

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Long Island Water Corporation d/b/a Long Island American Water
Case 11-W-0200
September 2011

Prepared Testimony of:

Water Rates Panel:

Michael V. Horan
Utility Analyst 2

Kevin A. Manz
Utility Engineer 2

Office of Electric, Gas and
Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your full name and business
2 address.

3 A. Michael V. Horan. Three Empire State Plaza,
4 Albany, New York 12223.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the New York State (NYS)
7 Department of Public Service (DPS) as a Utility
8 Analyst 2 in the Office of Electric, Gas &
9 Water, Water Rates Section.

10 Q. Please state your educational background and
11 professional experience.

12 A. I received an Associate in Applied Science (AAS)
13 Degree in Forestry from Paul Smith's College in
14 1979, and an AAS Degree in Civil Engineering
15 Technology from Hudson Valley Community College
16 in 1993. I have been employed by the DPS since
17 December 2007 and my work primarily involves
18 analyzing water utility submittals as they
19 pertain to operation and maintenance expenses,
20 plant costs, and facility construction. My
21 current duties include reviewing utility tariff

1 changes, initial rate filings, rate increase
2 filings, transfer of ownership petitions,
3 surcharge petitions, and customer complaints.
4 Before joining the DPS, I was employed by the
5 NYS Office of Emergency Management as a Civil
6 Engineer 1 and evaluated the engineering
7 feasibility and cost effectiveness of hazard
8 mitigation projects, primarily flood control and
9 slope stabilization projects. From 1986 to
10 2006, I was employed by the NYS Department of
11 Health as a Chief Engineering Technician in the
12 Bureau of Public Water Supply Protection where I
13 developed expertise in surface water treatment
14 plant optimization; inspected water systems to
15 assure compliance with the State Sanitary Code;
16 and reviewed and approved engineering reports,
17 plans, and specifications for public water
18 supply projects including source development,
19 transmission, treatment, pumping, distribution,
20 storage, and cross connection control. I also
21 have previous engineering and surveying

1 experience with the NYS Department of
2 Transportation and USDA Forest Service, and
3 worked as a foreman with the Osmose Wood
4 Preserving Co., a private utility contractor.

5 Q. Have you provided testimony in other Commission
6 proceedings?

7 A. Yes. I testified in the United Water New
8 Rochelle Inc. rate case, Case 09-W-0824,
9 regarding capital expenditures and plant-related
10 rate base issues, including that company's long
11 term main replacement program.

12 Q. Please state your name and business address.

13 A. Kevin A. Manz. Three Empire State Plaza,
14 Albany, NY 12223.

15 Q. By whom are you employed and in what capacity?

16 A. I am employed by the New York State Department
17 of Public Service. Currently, I am a Utility
18 Engineer 2 in the Office of Electric, Gas and
19 Water.

20 Q. Please summarize your education and professional
21 experience.

1 A. I received a Bachelor of Science degree in Civil
2 Engineering with a minor in Engineering
3 Management from Cornell University in May of
4 2003. I have been employed by the New York
5 State Department of Public Service since March
6 2004. Within the Office of Electric, Gas and
7 Water, I've worked mainly in the Water Rates
8 Section, but have worked in both the Gas Rates
9 Section and Gas Safety Section on temporary
10 rotation assignments. My work at the Department
11 primarily involves analyzing water utility
12 submittals as they pertain to operation and
13 maintenance expenses, plant costs, and facility
14 construction. My current duties include
15 reviewing utility tariff changes, initial rate
16 filings, rate increase filings, transfer-of-
17 ownership petitions, surcharge petitions, and
18 customer complaints.

19 Q. Have you filed testimony before the Commission
20 in other proceedings?

21 A. Yes. Most recently, I testified in the United

1 Water New Rochelle Inc. rate case, Case 09-W-
2 0284, regarding capital expenditures, plant-
3 related rate base issues and surcharges
4 specifically related to the Delaware
5 Interconnect Project; Central Hudson Gas &
6 Electric combined gas and electric rate case,
7 Case 09-E-0588 and 09-G-0589 regarding capital
8 expenditures and plant-related rate base issues;
9 Niagara Mohawk Power Corporation Gas rate case,
10 Case 08-G-0609 regarding revenues and rate
11 design; and the previous Long Island Water
12 Corporation water rate case, Case 07-W-0508
13 regarding capital expenditures and certain
14 system improvement surcharges.

