

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 James G. Bozman**

October 3, 2011

**JAMES G. BOZMAN – REBUTTAL TESTIMONY**

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

2 A. My name is James G. Bozman 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 American Water Works Service Company, Inc (“Service  
6 Company”) as a Senior Financial Analyst.

7 **3. Q. Did you file direct testimony in this proceeding?**

8 A. Yes.

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

10 A. I will respond to the testimony of Mr. Bailey with respect to his adjustment to  
11 Invoices and Mr. Simpson with respect to his adjustment to Rate Case Expense.

12 **INVOICES**

13 **5. Q. Please provide an overview of Mr. Bailey’s adjustment to Invoices.**

14 A. Mr. Bailey proposes using a four year average from 2007 to 2010 for the rate year  
15 ending March 31, 2013. Mr. Bailey calculates invoices of \$2,380,721 versus LIAW  
16 forecasted invoices of \$2,563,952 for a reduction of \$183,231. Using the  
17 information from IR-85 BLB-10, see Exhibit BLB\_1 Schedule 2. Mr. Bailey  
18 deducts from each year, from 2007 to 2010, the Business Services amortization  
19 which is recovered in the RAC mechanism. Mr. Bailey’s adjustment also disallows  
20 the adjustments made for public relation consultant adjustment. Please refer to the  
21 confidential response to IR-74 ACL-21 provided in Exhibit\_(JGB-3), which shows

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1 a savings of \$20,558 assuming 0.5 FTE in Service Company and \$48,240 in  
2 invoices when compared to the prior case, Case 07-W-0508, labor and labor related  
3 expenses for a Communication Manager LIAW employee. Please refer to Mr.  
4 Varley’s testimony, page 7, lines 1-17 for more information on why this position is  
5 needed. See the rebuttal testimony of Mr. Conroy for more information regarding  
6 this adjustment. Mr. Bailey’s adjustment also disallows the Company’s adjustment  
7 for BT software maintenance expenses.

8 **6. Q. Do you agree with the four year average from 2007 to 2010 that Mr. Bailey has**  
9 **calculated to use for the rate year December 31, 2013?**

10 A. No. Mr. Bailey ignores the fact that Invoices has increased from 2007 to 2010 by  
11 6.86%. This percentage is derived by dividing 2010 by 2007, which adjusts and  
12 ignores the larger than normal increase in the year 2008. Mr Bailey also proposes  
13 to use his four year (2007-2010) average for the rate year ending March 31, 2013  
14 and fails to account for any increases for the calendar years 2011 and 2012 and the  
15 first 3 months of 2013. Please see Exhibit\_(JGB-2) for more information about the  
16 GDP Deflator used by Staff in their case. Also not considered in Mr. Bailey’s  
17 calculation is the fact that when one takes an average of years, one also needs to  
18 take into account the time from the average to the last year. In this average, we are  
19 at 1/1/2009 because this is the midpoint of the 4 year average (1/1/2007-  
20 12/31/2010). This means we need to inflate the average for 2009, 2010, 2011, 2012

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1           and the first 3 months of 2013 in order to properly reflect the rate year expense  
2           level.

3   **7. Q. Do you agree with Mr. Bailey’s Business Service adjustment of (\$125,700) to**  
4           **Invoices?**

5           A. In principle the Company agrees with the adjustment. My pre-filed testimony  
6           indicates that the Company has adjusted out the (\$125,700) in Exhibit 9, page 17 of  
7           46 accounting for the Business Services adjustment reflected in the RAC  
8           mechanism. The adjustment is already included in Column 2, Line 8 (\$70,738) of  
9           Exhibit 9, page 17 of 46. The Business Services adjustment is subsequently  
10          included in the \$563,297 Column 3, Line 8, 12/31/11 of Exhibit 9, page 17 of 46  
11          and going forward through March 31, 2013. The GDP inflation adjustment of  
12          1.59% was taken on the RAC mechanism for the (\$125,700) and is included in the  
13          (\$70,738). The Company has reflected an adjustment in its rebuttal position to  
14          remove the inflation which was calculated on the \$125,700 in the as filed position,  
15          as noted in the response to IR-141 BLB-28. Please refer to Exhibit\_(JGB-3) for the  
16          attached IR responses.

17   **8. Q. What is the Company’s position?**

18          A. The Company proposes to use the as filed numbers on Exhibit 9, Page 17 of 46  
19          adjusted for inflation. The Company proposes to adopt Staff’s GDP deflator of  
20          2.05%, 1.83% and 1.99% in 2011, 2012 and 2013 respectively; see

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1           Exhibit\_(JGB-2). The rate year forecast at March 31, 2013 would adjust to  
2           \$2,591,492, an increase of \$25,181 from LIAW’s originally filed position.

