

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

CASE 11-W-0200

PROCEEDING ON THE MOTION OF THE COMMISSION AS TO THE  
RATES, CHARGES, RULES AND REGULATIONS OF  
LONG ISLAND WATER CORPORATION D/B/A  
LONG ISLAND AMERICAN WATER FOR WATER SERVICE

**Rebuttal Testimony of George Conroy**

October 3, 2011

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

2 A. My name is George Conroy, and my business address is 131 Woodcrest Road,  
3 Cherry Hill, New Jersey 08003.

4 **2. Q. By whom are you employed and in what capacity?**

5 A. I am employed by the American Water Works Service Company, Inc. (“AWWSC”  
6 or the “Service Company”) as a Senior Financial Analyst.

7 **3. Q. What are the areas you will address in your rebuttal testimony?**

8 A. First, I will respond to the testimony of Mr. Simpson with respect to his  
9 adjustments to Leased Vehicles Expenses. I will also address the testimony of Mr.  
10 Bailey with respect to his adjustments to Service Company expenses.

11 **LEASED VEHICLE EXPENSE**

12 **4. Q. Please summarize Staff’s position on Leased Vehicles Expenses.**

13 A. Staff makes adjustments to projected vehicle fuel costs as well as the capitalization  
14 rate used for leased vehicles reducing the Company’s leased vehicle expenses by  
15 \$136,777.

16 **5. Q. Please describe Staff’s adjustment to fuel costs.**

17 A. Staff proposes to reduce fuel costs by \$167,166 by using a three-year average of  
18 actual fuel costs of \$180,065 incurred from 2008 to 2010.

19 **6. Q. What was the adjustment made to the capitalization rate?**

20 A. Based on the testimony of Staff witness Leung, Staff also proposes a change in the  
21 capitalization rate to 16.59% which reduces the amount of Staff calculated leased

1 vehicle expense charged to capital by \$2,004 and is \$30,389 less than the  
2 Company's original capital figure.

3 **7. Q. Do you agree with Staff's adjustment to vehicle fuel costs?**

4 A. No, using Staff's three-year average fuel cost figure of \$180,065 against the three-  
5 year average fuel usage for the same period produces a cost per gallon of \$3.12.  
6 This figure is lower than the current average fuel price in the New York area of  
7 \$3.861 as of September 2011 and underestimates the Company's projected fuel  
8 costs.

9 **8. Q. What is your proposed adjustment to vehicle fuel costs?**

10 A. I propose that 2011 fuel costs be adjusted by 31.5% or \$53,995 over 2010 actual  
11 costs to reflect the current fuel price of \$3.82 per gallon. Fuel costs should also be  
12 increased by Staff's proposed inflation rates of 1.83% in 2012 and 1.99% in 2013.  
13 These adjustments produce a fuel cost of \$230,577 as of March 2013 which is  
14 \$50,512 higher than the amount proposed by Staff. The proposed fuel costs, when  
15 divided by the average three-year fuel consumption of 57,642 gallons, produces a  
16 price per gallon of \$4.00 for 2013 and is more representative of current and future  
17 fuel prices than the \$3.12 figure as computed from Staff's numbers.

18 **9. Q. Do you propose any other adjustments to leased vehicle expense in addition to**  
19 **the fuel adjustment mentioned above?**

20 A. Yes, in addition to the adjustment of fuel costs, I also propose that maintenance and  
21 mileage expenses be adjusted by Staff's proposed GDP inflation adjustments of

1           2.05% in 2011, 1.83% in 2012 and 1.99% in 2013, please see Exhibit (JGB-2). In  
2           Mr. Simpon’s filed position he did not adjust the Company’s inflation rate of 1.59%  
3           to be consistent with the rest of Staff’s adjustments for inflation.

4   **10. Q. What is the overall effect of the Company’s adjustments to Staff’s proposal**  
5           **regarding vehicle lease expense?**

6           A. The overall effect on vehicle leasing costs after the fuel, mileage and maintenance  
7           adjustments and adjusting for capitalization at the Staff’s rate of 16.59% is \$42,591.  
8           Please see the attached Exhibit\_(GC-1) which shows the full details on the  
9           adjustments mentioned above.