15 Q. What is the purpose of your testimony in this
16 proceeding?

17 A. Our testimony will present our recommended
18 adjustments to utility plant in service,
19 accumulated depreciation, and depreciation
20 expense in the rate year. We will also address
21 Long Island Water Corporation d/b/a Long Island

1 American Water's (LIAW or "the company")
2 proposal to include an additional Maintenance
3 Mechanic B and Station Attendant B as part of
4 their workforce; a Utility Man II, Util/Meter SV
5 position that has been vacant since February
6 2011; and the company's System Improvement
7 Charge (SIC) and Distribution System Improvement
8 Charge (DSIC) mechanism proposals.

9 Q. Did you rely on any information produced during
10 the discovery phase of this proceeding?

11 A. Yes. We relied on responses to several
12 interrogatory requests. Specifically, we
13 utilized LIAW's responses to Staff
14 Interrogatories 37, 110, 151 and 171 in the
15 current filing.

16 Q. Are you sponsoring any exhibits?

17 A. Yes. Exhibit ___(WRP-1) consists of LIAW
18 responses to the interrogatory requests that we
19 used.

20 Utility Plant and Related Adjustments

21 Q. Please describe your recommended adjustments.

1 A. We recommend that utility plant in service be
2 reduced by \$520,000; accumulated depreciation be
3 increased by \$5,070; and depreciation expense be
4 reduced by \$6,419.

5 Q. What are the reasons for your adjustments?

6 A. During discovery, Staff noticed a discrepancy in
7 the company's filing between the "Projects
8 Funded by Others" line item included in Utility
9 Plant in Service and "Customer Advances for
10 Construction" line item on company Exhibit 10
11 (Rate Base). Our recommended adjustments
12 reflect adjustments that the company made to its
13 forecast in response to Staff's IR-171 MVH-15,
14 which addressed this discrepancy.

15 Q. Did you have any recommendations regarding the
16 company's methodology for calculating the 13-
17 month average?

18 A. Yes. The company's methodology for calculating
19 a 13-month average takes the sum of the monthly
20 balances for the thirteen months in the test
21 period and divides by 13. In recent cases

1 approved by the Commission (See Case 09-W-0731,
2 09-W-0824), Staff's preferred methodology for
3 calculating the 13-month average takes half of
4 the first month (beginning balance), the next
5 eleven months (interior balances), and half of
6 the last month (ending balance) and divides by
7 12. Staff found that the difference between the
8 company's and Staff's preferred methodology was
9 immaterial so no adjustments have been made in
10 the current filing, but recommends that going
11 forward, the company adopt Staff's methodology
12 for calculating a 13-month average in its rate
13 base model.

14 Labor - Production Department

15 Q. Please describe what the company has requested
16 in terms of additional employees in its labor
17 department.

18 A. On page 6 of company witness Varley's testimony,
19 there is a proposal to include an additional
20 Maintenance Mechanic B and Station Attendant B
21 as part of LIAW's production department

1 workforce.

2 Q. In your opinion, has the company justified a
3 need for these additional positions?

4 A. No. We do not believe that the company has
5 justified or demonstrated a need for a
6 Maintenance Mechanic B and Station Attendant B
7 to be added to the production department.

8 Q. What specifically led you to your conclusion?

9 A. Currently, the company is providing safe and
10 reliable service at its current production
11 department staffing levels. The company states
12 in its response to Staff Interrogatory IR-110
13 KAM-7 that there have been no calculated savings
14 in overtime by adding these additional
15 employees. Thus, from a financial standpoint,
16 there is no customer benefit to adding these two
17 positions. Also, in light of the recent news of
18 American Water Works Company, Inc. expanding in
19 New York State via the intended acquisition of
20 Aqua America Inc.'s regulated operations in New
21 York, there could potentially be some

1 efficiencies in shared labor between the two
2 adjacent systems.

