated by averaging the high and low rates. As can be seen from the calculation workpaper and from the Michigan Lawyers Weekly survey data, the billing rate range is significant. For instance, the firm of Trott & Trott, PC bills associates between $125 and $250 per hour and bills partners between $150 and $350 per hour. This range of billing rates provides sufficient data to calculate the firm's average and the overall average of all law firms participating in the survey.

k. (1) See hardcopy attached of: "2006 Operating Ratios for Management Consulting Firms Association of Management Consulting Firms". Also see other attached documents. For electronic version, refer to KAW_R_PSCDR2#21k1_061807.pdf.

(2) The distribution was developed based on my 28 years of experience as a management consultant. The percentage distribution is conservative in that the majority of work (80%) is assumed to be performed by the three lower level consulting positions.

l. (1) See attached. For electronic version, refer to KAW_R_PSCDR2#21l1_061807.pdf.

(2) The distribution is based on my experience as a certified public accountant and staff auditor with Arthur Andersen and my recent assignments for Duke Energy, where I have managed accountants from KPMG and have worked with Duke's audit form, Deloitte & Touche, in the implementation of Sarbanes-Oxley related testing of internal controls. The percentage distribution is conservative in that the majority of work (60%) is assumed to be performed by the two lower level accountant positions.

m. (1) See attached. For electronic version, refer to KAW_R_PSCDR2#21m1_061807.pdf.

(2) The engineering assignment percentage distribution was developed by Service Company engineering managers (Wayne Morgan and Steve Tambini). The market cost comparison study has used this distribution for many years. The percentage distribution is conservative in that the majority of work (65%) is assumed to be preformed by the two lower level engineering positions.

n. The source of this information was Michael Miller, KAWC's Vice President and Treasurer. In order to be successful, the person hired for this position would need considerable experience dealing with each of the four outside provider categories – attorneys, consultants, certified public accountants and professional engineers. The candidate must be able to direct the work of these professionals, monitor the quality of their work, administer their various contracts and ensure invoicing accuracy.

The Service Company billed KAWC 48,595 hours for O & M related services during 2006. Based on 1,500 annual "billable" hours per person, that amounts to about 32 full-time equivalent staffing. That is a significant complement of outside service providers for this position to manage.

o. See attached. For electronic version, refer to KAW_R_PSCDR2#21o_061807.pdf.

p. (1) PLB-1, Schedule 9, Labor

Item

1. Yes
2. Yes
3. Yes, except KAWC maintains line extension records
4. Yes.
5. Yes. CCC maintains premise and billing account records, and delinquent notices.
6. Yes.
7. No these machines have been replaced by computers.
8. Yes.
9. CCC prepares the billing files. IT prints and mails the customer bills
10. Yes, except for local collection agencies.
11. No, these functions are performed by cash management.
12. Yes.
13. Yes.
14. Yes, except the IT function prints and mails the bills and notices.
15. CCC issues all bills including final bills. The meter reading is performed by KAWC employees.
16. These functions are handled by the KAWC operations function.
17. Yes.
18. Yes.
19. CCC maintains the meter reading schedule in the customer service software.
20. Yes.

(2) PLB-1, Schedule 9, Materials and expenses

Item

21. CCC maintains the customer service and billing records
22. No.
23. No.
24. Yes.
25. No.
26. Yes, but this is handled electronically.
27. Yes.
28. No.
29. No.
30. Yes.

q. (1) See attached. For electronic version, refer to KAW_R_PSCDR2#21q1_061807.pdf.

(2) See attached. For electronic version, refer to KAW_R_PSCDR2#21q2_061807.pdf.

(3) See attached. For electronic version, refer to KAW_R_PSCDR2#21q3_061807.pdf.