3           **RATE CASE EXPENSE**

4           **9. Q. Please Summarize Mr. Simpson’s position with regard to costs related to a rate**  
5           **case settlement and “Rate Case Expense,” Exhibit 9, page 29.**

6           A. For a settlement of the rate case, Mr. Simpson has proposed adjustments of  
7           \$513,000 reducing from \$700,000 to \$187,000. These adjustments eliminate  
8           \$95,000 for Legal; \$200,000 for Service Company expense (Revenue  
9           Requirement); \$40,000 for Mr. Baryenbruch’s consulting fees for a market cost  
10          comparison of Service company charges; \$14,000 for the Cost of Capital  
11          Consultant, \$150,000 for legal contingencies and \$14,000 for Miscellaneous. Mr.  
12          Simpson has also proposed a three-year amortization for rate case expense and a  
13          rate base deduction of \$137,192 for unamortized rate case expenses, net of taxes.

14          **10. Q. What does Mr. Simpson propose if the rate case is fully litigated?**

15          A. Mr. Simpson proposes to update to actual charges within all categories excluding  
16          Revenue Requirement and Service Company Study which he has eliminated in their  
17          entirety.

18          **11. Q. What is the Company’s position concerning Rate Case Expense during a rate**  
19          **case settlement or fully litigated rate case?**

20          A. The Company proposes an update to actual for all expenses incurred along with a  
21          three year amortization period. For purposes of this rebuttal the Company will

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1           remove the litigation contingency only, as set forth in this rebuttal filing; see  
2           Exhibit\_(JGB-1).

3   **12. Q. What is the Company’s position concerning the elimination of the Revenue**  
4           **Requirement line dollars in Rate Case Expense exhibit, by Mr. Simpson?**

5           A. Mr. Simpson believes the Company is trying to collect Service Company employee  
6           dollars both in Service Company expenses and the Revenue Requirement line for  
7           Rate Case Expense. The Company has NOT double counted the dollars associated  
8           with Service Company personnel, and so the Revenue Requirement line dollars  
9           should not be eliminated. The Rate Case expense line item consists of charges to a  
10          deferred account which Service Company personnel from the Shared Services  
11          Center (SSC) Rates Group charge for work that they perform in conjunction with  
12          this LIAW rate case. The SSC Rates group works for all of the regulated  
13          companies in the American system and the members defer all of their time in  
14          relation to rate case work that they perform. Some of their time can be expensed if  
15          it relates to non-rate case filings like the RPT, refund petitions, DSIC filings and  
16          budget-related work that the employees provide for LIAW. The Service Company  
17          expense, Exhibit 9, page 26, reflects the ongoing expense level but does not include  
18          any rate case related expenses.

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1 **13. Q. Do you agree with Mr. Simpson’s elimination of rate case expense dollars**  
2 **associated with the Service Company Study performed by Mr. Baryenbruch?**

3 A. No. The Company believes that because Service Company charges are under  
4 scrutiny during rate cases that the burden of proof compels the Company to hire a  
5 consultant to perform a market based comparison study. The elimination of Service  
6 Company charges by Mr. Bailey and the Company’s ability to provide  
7 substantiation of its position by using the Service Company study provides the  
8 Company with justification for performing said study. Therefore LIAW should be  
9 granted recovery of the costs associated with Mr. Baryenbruch’s study.

10 **14. Q. Was the Service Company Study allowed in Case 07-W-0508?**

11 A. Yes. Mr. Leary addressed Rate Case Expense in Case 07-W-0508 on pages 3-9 of  
12 his testimony. The Service Company Study was allowed as proposed in Mr.  
13 Leary’s testimony and Mr. Leary proposed to update these expenses to actuals,  
14 including the Service Company Study,

15 **15. Q. Do you need to add any new line items to Rate Case Expense?**

16 A. Yes. The Company is adding another consultant, Towers Watson, with an estimate  
17 of \$15,000. Towers Watson, the Company’s actuary, will be submitting rebuttal  
18 testimony on the issue of Pensions and OPEBs for the Company because they are  
19 the consultants who perform the stand-alone and consolidated calculations for  
20 LIAW and its parent, respectively.

21

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1   **16. Q. Does this conclude your rebuttal testimony?**

2           A. Yes it does.

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