

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 Robert A. Engle

REDACTED

October 3, 2011

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

2 A. My name is Robert A. Engle. My business address is 131 Woodcrest Road, Cherry
3 Hill, New Jersey 08034.

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

5 A. I am employed by American Water Works Service Company (“AWWSC”) as
6 Senior Financial Analyst in Rates and Regulations.

7 **3. Q. Are you the same Robert Engle who previously submitted prepared direct
8 testimony in this proceeding?**

9 A. Yes, I am.

10 **4. Q. What are the areas you will address in your rebuttal testimony?**

11 A. I will respond to the testimony of Mr. Leung with respect to his adjustment to
12 Payroll increases and the elimination of the Employee Stock Purchase Plan. I will
13 also address some changes in Labor that the Company is making in its rebuttal
14 filing.

15 **PAYROLL**

16 **5. Q. Please summarize Staff’s position on Payroll.**

17 A. Staff makes several adjustments to payroll including wage increases, for both union
18 and non-union employees, removing 3 union positions and removing AIP and
19 LTIP.

20 **6. Q. Please describe Staff’s adjustment to wage increases for the union employees.**

21 A. Staff proposed to use the GDP deflator for 2012 of 1.90% and 1.99% for 2013.
22 Staff updated their 2012 GDP deflator to 1.83% in the response to LIAW-1, see

1 Exhibit_(JMW-2), attached to Mr. Watkins’ rebuttal. Actual union increases
2 effective 7/1/2004, 7/1/2005, 7/1/2006, 1/1/2007, 1/1/2008, 1/1/2009, 1/1/2010 and
3 1/1/2011 were 2%, 3%, 3%, 3% (6 months), 3.25%, 3.25%, 3.5% and 3.5%,
4 respectively. It is unrealistic to think that the Company’s skilled union employees
5 would accept the increases proposed by Staff. Although the projected increases are
6 not known and measurable at this time, the historical increases detailed above
7 indicate that the union contract will ultimately reflect salary increases greater than
8 the rate of inflation calculated through the GDP deflator. The Company will
9 provide an update as soon as a new contract is available, but in lieu of this, the
10 Company believes **[BEGIN CONFIDENTIAL]**

11 **[END CONFIDENTIAL]** is reasonable and should be used. The
12 **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** does not adjust the
13 1/1/2007 increase to annualize that for a full year. Since the 1/1/2007 increase was
14 for six months, doubling this results in an actual 12 month increase of **[BEGIN**
15 **CONFIDENTIAL]** **[END CONFIDENTIAL]**. Using the **[BEGIN**
16 **CONFIDENTIAL]** **[END CONFIDENTIAL]** increase would
17 cause **[BEGIN CONFIDENTIAL]**
18 **[END CONFIDENTIAL]**. The Company’s
19 average for rebuttal purposes is **[BEGIN CONFIDENTIAL]**
20 **[END CONFIDENTIAL]**.

21

1 **7. Q. Does Staff adjust the non-union wage increases?**

2 A. Yes, Staff is proposing to use the GDP deflator of 1.83% for 2012 and 1.99% 2013
3 non-union payroll increases.

4 **8. Q. Is this in line with actual history of non-union wage increases?**

5 A. No. The latest non-union increase of 3.12% was effective 12/27/2010. The non-
6 union increases effective 3/24/08, 3/23/09 and 12/28/09 were 4.41%, 4.13% and
7 3.35% (prior to pro-ration), respectively. The Company’s request for [BEGIN
8 CONFIDENTIAL] [END CONFIDENTIAL] wage increases in 2012 and
9 2013 is reasonable in lieu of recent historical wage increases for non-union
10 employees. The [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] is
11 very conservative when compared to the 4-year average after pro-ration of [BEGIN
12 CONFIDENTIAL]
13 [END
14 CONFIDENTIAL]. The after pro-ration increase at 12/28/2009, to reflect a 9
15 month period, is [BEGIN CONFIDENTIAL] [END
16 CONFIDENTIAL].

17 **9. Q. Do you have any other comments concerning the wage increases proposed by**
18 **Staff for non-union employees?**

19 A. Yes. The Company must be able to compensate its non-union employees in a range
20 that will retain those employees. If the Company increased compensation by the
21 1.83% or 1.99% recommended by the Staff, many of the Company employees

1 might start looking for positions in other companies and cause instability within the
2 Company. Also, those employees could become disgruntled and their productivity
3 could decrease. In both instances losing employees with specialized knowledge of
4 utility operations would cause the Company a hardship as it can be difficult, time
5 consuming and costly to locate and train other employees to take their place. In the
6 long term, providing employees with a good working environment, which includes
7 reasonable wage increases, helps the Company by retaining key employees in order
8 to run the Company effectively and efficiently.

9 **10. Q. Does the Company agree with the removal of 3 union employees?**

10 A. No. Please see the discussion below for more information on the Maintenance
11 Mechanic B and Station Attendant B. The Company proposes to fill these two
12 positions based on Mr. Varley's direct testimony on page 6. The Company believes
13 that the Utility Man II, Util/Meter SV position is needed and intends to fill this
14 position.

15 **11. Q. Please explain why the Company seeks to retain these 3 union employees.**

16 A. As set forth in Mr. Varley's direct testimony, since 2005 LIAW has constructed
17 three new iron filtration removal plants and there is an additional plant that is
18 anticipated to be completed in late 2013. Additional employees would serve to
19 maintain and operate these plants. These two new employees would perform
20 additional maintenance at the new facilities because there is more mechanical
21 equipment to maintain. Additionally, since there is sensitivity to chemical
22 treatment doses to insure that the plants operate at maximum efficiency, additional

1 time is required when the plants are visited. Depending on the season the visits
2 could range from two to four times per day. Please also see Mr. Varley's direct
3 testimony for additional information.