(4) Please see attached schedule for the analysis of the 2006 customer accounting expenses for KAWC. For electronic version, refer to KAW_R_PSCDR2#21q4_061807.pdf. The analysis indicates that (i) Mr. Baryenbrunch included the lock box and collection fees in his analysis, (ii) the telephone expense relates to the overall business of KAWC and not related to customer contact, (iii) the miscellaneous expenses relate to meter reading and other field service operations, (iv) uncollectible expense is not included in the FERC descriptions and should not be included. The analysis indicates that postage and forms should have been included and total $651,542 should have been included in Mr. Baryenbrunch's study. KAWC failed to provide this data to Mr. Baryenbrunch and he will update his study to include those costs. The average cost per customer for KAWC will be $32.56 once those additional costs are included.

r. (1) The numbers used to calculate neighboring electric utility customer services cost per customer came directly from each utility's FERC Form 1, which was obtained from the FERC website (FERC.gov). The 23 electric utilities included in the cost comparison were not surveyed because it would have been impractical and would have unnecessarily added to the cost of this study. Reliance was placed on the comparison group utilities following the FERC's definitions for Accounts 903 and 905 (see PLB-1 Schedule 9, pages 21 and 22).

(2) Again, reliance was placed on the comparison group following FERC guidelines for Accounts 903 and 905. I can personally attest this is an important consideration for electric utilities. I am currently managing a team of Duke Energy accountants who are improving general ledger account definitions. One of the most important considerations in carrying out this work is that transactions recorded in each account adhere to the FERC guidelines. Based on my direct professional experience, it is valid and appropriate to compare KAWC's customer account services per customer cost to that of the electric utility comparison group.

(3) Without contacting each of the 23 comparison group utilities and conducting an extensive benchmarking interviews and analysis, it is not possible to explain the variances. Utilities operate under a different set of

regulatory rules, have different cost structures, experience different economies of scale and are at different points in terms of replacing their customer information systems. Any of these factors could account for the differences from one utility to the next.

(4) Electric utilities place great importance on recording transactions in accordance with the guidelines established by the FERC. Also, this study's comparison group includes a sufficiently large number of electric utilities (23) so that very high and very low values do not impact the quality of the comparison group's overall average cost per customer.

For electronic version of this document, refer to KAW_R_PSCDR2#21_61807.pdf.

<u>Supplemental Response</u>:

d. Please see the attached schedules. The attached schedules are an update to the schedules provided in the original response. The schedules have been updated to include the hourly rate for each service company employee, a breakdown of the hours charged to KAW by direct charge or allocated charge, and the amount of general overhead applied by employee.

e. (1) The information has been assembled and is the subject of a contemporaneous Petition for Confidential Treatment and will be provided once the appropriate confidentiality agreements have been executed as indicated in the original response.

(2) Please see the schedules supplied in supplemental response d. The payroll overhead rate is determined by dividing total payroll overheads by total labor in arriving at the payroll overhead rate utilized to assign the payroll benefit cost to each employee.

(3) Please see the supplemental response to part d. above which now includes the hourly pay-rate for each Service Company employee with charges to KAW.

(4) Mr. Baryenbruch did not determine the outside provider position for each Service Company employee charging time to KAW. Instead, he assigned Service Company departments to outside providers based on the nature of work performed by each department (see Schedules 2, 3, and 4 of Study). Mr. Baryenbruch then compiled the costs and hours for those departments to determine the average hourly billing rate for all Service Company employees whose costs and hours are combined into each outside provider category. On page 13 of the Study, Mr. Baryenbruch describes how he determined the average hourly billing rates for the outside providers. The average billing rates for outside providers are then compared to the average hourly rates of the Service Company departments by category to determine if the Service Company charges are lower than those which could be obtained from third party providers.

Please see the attached schedules which include the table used by Mr. Baryenbruch to establish the outside provider category in which to place each Service Company department, and schedules for the month of December 2006 (started with December 2006 schedule provided in supplemental response d. above) with the outside provider category indicated for each Service Company Department.

For electronic versions, refer please to the following files:
KAW_R_PSCDR2#21_Supplemental_62507.pdf
KAW_R_PSCDR2#21d_Supplemental_62507.pdf
KAW_R_PSCDR2#21e(4)_Supplemental_62507.pdf