

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 16-W-_____

PROCEEDING ON THE MOTION OF THE COMMISSION AS TO THE
RATES, CHARGES, RULES AND REGULATIONS OF
NEW YORK AMERICAN WATER COMPANY, INC. FOR WATER SERVICE

Direct Testimony of
Patrick L. Baryenbruch

April 29, 2016

1 **1. Q. Please state your full name, position and business address.**

2 A. I am Patrick L. Baryenbruch, and my position is President, Baryenbruch &
3 Company, LLC, located at 2832 Claremont Road, Raleigh, North Carolina 27608.

4 **2. Q. Please describe your educational and professional background.**

5 A. I received a Bachelor's degree in accounting from the University of Wisconsin-
6 Oshkosh in 1974 and a Master's in Business Administration degree from the
7 University of Michigan in 1979.

8 I am a management consultant, a Certified Public Accountant ("CPA") and a
9 Certified Information Technology Professional ("CITP"). I also hold a Global
10 Information Assurance Certification ("GIAC") in information and cyber-security
11 from the SANS Institute. I am a member of the American Institute of Certified
12 Public Accountants and the North Carolina Association of Certified Public
13 Accountants.

14 I began my career with Arthur Andersen & Company where I performed
15 financial audits of utilities, banks and finance companies. After three years I left to
16 pursue an M.B.A. degree. Upon graduation from business school, I worked with
17 the consulting firms of Theodore Barry & Associates and Scott Consulting Group
18 (now ScottMadden).

19 During my consulting career, I have performed consulting assignments for
20 more than 50 utilities and 10 public service commissions. I have participated as
21 project manager, lead or staff consultant for 24 commission-ordered management
22 and prudence audits of public utilities. Of these, I have been responsible for

1 evaluating the area of affiliate charges and allocation of corporate expenses in the
2 Commission-ordered audits of Connecticut Light and Power, Connecticut Natural
3 Gas, General Water Corporation (Pennsylvania Operations), Philadelphia Suburban
4 Water Company (now Aqua America), and Pacific Gas & Electric Company.

5 My firm has performed the commission-ordered audit of Southern California
6 Edison's 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate
7 companies.

8 **3. Q. What are your duties and responsibilities in your current position?**

9 A. I am the President of my own consulting practice, Baryenbruch & Company, LLC,
10 which was established in 1985. In that capacity, I provide consulting services to
11 utilities and their regulators.

12 **4. Q. What is the purpose of your testimony?**

13 A. I am presenting the results of my study evaluating the services provided by
14 American Water Works Service Company ("Service Company") during the 12
15 months ended December 31, 2015 to New York American Water Company, Inc.
16 ("NYAW"). This study was undertaken in conjunction with NYAW's rate case and
17 is true to the best of my knowledge. The study is attached as Exhibit PLB-1.

18 **5. Q. What were the objectives of your study?**

19 A. This study was undertaken to answer four questions. First, were the Service
20 Company's charges to NYAW during 2015 reasonable? Second, was NYAW
21 charged the lower of cost or market for managerial and professional services
22 provided by the Service Company during 2015? Third, were the 2015 costs of the

1 Service Company's customer accounts services, including those of the National
2 Call Centers, comparable to those of other utilities? Fourth, are the services
3 NYAW receives from the Service Company necessary?

4 **6. Q. What conclusions were you able to draw concerning question number 1,**
5 **whether the Service Company charges to NYAW during 2015 were**
6 **reasonable?**

7 A. The Service Company's 2015 cost per NYAW customer is reasonable compared to
8 cost per customer for electric and combination electric/gas service companies.
9 During 2015, NYAW was charged \$59 per customer for administrative and general
10 ("A&G")-related services provided by the Service Company. This compares to an
11 average of \$108 per customer for service companies reporting to the Federal Energy
12 Regulatory Commission ("FERC"). Only 5 of the 24 utility service companies that
13 filed a FERC Form 60 for 2014 had a lower per-customer A&G cost than NYAW's
14 charges from the Service Company.

15 **7. Q. What conclusions were you able to draw concerning question number 2,**
16 **whether NYAW was charged the lower of cost or market services provided by**
17 **the Service Company?**

18 A. I was able to draw the following conclusions:

19 (1) NYAW was charged the lower of cost or market for managerial and
20 professional services during 2015.

21 (2) On average, the hourly rates for outside service providers are 57% higher than
22 the Service Company's hourly rates.

1 (3) The managerial and professional services provided by the Service Company
2 are vital and could not be procured externally by NYAW without careful
3 supervision on the part of NYAW. If these services were contracted entirely
4 to outside providers, NYAW would have to add at least three positions to
5 manage activities of outside firms. These positions would be necessary to
6 ensure the quality and timeliness of services provided.

7 (4) If all the managerial and professional services now provided by the Service
8 Company had been outsourced during 2015, NYAW and its ratepayers would
9 have incurred over \$5 million in additional expenses, as calculated in my
10 report. This amount includes the higher cost of outside providers and the cost
11 of one NYAW position needed to direct the outsourced work.

12 (5) The study's hourly rate comparison actually understates the cost advantages
13 that accrue to NYAW from its use of the Service Company. Outside service
14 providers generally bill for every hour worked. Service Company exempt
15 personnel, on the other hand, charge a maximum of 8 hours per day even
16 when they work more hours. If all overtime hours of Service Company
17 personnel were factored into the hourly rate calculation, the Service Company
18 would have had an even greater annual dollar advantage than the \$5 million
19 cited above.

20 (6) It would be difficult for NYAW to find local service providers with the same
21 specialized water industry expertise as that possessed by the Service Company
22 staff. Service Company personnel spend substantially all their time serving

1 operating water companies. This specialization brings with it a unique
2 knowledge of water utility operations and regulation that is most likely
3 unavailable from local service providers.

4 (7) Service Company fees do not include any profit markup. Only its actual cost
5 of service is being recovered from NYAW ratepayers.

6 **8. Q. What is your conclusion regarding the reasonableness of the costs of the**
7 **national call center that provides service to NYAW?**

8 A. I was able to determine that cost of the Service Company's customer accounts
9 services, including those provided by the National Call Centers, is well below the
10 average of the neighboring electric and combination electric/gas utility comparison
11 group. This group of companies provides a reasonable proxy group for comparison
12 to a regulated utility of the size and scope of the Service Company and NYAW.
13 During 2015, the customer accounts cost for NYAW customers was \$21.61
14 compared to the 2014 average of \$50.46 for neighboring electric and combination
15 electric/gas utilities. The highest comparison group per customer cost was \$109.96
16 and the lowest \$18.17.

17 **9. Q. What conclusions were you able to draw concerning the necessity of the**
18 **services NYAW receives from the Service Company?**

19 A. I was able to draw the following conclusions:

20 (1) The services that the Service Company provides are necessary and would be
21 required even if NYAW were a stand-alone water utility.

1 (2) There is no redundancy or overlap in the services provided by the Service

2 Company to NYAW.

3 **10. Q. Does this complete your testimony at this time?**

4 A. Yes.