4 **12. Q. Are there any additional adjustments to Labor that need to be explained?**

5 A. Yes. In light of the proposed acquisition by American Water of Aqua New York,
6 Inc., it is currently contemplated that LIAW's president and an operations specialist
7 who provides him with administrative support would allocate 59.50% of their time
8 to LIAW and 40.50% of their time to the acquired Aqua New York entity, should
9 this acquisition be approved. The Company has updated the appropriate schedules
10 to reflect this proposed allocation. Please see the rebuttal testimony of Mr. Watkins
11 for further information on this topic.

12 **13. Q. Why has the Company not filled the Utility Man II, Util/Meter SV position?**

13 A. This position was not filled because the arbitration decision was not made until after
14 Staff filed its position. The Company did not want to hire a new employee to replace
15 this position only to have to fire that employee if the arbitration decision was to
16 reinstate the former employee.

17 **14. Q. Why does the Company seek to retain this position?**

18 A. The position that was terminated has been filled from within by a Utility Man II.
19 This left another open position which remains vacant. However, due to the
20 requirements of the job, particularly in the winter months, for main break repairs,
21 maintenance, etc., the vacancy that currently exists will need to be filled.

22

1 **15. Q. Have you made any revisions to Payroll Expense?**

2 A. Yes, I have made several revisions to the original filing. First, I have prorated the
3 salaries and related benefits for Mr. Varley and an Operations Specialist to allocate
4 a portion of their salaries and benefits based on the assumption described above.
5 The total allocated portion of the labor and related based on allocating the costs to
6 Aqua NY by dividing Total Aqua NY customers (50,384) by total customers in NY
7 of the 4 companies (124,391) is **[BEGIN CONFIDENTIAL]** **[END**
8 **CONFIDENTIAL]**. This amount has been removed from LIAW rate case in labor
9 and related benefits. Please see the rebuttal testimony of Mr. Watkins for more
10 information on this elimination. I have also added a non-union position, a Rates
11 Manager at the L-7 level, at a starting salary of **[BEGIN CONFIDENTIAL]**
12 **[END CONFIDENTIAL]** and rate year benefits of
13 **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** prior to
14 capitalization. In light of the addition of this Rate Manager, we have eliminated
15 regulatory expense from the Service Company, as Mr. Conroy and Mr. Watkins
16 have described. This position of Rates Manager is one for which LIAW has a
17 demonstrated need, given the frequency and variety of regulatory filings it has
18 made historically and anticipates making in the future.¹ Please see the testimony of
19 Mr. Conroy regarding the elimination of 3 positions from the SSC-Rates &
20 Regulation group with an allocation of **[BEGIN CONFIDENTIAL]**

¹ Such filings include the RAC/RPT; property tax refund petition, SIC, DSIC, TSA, and base rate case proceedings.

1 **EMPLOYEE STOCK PURCHASE PLAN (ESPP)**

2 **18. Q. Do you have any comments on Staff's elimination of the Employee Stock**

3 **Purchase Plan Expense (ESPP)?**

4 A. Yes. Mr. Leung refers to the ESPP as incentive compensation. This program allows
5 employees to purchase company stock on a voluntary basis at a discounted price.

6 In no way is this discount tied to Company or employee performance. In addition,

7 in its 2004 Rate Case 04-W-0577, the Company requested, and was allowed, the

8 cost of its Employee Investment Plan (EIP). Under the EIP plan employees could

9 contribute up to 2% of their annual pay which the Company would match. In

10 addition, employees would receive one-half of one percent of their annual salary as

11 a contribution from the Company to the EIP. For example, an employee who

12 contributed 0% would still get .5%, employees contributing 1% would receive 1.5%

13 and employees contributing 2% would receive 2.5%. The total allowance for the

14 rate year ended March 31, 2006 per the attachment to the testimony of Mr. Higgins,

15 Exhibit (KJH-1), Schedule 1, Page 2 of 9 was \$18,391.

16 **19. Q. Did the Company request EIP in Case 07-W-0508?**

17 A. No, the Company did not have the EIP plan to request in Case 07-W-0508 as the

18 plan was eliminated in mid-2005. RWE acquired American Water in January 2003

19 at which time the EIP plan originated; prior to this the Company offered an

20 Employee Stock Ownership Plan (ESOP). The ESOP plan turned into the EIP plan

21 due to the fact that AWW stock was no longer sold, and therefore the ESOP plan

22 could not purchase AWW stock for their employees.

1 **INCENTIVE COMPENSATION**

2 **20. Q. What is Staff’s position on the Company’s Annual Incentive Program (“AIP”)**
3 **and Long-Term Incentive Plan (“LTIP”)?**

4 A. Within its direct testimony, Staff disagreed with the inclusion of AIP and LTIP, and
5 consequently removed AIP and LTIP from LIAW’s rate year labor forecast.

6 **21. Q. What is the Company’s position on this issue?**

7 A. As detailed within Mr. Burke’s testimony, LIAW is of the position that the costs
8 associated with AIP and LTIP should be included in the Company’s rate year labor
9 forecast. As set forth therein, LIAW has shown that at-risk compensation (AIP and
10 LTIP) is reasonable, helps to attract and retain competent employees, and results in
11 encouraging high level employee performance because this at-risk compensation is
12 directly linked to such performance measures as customer service quality, customer
13 satisfaction, environmental compliance, and health and safety performance.

14 **22. Q. Does this conclude your rebuttal testimony?**

15 A. Yes, it does.