10   **SERVICE COMPANY EXPENSES**

11   **11. Q. Please summarize Staff’s position.**

12           A. Staff made reductions to the Company’s adjusted historical test year figure by  
13           removing \$326,224 in incentive pay and \$20,296 in relocation expenses. In  
14           addition, \$378,244 was removed for employee expenses related to the recent  
15           transfer of Long Island’s Service Company support from the former Service  
16           Company Northeast Region to the new Eastern Division as well as Information  
17           Technology Services (ITS) depreciation and maintenance expenses. After these  
18           adjustments, a GDP-based inflation adjustment of 4.46% was applied to the Staff  
19           adjusted figure, resulting in projected Service Company expenses of \$4,433,465, a  
20           \$940,929 reduction over the Company’s proposed figure.

1 **12. Q. Is the Company accepting Staff’s proposed changes to Service Company**  
2 **expenses?**

3 A. The Company is not contesting the adjustment removing the \$20,296 in relocation  
4 expenses. The Company does not however, agree with the removal of the \$378,244  
5 in charges related to depreciation and maintenance for on-going ITS projects and  
6 staffing changes as a result of the transfer of LIAW into the Eastern Division as  
7 well as the \$326,224 in incentive pay.

8 **13. Q. Please explain the charges relating to ITS depreciation and maintenance and**  
9 **the basis for the Company’s adjustment to Service Company expenses.**

10 A. Included in the Company’s Service Company numbers is \$127,922 relating to  
11 increased depreciation and maintenance charges from the ITS group for 2011  
12 expenses not included in the historical test year charges. As detailed in my direct  
13 testimony, on pages 7 and 8, and presented as support in response to IR-13 JAD-1,  
14 these charges consist of \$63,536 in increased maintenance expenses for technical  
15 support of ITS software and equipment, software patches to protect against  
16 malicious virus attacks as well as first-year maintenance charges on a number of  
17 applications added during 2011. All of these expenses represent necessary  
18 technology expenses needed to ensure that the company can operate efficiently and  
19 protect against downtime as a result of hardware or software problems.

20 The adjusted depreciation charges of \$64,386 represent the additional expenses  
21 related to increases in capital spending in the ITS area to replace and expand aging

1 computer and telephony assets across the organization including the Customer Call  
2 Center. These are necessary enhancements to replace the Company’s aging  
3 technology assets in coordination with our Business Transformation initiative.  
4 Many of our software systems are dated and no longer fully supported by outside  
5 vendors. In order to be able to process customer accounts and other information  
6 efficiently, these systems must be updated.

7 **14. Q. Please explain how the Company filed its prior two cases, Case 04-W-0577 and**  
8 **Case 07-W-0508, with regard to Service Company expenses.**

9 A. The Company filed both of the previous cases in the same format and methodology  
10 as it did in this case. In the prior two cases, however, the Northeast Region was the  
11 regional office that provided services to LIAW in the following functions:  
12 Administration, Business Development, Engineering, Environmental Compliance,  
13 External Affairs, Finance, Human Resources, Legal, Maintenance, Network, Field  
14 Services, Production and Loss Control.

15 **15. Q. Please explain how the Northeast Region was accounted for in the prior two**  
16 **cases.**

17 A. Each function in the Northeast Region was calculated in the same way and is  
18 consistent with how I calculated the Eastern Division. The costs for Service  
19 Company are broken into two categories. The first category is Labor and Related  
20 and the second category is Expenses Other than Labor and Related. For Labor and  
21 Related, all employees were priced out using their current salaries or wage rates and

1           then those rates were increased with annual increases through the rate year. These  
2           costs were grossed up for benefits and then an allocated between New Jersey  
3           American Water Company and Long Island American Water on the basis of total  
4           customers. LIAW received approximately 10% of the adjustments based on their  
5           customer percentage in order to allocate all of the labor and related expense for a  
6           normal year of support. It should be noted that the Northeast Region Service  
7           Company did not charge any of its time to Rate Case Expense as they are allocated  
8           to LIAW through Service Company expense and therefore there was not any issue  
9           with double counting any of these expenses. The Expenses Other than Labor and  
10          Related were grossed up and increased by inflation through the rate year and  
11          allocated between New Jersey American Water and Long Island American Water  
12          based on customer percentages.