3 Q. What is your recommendation regarding the
4 company's proposal to add a Maintenance Mechanic
5 B and Station Attendant B to its production
6 department for the rate year?

7 A. We recommend that no additional employees be
8 added to LIAW's production department at this
9 time and that the labor and related expenses
10 associated with these employees be eliminated
11 from the rate year. See Staff testimony of
12 Andrew Leung for more quantitative details
13 regarding this issue.

14 Q. Please briefly discuss the vacant Utility Man
15 II, Util/Meter SV position.

16 A. Information from the company's response to Staff
17 Interrogatory IR-37 ACL-5 revealed that a
18 Utility Man II, Util/Meter SV position has been
19 vacant since February 2011 because the employee
20 was terminated. This employee could potentially
21 be reinstated. An arbitration hearing was held

1 in June 2011, but the final determination from
2 that hearing will not be known until sometime in
3 September 2011 after our testimony is filed.

4 Q. What do you recommend with regard to this
5 position?

6 A. Currently, the position is vacant. The employee
7 was terminated and the company has no plans to
8 fill the position, thus Staff can only assume
9 the situation will remain that way. Therefore,
10 Staff has left out any payroll and other related
11 expenses associated with this position in its
12 rate year forecast at this time. If this status
13 were to change, Staff may consider updating the
14 payroll and other associated expenses. See
15 Staff testimony of Andrew Leung for more
16 quantitative details regarding this issue.

17 SIC Surcharge Mechanism

18 Q. Please explain the company's proposal to
19 continue the use of a SIC surcharge mechanism.

20 A. LIAW is proposing a SIC surcharge mechanism that
21 is both mathematically and operationally similar

1 to its current SIC surcharge mechanism. The
2 only difference being that the SIC surcharge
3 would apply to more than just its treatment
4 facilities. As specified in the company's
5 response to Staff Interrogatory IR-151 KAM-9 its
6 proposed SIC would pertain to not only the
7 company's treatment facilities but also to its
8 source of supply, storage facilities and
9 Business Transformation program.

10 Q. Does LIAW have any specific plans for projects
11 that would be covered by the proposed SIC
12 surcharge mechanism?

13 A. Yes. The company refers to four specific
14 projects that it would like to recover through
15 the SIC surcharge mechanism. The projects
16 include an investment in a new iron removal
17 facility at Plant No. 15, phase 2 of re-drilling
18 common suction wells at Plant No. 5, the
19 rehabilitation of two water storage tanks at
20 Plant No. 13, and certain components of the
21 company's Business Transformation program.

1 Q. Please discuss the company's proposed iron
2 removal/filtration facility at Plant 15.

3 A. LIAW proposes to install an iron
4 removal/filtration facility at its Plant No. 15
5 located in Lynbrook. This facility consists of
6 two wells, each rated at 2 MGD. Only one of the
7 wells is currently active, as the second exceeds
8 the maximum iron levels allowable by the state
9 sanitary code. This project was anticipated in
10 the previous rate case and was eligible for
11 recovery via the current SIC surcharge
12 mechanism.

13 Q. When does the company plan to start this
14 project?

15 A. The company's response to Staff IR-151 KAM-9
16 shows that preliminary engineering and planning
17 has already been accomplished; the company is in
18 the midst of putting together a detailed design
19 to go out for bid and will soon begin efforts to
20 acquire necessary permits for the Plant No. 15
21 project. The project is estimated to cost

1 approximately \$8.45 million and be in service by
2 the end of 2013. The company completed a
3 similar project at Plant No. 8, located at the
4 intersection of Franklin Avenue and Hempstead
5 Avenue near the Malverne and Lynbrook border,
6 which was placed in service in March 2011 at a
7 cost of approximately \$7.62 million.

8 Q. Please briefly describe phase 2 of re-drilling
9 common suction wells at Plant No. 5 that would
10 be subject to the SIC mechanism.