13   **16. Q. What was the level of recovery for the Northeast Region expenses allocated to**  
14    **LIAW in the Rate Year ended March 31, 2009?**

15          A. Per the Company’s files the Northeast Region expense amount allowed for in Case  
16          07-W-0577 was \$865,522 for the rate year ending March 31, 2009, after making  
17          adjustments for settlement purposes.

18

1 **17. Q. What did the Company request in the current proceeding?**

2 A. As filed within direct testimony in this proceeding, the Company as filed requested  
3 recovery of the Eastern Division and Shared Service Rate Department expenses of  
4 \$646,207 and \$241,325, respectively, for a total of \$887,532. This is an increase of  
5 \$22,010 from the previously allowed amount over a 4 year period (4/1/2008-  
6 3/31/2009 to 4/1/2012-3/31/2013). Inflating the allowed amount of \$865,522 by an  
7 estimated 2% for 2010 and the actual GDP deflators used by Staff of 2.05% for  
8 2011, 1.83% for 2012 and 1.99% for 2013 the amount would be \$935,674  
9 ( $\$865,522 \times (1 + 2\%) \times (1 + 2.05\%) \times (1 + 1.83\%) \times (1 + 1.99\%)$ ). The change to  
10 Divisional structure therefore saved LIAW \$48,142 ( $\$935,674 - \$887,532$ ).

11 **18. Q. Please explain the recent Service Company divisional reorganization which**  
12 **was the basis for the Company's staffing adjustments.**

13 A. Effective in 2011, LIAW became part of the Service Company Eastern Division, as  
14 the Service Company transitioned from a four region geographic structure  
15 (Northeast, Central, Southeast, & Western) to a divisional structure (Eastern &  
16 Western) with Pennsylvania and New Jersey standing alone as separate divisions.  
17 As mentioned in my direct testimony, as well as the direct testimony of Mr. Varley,  
18 LIAW was previously handled by the Northeast region consisting of New Jersey  
19 American Water Company (NJAWC) and LIAW. LIAW is now part of the Eastern  
20 Region consisting of Bluefield Valley Water Company (VA), Indiana American,  
21 Kentucky American, Maryland American, Michigan American, Ohio American,

1 Tennessee American, Virginia American and West Virginia American companies.  
2 During 2010, employees' responsibilities were reassigned and some employees  
3 were relocated to accomplish this transition. The majority of the former Northeast  
4 Region Service Company employees were absorbed into NJAWC with the  
5 remainder assigned to other divisional duties. As a result of this transition, The  
6 Company's 2010 historical test year Service Company charges were adjusted to  
7 remove charges from the former Northeast and other regions, and to reflect the new  
8 assignment to the Eastern Division.

9 **19. Q. What amount of expenses was in Service Company's Historical Test Year from**  
10 **the Northeast Region?**

11 A. As shown on Exhibit 12, Tab 16, page 3, the Northeast Region expense was  
12 \$48,743.

13 **20. Q. Why is there only \$48,743 in the Historical Test Year for the Northeast**  
14 **Region?**

15 A. As mentioned above, the Northeast Region was dissolved as of December 28, 2009.  
16 Almost all of the former Northeast Region Service Company employees have been  
17 transferred to NJAWC at this time. Therefore, in 2010, their costs were not charged  
18 to LIAW even though they assisted with the transition to the Eastern Division.

19 **21. Q. Please explain why there are charges from the Southeast and Central Regions.**

20 A. The Southeast Region for the most part transitioned to the Eastern Division, with a  
21 few employees joining Pennsylvania American. The Central Region was split

1           between the Eastern and Western Divisions depending on the states the employees  
2           supported, for example those employees who supported the states of Indiana, Ohio  
3           and Michigan were transferred to the Eastern Division and the remaining  
4           employees were transferred to the Western Division to support the states of  
5           Missouri, Iowa and Illinois. Due to the reorganization, some levels of costs were  
6           charged through these regions. The total amount of charges for the Central and the  
7           Southeast Regions are \$251,893.

8   **22. Q. Is the historical test year level of support representative of a normal year for**  
9           **LIAW?**

10          A. No. That is why the Company allocated the employees from the Eastern Division  
11          to LIAW because the Eastern Division was created in 2011 and a normal level of  
12          service from them has not been established.

13   **23. Q. How did you determine which employees to charge to LIAW from the Eastern**  
14           **Division?**

15          A. The Company worked with the Eastern Division and discussed with them which  
16          employees in the Eastern Division would provide support to LIAW and which ones  
17          would not. Those that are not projected to give support were not allocated to  
18          LIAW. Those employees that will support LIAW were allocated based on the  
19          states that they serve. For example, there are a paralegal and an attorney who work  
20          for NJAWC and LIAW, with approximately 10% of their costs allocated to LIAW.

1 Another example would be Communications, where two employees serve PA, NJ  
2 and LIAW and their costs are allocated among those three companies.

3 **24. Q. Are these allocations shown in your workpapers?**

4 A. Yes, please refer to pages 4 through 6 of Exhibit 12, Tab 16 which details out each  
5 employee in the Eastern Division and workpaper in Excel format was provided in  
6 the confidential response to IR-13 JAD-1.

7 **25. Q. Please explain the Company's staffing adjustments made to the Supply Chain  
8 function.**

9 A. 2010 Service Company test year expenses reflect billed charges to LIAW from the  
10 former Northeast Region. In order to reflect expenses from the new Eastern  
11 Division structure, an additional \$8,129 representing two hours per week of  
12 estimated labor and labor related charges from the manager of eastern division  
13 procurement was added to test year charges. The resulting Supply Chain expense  
14 of \$61,110 at 03/31/13 is \$7,422 higher than the 03/31/09 amount of \$53,688  
15 awarded in the last case, and is an increase of approximately 3.46% per year. After  
16 taking into account normal inflation the amount over the current proposal is \$3,071,  
17 please see Exhibit\_(GC-4).

18 **26. Q. Please explain the Company's staffing adjustments made to the External  
19 Affairs Function.**

20 A. As noted in William Varley's response to IR-74 ACL-21, please see  
21 Exhibit\_(GC-3), an additional \$60,982 in labor and labor related costs were added

1 for an additional Service Company employee who would work 50% of his or her  
2 time on LIAW external affairs issues under the new Eastern Service Company  
3 division. The Company would get their remaining external affairs support from an  
4 outside consultant hired at a cost of \$48,240 per year which is reflected in Exhibit  
5 9, page 17, Invoices. This arrangement will replace the Long Island American  
6 Water employee who previously handled this function. The combined cost of  
7 \$109,222 per year from this arrangement is less than the estimated \$129,780 in  
8 salary and benefits of the dedicated LIAW employee that was approved in Case 07-  
9 W-0508.

10 **27. Q. Please explain the Company's staffing adjustments made to the SSC-Rates**  
11 **Function.**

12 A. As detailed in my attached response to IR-32 BLB-5 (see Exhibit\_(GC-3), the  
13 adjustments represent \$199,922 in test year labor and labor related charges for the  
14 transfer of the Company's rates and financial support from the former Northeast  
15 Region to the SSC-Rates group where it is now being handled by a manager and  
16 two financial analysts who split their time between LIAW, Iowa and Maryland.

17 **28. Q. Is the Company revising its position on the staffing adjustments related to the**  
18 **SSC-Rates Function?**

19 A. The Company is removing the expenses related to the three SSC-rates employees  
20 that were supporting LIAW, amounting to \$241,325 in the pro forma rate year and  
21 including the test year adjustment of \$199,922 mentioned above. Due to recent

1 changes in the responsibilities in the SSC-Rates group, the rates and finance  
2 function for the Company will now be supported by a full time Rates Manager  
3 employed by LIAW. Please see the rebuttal testimonies of Mr. Engle and Mr.  
4 Watkins for additional information.