11 A. It is actually considered part 2 of phase 2 of
12 the re-drilling of common suction wells at
13 Plant No. 5 that would be subject to the SIC
14 mechanism. The re-drilling will be done over
15 three construction periods. The first two
16 periods (i.e., phase 1 and part 1 of phase 2)
17 are included in base rates, as they are to be
18 completed by the end of 2011. The company
19 anticipates replacing five to seven wells in the
20 third construction period (i.e., part 2 of phase
21 2). The work is expected to be completed by the

1 end of 2013 and that portion would be subject to
2 SIC treatment.

3 Q. Please briefly describe the rehabilitation of
4 the two water storage tanks at Plant No. 13 that
5 would be subject to the SIC mechanism.

6 A. [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]

The company
11 supplied a construction schedule and estimated
12 project costs for this work in its response to
13 Staff Interrogatory IR-151 KAM-9. This project
14 is expected to begin in the fall of 2013 and be
15 completed in the first quarter of 2015 at an
16 estimated total cost of \$1.90 million. However,
17 the company did note in its response to IR-151
18 KAM-9 that this project could potentially be
19 expedited based on recent discussions with the
20 Nassau County Health Department.

21 Q. Please briefly describe the specific portions of

1 the company's Business Transformation program
2 that would be subject to the SIC mechanism.

3 A. The Business Transformation program is described
4 in detail in company witness Watkins' testimony.
5 He states that the company's Business
6 Transformation program consists of three
7 projects: Enterprise Resource Planning (ERP),
8 Enterprise Asset Management (EAM) and Customer
9 Information System (CIS). These projects will
10 be implemented in two phases. The first phase,
11 ERP, is expected to be in service during the
12 rate year. The second phase will include the
13 EAM and CIS and is expected to be deployed later
14 in 2013 or beyond. The second phase would be
15 subject to SIC treatment, as the first phase has
16 been accounted for in Staff's proposed base
17 rates.

18 Q. If all of the above projects are projected to
19 have in-service dates beyond the rate year, why
20 are you discussing them in the context of this
21 proceeding?

1 A. The SIC mechanism allows LIAW the financial
2 flexibility to do necessary and substantial
3 plant construction beyond the rate year without
4 the need to apply for rate increases. The
5 proposed SIC mechanism also affords the
6 company's ratepayers financial protection in
7 that only the depreciation and return of
8 reviewed and approved projects are allowed
9 recovery up to a maximum expenditure level based
10 on the current estimates for the projects.

11 Q. So, what do you propose?

12 A. First, we propose that the current SIC surcharge
13 be reset to 0.00% upon implementation of new
14 rates, as Staff's proposed base rates reflect
15 having the iron removal facility at Plant No. 8
16 in service. In other words, Staff has rolled
17 the current SIC Surcharge into its proposed base
18 rates. Second, in order to account for the fact
19 that the four specified projects described above
20 are scheduled to be in-service at a date beyond
21 the rate year, and to also account for the

1 possibility of project slippage, we recommend
2 that the company be allowed to recover carrying
3 costs (i.e., return on net plant and annual
4 depreciation expense) on the reasonable capital
5 expenditures associated with these projects
6 through the SIC after the respective facilities
7 have been placed into service.

8 Q. Would you recommend a cap be set on the capital
9 costs to be recovered through the SIC surcharge
10 mechanism?

11 A. Yes. A cap should be established for each of
12 the four specified projects. Based on LIAW's
13 most recent project construction cost estimates,
14 we recommend that the maximum levels of capital
15 costs allowed recovery through the SIC surcharge
16 mechanism for the iron removal facility at Plant
17 No. 15 be set at \$8.45 million, phase 2 of re-
18 drilling common suction wells at Plant No. 5
19 scheduled to be placed in service outside of the
20 rate year be set at \$525,000, the rehabilitation
21 of two water storage tanks at Plant No. 13 be

1 set at \$1.90 million, and the company's portion
2 of the Business Transformation program to be
3 placed in service outside of the rate year be
4 set at \$4.96 million.