5 **29. Q. Please explain the staffing adjustments related to the Human Resources**  
6 **Function.**

7 A. Added to the 2010 historical test year amounts for the Eastern Division human  
8 resources function are \$50,191 in labor and labor related charges and \$10,000 in  
9 other costs. The labor costs represent the estimated dollars charged by the Eastern  
10 Division HR director, 2 managers and an executive assistant in supporting LIAW's  
11 human resources issues. \$38,219 of the total amount represents labor and travel  
12 costs for a part-time employee who spends 30% of her time supporting the  
13 Company's human resources activity. This Service Company employee handles  
14 local human resources issues when they arise and eliminates the need for the  
15 Company to hire an additional human resources FTE. Total adjusted Eastern  
16 Division human resources costs at 12/31/2013 are \$106,893, which is \$18,924 less  
17 than the amount awarded to the Company as of 3/31/2009 for the Northeast Region  
18 to perform this work, which was \$125,817. Also, LIAW is saving an additional  
19 \$160,680 by eliminating the LIAW Human Resource Manager from the labor line  
20 in the previous case with a salary of \$107,120 and benefits of \$53,560. This means  
21 that by using the Eastern Division the Company is saving \$179,604

1 (\$18,924+\$107,120+\$53,560) compared to having support from the Northeast  
2 Region and LIAW for Human Resources.

3 **30. Q. Why do you feel that the staffing adjustments outlined above should be added**  
4 **back into Staff’s Service Company figures?**

5 A. All of these adjusted amounts reflect the transition of the Company’s Service  
6 Company support under the new divisional structure and its proposed effect on  
7 Service Company charges. They were calculated by looking at Eastern Division  
8 employees and making estimates on the amount of time and expenses they would  
9 allocate to LIAW during the rate period. Eliminating the adjustments from the case  
10 results in basing costs on the old Northeast Regional Service Company structure,  
11 which understates the amount charged to LIAW as there were only 5 Northeast  
12 Region employees in 2010, with no attempt to take into account the known and  
13 measureable changes which have taken place and will continue through the pro  
14 forma period.

15 **31. Q. Are you proposing any other changes to Staff’s position on Service Company**  
16 **expenses?**

17 A. Yes, in addition to the re-inclusion of the Company’s adjustments noted in my  
18 rebuttal testimony above, except for relocation expenses and expenses for the SSC-  
19 rates group employees formerly representing LIAW, I am using the GDP inflation  
20 factors proposed by Staff to increase “Other” non-labor Service Company expenses  
21 by 2.05% in 2011; 1.83% for 2012; and (1.99%/4) for 3 months of 2013.

1 **32. Q. What is the net effect of your proposed Service Company changes noted**  
2 **above?**

3 A. The net effect of my proposed changes is an adjusted rate year Service Company  
4 figure of \$5,113,462 which is \$679,997 higher than Staff's proposed figure of  
5 \$4,433,465. Please see Exhibit\_(GC-2) for a breakdown of the charges by category  
6 and function .

7 **33. Q. What are the primary cost drivers accounting for the increase in Service**  
8 **Company charges since the last case?**

9 A. As addressed in my response to IR-93 BLB-13, please see Exhibit\_(GC-3), in the  
10 three-year period since the last rate case Service Company labor related charges  
11 have increased as a result of the stock market collapse which devalued pension and  
12 OPEB assets and caused higher contributions. Group insurance costs have also  
13 risen as a result of inflation and government health care reforms. ITS costs to  
14 LIAW for outside services, maintenance and depreciation have increased,  
15 amounting to approximately \$374K from 2008 to 2010. These costs are attributable  
16 to a number of software systems implemented during the period to increase security  
17 and productivity or to replace other outdated systems. Exhibit\_(GC-4) columns A  
18 through C shows a breakdown of LIAW Service Company costs from the last case  
19 versus the current proposed costs as a result of the adjustments reflected above. It  
20 also takes the prior case is Rate Year Ended 03/31/09 figures and inflates them  
21 using the Staff's GDP deflation factors for 2010 through 2013 and compares them

1           against the current adjusted figures in columns g through i. Comparison of the  
2           Company's current 2013 expenses against the inflation adjusted Staff figures shows  
3           the two largest categories of increases as ITS and Corporate Center costs.  
4           Company projected costs for the Eastern Division are actually \$289,689 lower than  
5           the Staff inflation adjusted figure from the last case.

6   **34. Q. Please explain the increase in ITS from Exhibit\_(GC-4).**

7           A. ITS expenses can be broken down into several major categories which will  
8           highlight areas that have increased over the inflationary increases shown on  
9           Exhibit\_(GC-4).

10 **35. Q. Please describe the major cost categories included within ITS expense.**

11           A. The cost categories are as follows:

12           • *Labor and Labor Related*

13           The Labor and Labor Related category includes labor, benefits (group insurance,  
14           AIP, 401k,) and payroll taxes.

15           • *Pension/ OPEB*

16           Pensions - AW maintains noncontributory defined benefit pension plans, covering  
17           eligible non- union employees. Benefits under the plans are based on the  
18           employee's years of service and compensation. The pension plans have been closed  
19           for any employees hired on or after January 1, 2006. OPEB (Postretirement benefits  
20           other than pensions) – Service Company maintains post retirement benefits plans  
21           providing varying levels of medical and life insurance to eligible retirees. The  
22           retiree welfare plans are closed for union employees hired on or after January 1,  
23           2006. The plans had previously closed for non-union employees hired on or after  
24           January 1, 2002.

25           • *Insurance Other than Group*

26           Insurance Other than Group includes insurance for vehicles, general liability,  
27           workmen's compensation, etc.

28           • *Rents*

1 The Rents category includes office space rent and equipment rentals.  
2

3 • *General Office Expense*

4 Included in the General Office Expense are items such as data lines for Service  
5 Company facilities (data centers, call centers, etc.), phones, subscriptions to analyst  
6 services that support technical evaluation and negotiation expertise, expenses for  
7 employee travel for training and between states, etc.  
8

9 • *Other*

10 Included in the Other category are costs related to consulting expenses, asset  
11 disposals, software licenses, services to set up infrastructure, electricians, support of  
12 non-project work, etc.  
13

14 • *Maintenance*

15 Maintenance agreements serve as an insurance policy to protect American Water  
16 from the high costs of unexpected repairs and failures. They keep AW from being at  
17 the mercy of the market place in times of an emergency. The company carries  
18 maintenance contracts for ‘Water Infrastructure Network Repairs’ because pipes  
19 and hydrants break and valves inevitably fail. Similarly, we need maintenance  
20 agreements to prevent or correct technology system failures or ensure reasonable  
21 response times for vendor support and repair of OEM issues.  
22

23 Contracts typically cover services from “around-the-clock” technical support and  
24 labor to next business day support, as well as immediately and locally available  
25 parts. Technology system maintenance takes the form of security patches to protect  
26 from newly released viruses, malicious code releases, and identified vulnerabilities,  
27 equipment monitoring, inspections, and security upgrades, as well as physical  
28 repairs and replacements and patches to fix bugs and moderate upgrades in  
29 functionality. Such maintenance reduces AW’s risks of not being able to provide  
30 customer information, issue bills and collect payments.  
31

32 Typically, if maintenance is dropped, the product may be so aged that there isn’t  
33 value provided by the vendor anymore. If maintenance is dropped for a product in  
34 an actively supported period, vendors will require AW to go back and pay for past  
35 maintenance before product support is provided.  
36

37 • *Depreciation*

38 Depreciation includes expense items that are set up to express the diminishing life  
39 expectancy and value of any equipment (including servers, desktops, etc.).  
40 Depreciation is set up over a fixed period of time based on GAAP rules. Wear and  
41 tear, age, deterioration and obsolescence are a few of the reasons why equipment  
42 depreciates in value.