5 Q. Please explain the SIC compliance filings that
6 would be required.

7 A. As with the current SIC surcharge mechanism, the
8 company should make its initial SIC compliance
9 filing subsequent to the specified project
10 (i.e., Plant No. 15 Iron Removal/Filtration
11 Project, phase 2 of re-drilling common suction
12 wells at Plant No. 5, the rehabilitation of two
13 water storage tanks at Plant No. 13, and the
14 company's Business Transformation program) being
15 placed into service. After the initial SIC
16 compliance filing, the company should update the
17 SIC surcharge annually, at the end of each rate
18 year, or when another one of the four specified
19 projects is placed in service. This should
20 occur until the next rate case when the SIC
21 surcharge would be rolled into base rates.

1 Q. What would you suggest for timetables related to
2 the SIC compliance filings and reviews?

3 A. We recommend that the company submit its initial
4 SIC filing after the first of the four specified
5 projects is completed and has been placed in
6 service. Staff should have 60 days to review
7 the company's submission. Subsequent to the
8 initial SIC filing, the company should be
9 allowed to file an updated SIC surcharge after
10 the next of the four specified projects is
11 placed into service and is used and useful, and
12 so on. Otherwise, the company should be
13 required to make a SIC compliance filing within
14 60 days of the end of each rate year to
15 reconcile between authorized and actual
16 collections, as well as update the SIC surcharge
17 calculation to reflect current accumulated
18 depreciation for the respective projects.

19 DSIC Surcharge Mechanism

20 Q. Please provide a brief background of the current
21 DSIC Surcharge Mechanism.

1 A. The current DSIC surcharge was approved in Case
2 07-W-0508, which was essentially extended from
3 Case 04-W-0577. As stated in both company
4 witness Kern's and company witness Watkins'
5 respective testimony, the company has
6 historically exceeded the annual caps set for
7 DSIC related projects. As of today, the current
8 DSIC surcharge is 2.44% from all metered
9 customers and covers costs incurred on completed
10 DSIC work through March 31, 2011.

11 Q. What are you recommending with respect to the
12 DSIC surcharge mechanism going forward?

13 A. Staff is recommending that the DSIC surcharge
14 mechanism be eliminated. The termination of the
15 DSIC mechanism should coincide with the
16 effective date that new rates are implemented in
17 the instant proceeding. Going forward, base
18 rates will reflect such forecasted capital
19 investment in the area of mains, valves,
20 services and hydrants for the rate year. Within
21 60 days after the end of the rate year, the

1 company should reconcile the amount spent for
2 distribution system related work under accounts
3 343, 344, 345 and 348. If the company spends
4 less than the yearly amounts provided for in
5 base rates, then the company will defer the
6 revenue requirement impact of any shortfall
7 below the target levels for the future benefit
8 of its ratepayers.

9 Q. Are there any administrative issues that will
10 need to be addressed due to the termination of
11 the current DSIC surcharge mechanism?

12 A. Yes. A final reconciliation of the DSIC
13 surcharge should be implemented.

14 Q. Please explain the details associated with a
15 final reconciliation of the DSIC surcharge.

16 A. The existing DSIC surcharge was subject to an
17 annual reconciliation between the authorized
18 collections and actual collections. The annual
19 reconciliation was required to be filed within
20 60 days of the end of each rate year. Any
21 reconciliation amount, with applicable interest,

1 was then included in the subsequent DSIC filing.
2 Since there would be no subsequent DSIC filing
3 if the DSIC surcharge mechanism is terminated, a
4 final reconciliation filing should be made.
5 Accordingly, the company should submit a final
6 DSIC reconciliation for Staff's review within 45
7 days of the end of the rate year ending March
8 31, 2012. Staff should have 45 days from the
9 final reconciliation filing date to review the
10 company's calculation. The resulting DSIC
11 reconciliation amount would then be recovered or
12 refunded over a 12-month period via operation of
13 a Final DSIC reconciliation surcharge.

14 Q. Does this conclude your testimony at this time?

15 A. Yes it does.