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**36. Q. Please explain the expenses relating to each ITS cost category described above.**

A. The following provides the detail of the expense activity within the ITS organization from FY 2006 – FY 2010:

	<b>Total ITS Charges by Cost Category</b>				
	<b><u>FY2006</u></b>	<b><u>FY2007</u></b>	<b><u>FY2008</u></b>	<b><u>FY2009</u></b>	<b><u>FY2010</u></b>
<b>Labor &amp; Labor Related</b>	13,064,500	16,556,866	20,357,846	19,515,583	22,688,941
<b>Pension/PBOP</b>	22,216	1,578,166	1,705,667	3,137,302	2,083,685
<b>Insurance Other than Group</b>	127,551	138,614	369,977	379,519	411,196
<b>Rents</b>	477,972	482,402	476,463	473,760	462,211
<b>General Office Exp</b>	1,868,394	1,607,868	2,723,642	2,528,981	3,306,116
<b>Other</b>	3,487,059	2,605,981	2,835,364	6,039,098	7,279,155
<b>Maintenance</b>	4,864,869	4,857,511	4,830,514	5,879,029	6,570,529
<b>Depreciation</b>	5,124,415	2,418,116	9,349,333	11,474,457	20,524,214
	<u>29,036,976</u>	<u>30,245,524</u>	<u>42,648,806</u>	<u>49,427,729</u>	<u>63,326,047</u>

**37. Q. What are the drivers behind these ITS expenses?**

A. A majority of the cost changes displayed in the table above were due to Depreciation and Pensions, as noted above.

It is also important to note that ITS has experienced a steady stream of necessary growth and investment over the last three years, resulting in some of the cost changes displayed in the table above given the technology needs of AW as detailed earlier in my rebuttal testimony. ITS is prudently investing in efficient, cost effective technology solutions that support business needs.

To put the size and scale of the ITS organization into perspective, today the ITS organization supports legacy custom developed applications as well as a selection

1 of new commercial off the shelf packages (COTS), two data centers, voice, data  
2 and network connectivity for 19 states with several hundred physical sites storing,  
3 treating and pumping water, traditional help desk functions, architecture, security  
4 and a traditional project oriented Project Management Office.

5 In 2010 alone, the ITS organization successfully completed 20 capital projects  
6 including the upgrade of Service Suite, American Water’s mobile workforce  
7 application. The following statistics further put into perspective the size, scale and  
8 scope characteristics of our organization. In 2010, our service desk took over  
9 72,000 calls from users. The ITS organization processed 2.8 million bills each  
10 month and processed over 37 million pieces of customer correspondence through  
11 the year. We support over 3000 mobile devices, 5,800 desktop devices and  
12 hundreds of meter reading devices. The data center team began to virtualize this  
13 year with 28% of the server environments (over 600 servers under ITS  
14 management) now virtualized marking our contribution to the greening of IT.

15 **38. Q. Why should the Staff’s adjustment to incentive pay not be removed?**

16 A. As stated in the direct testimony of Mr. Burke, the Company believes that the  
17 incentive program is a vital tool to attract and retain talented employees across the  
18 organization. It is part of our overall salary package and enables our organization  
19 to offer a compensation package competitive with other employers both in our  
20 industry and in the geographic areas we serve. It is not a “bonus”, but is a target  
21 and performance based compensation package designed to encourage salaried

1 workers to align their goals with those of the company and get rewarded when  
2 those goals are realized. Also, these incentive rewards are not guaranteed, and  
3 place a portion of eligible workers compensation at risk. This further motivates  
4 employees to perform and drives accountability through all levels of the  
5 organization. Ratepayers benefit from this through more productive employees,  
6 increased levels of customer service and operating efficiencies. Please also see the  
7 rebuttal testimony of Mr. Engle for further details on incentive compensation.

8 **39. Q. Does this conclude your rebuttal testimony?**

9 A. Yes, it does.