

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
Richard P. Kern, P.E.

April 29, 2016

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

2 A. My name is Richard P. Kern and my current business address is 60 Brooklyn
3 Avenue, Merrick, New York 11566.

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

5 A. I am employed by New York American Water Company, Inc. (“NYAW” or the
6 “Company”), as the Manager of Production.

7 **3. Q. What are your responsibilities in this position?**

8 A. As Manager of Production, I oversee the production of water, water treatment, and
9 production facility repair and replacement activities for NYAW.

10 **4. Q. Please discuss your educational background and experience.**

11 A. I graduated in 1988 from Brooklyn Polytechnic University in Farmingdale, New
12 York with a Bachelor of Science Degree in Mechanical Engineering. I also
13 graduated from Adelphi University in 1987 with a Bachelor of Science Degree in
14 Physics. I am a registered Professional Engineer in the State of New York and a
15 member of the American Water Works Association (“AWWA”).

16 **5. Q. Please describe your professional experience.**

17 A. I have 27 years of experience in the water utility engineering and management field.
18 I began my employment with NYAW as an engineer in 1989. In 2003, I was
19 promoted to the position of Engineering Manager. In 2009, I was promoted to
20 Director-Operations and Engineering for NYAW. I am currently the Production
21 Manager and responsible for oversight of the production and treatment of drinking
22 water and production facility repairs and replacements.

1 **6. Q. Have you previously participated in regulatory matters?**

2 A. Yes. In 2011 I filed direct testimony with the New York State Public Service
3 Commission (“Commission”) in Case 11-W-0200.

4 **7. Q. Are you familiar with the properties and business of NYAW?**

5 A. Yes.

6 **8. Q. What is the purpose of your testimony in this proceeding?**

7 A. I will provide an overview of the following: 1) the Company’s service territory and
8 operations; 2) the Company’s support employee levels and associated expenses that
9 are requested in this proceeding; 3) the various other operations and maintenance
10 (“O&M”) expenses that are included in this filing; 4) the Company’s efforts to
11 improve efficiency, including managing and reducing non-revenue water issues;
12 and 5) NYAW’s efforts to manage water quality.

13 **OPERATIONS, FACILITIES, AND PROPERTY**

14 **9. Q. Please describe the various service areas located within NYAW’s territory.**

15 A. As a result of the acquisition and merger of the regulated New York water
16 companies formerly owned by Aqua America, Inc., NYAW includes eight separate
17 water districts located in six counties in New York State. Additionally, NYAW has
18 acquired the following water systems: 1) Mt. Ebo Water Works, Inc.; 2) Lucas
19 Estates Water Company, Inc.; 3) Spring Glen Lake Water Company LLC; and 4)

1 the Mill Neck Estates Water System.¹ Please see Exhibit RPK-1, which contains
2 the attached maps of our service territory for further information.

3 **10. Q. Please provide a brief overview of NYAW’s operations.**

4 A. NYAW owns, operates, and maintains potable water production, treatment, storage,
5 transmission and distribution systems, and sewer collection, pumping, and/or
6 treatment systems, for furnishing water and sewer services to residential,
7 commercial, industrial, and governmental customers in service districts in New
8 York.

9 **11. Q. Please describe the facilities and property that NYAW uses to provide water**
10 **service to customers.**

11 A. NYAW serves approximately 375,000 people, comprised of approximately 124,300
12 customers in more than 50 communities across New York State. NYAW utility
13 plant accounts include land and land rights, structures and improvements, wells,
14 pumping equipment and associated facilities, iron filtration plants, chemical
15 filtration plants, and equipment, transmission and distribution mains, collection

¹ Case 14-W-0067 - Joint Petition of New York American Water Company, Inc. and Mt. Ebo Water Works, Inc. for Approval of Stock Purchase Agreement, Order Approving Stock Sale and Acquisition (June 13, 2014); Case 14-W-0148 - Joint Petition of New York American Water Company, Inc. for Approval of an Agreement of Sale under which Lucas Estates Water Company, Inc. will Sell and New York American Water Company, Inc. will acquire 100% of the Assets of Lucas Estates Water Company, Inc., Order Approving Sale and Acquisition (July 25, 2014); Case 15-W-0375 - Joint Petition of New York American Water Company, Inc. and Spring Glen Lake Water Company LLC for Approval of an Agreement of Sale under which Spring Glen Lake Water Company LLC will Sell and New York American Water Company, Inc. will Acquire 100% of the Assets of Spring Glen Lake Water Company LLC, Order Approving Sale and Acquisition (Oct. 15, 2015); Case 15-W-0639 - Joint Petition, Pursuant to Public Service Law Section 89-H, by New York American Water Company, Inc. and the Association of Owners of Mill Neck Estates, Inc., for Approval of an Agreement of Sale Under Which the Association of Owners of Mill Neck Estates Will Sell and New York American Water Company, Inc. Will Acquire 100% of the Assets of the Mill Neck Estates Water System, Order Approving Transfer (Feb. 25, 2016).

1 pipes, distribution storage facilities, service lines, meters, hydrants and other
2 facilities, including materials and supplies. All of this plant and property is being
3 used for and is useful for providing safe, adequate, efficient, and reliable water and
4 sewer services to NYAW's customers.

5 **12. Q. Please provide a general description of NYAW's water supply sources.**

6 A. Currently NYAW obtains all of its water from wells. The water is treated to adjust
7 pH, add chlorine, and add corrosion inhibitors. Filtration is also provided at several
8 locations as required by the raw water characteristics. (i.e., iron removal, volatile
9 organic chemical removal, and ultraviolet light treatment for water determined to be
10 from wells under the influence of surface water).

11 **13. Q. Please describe NYAW's commitment to serving its customers.**

12 A. The Company's commitment to serving its customers is organized around five key
13 principles: quality; safety; customer satisfaction; regulatory compliance; and
14 operational efficiency. NYAW evaluates all aspects of its business based on those
15 principles and changes its operations to achieve continuous improvement and to
16 deliver reliable and high-quality water and wastewater services to its customers.

17

OPERATIONAL EFFICIENCY

14. Q. What is NYAW’s forecasted O&M expense for the Test Year ending March 31, 2018?

A. NYAW’s total O&M expense for the Test Year is approximately \$34.6 million. This total covers the entire NYAW service territory which has increased in size by approximately 69% since the Company’s last base rate case, Case 11-W-0200.²

15. Q. Has the Company undertaken any specific efforts to mitigate operational expenses (energy costs, chemical costs, fleet vehicles)?

A. Yes.

16. Q. Please describe the Company’s efforts to mitigate these costs.

A. NYAW has extended its procurement programs and contracts to all acquired companies to maximize cost reductions through volume purchasing and standard specifications. Fleet vehicles have been re-assigned for maximum utilization and a net reduction in fleet size. The NYAW fleet was reduced by 4 vehicles, from 83 to 79.

17. Q. Has the Company undertaken any other efforts to manage O&M expenses?

A. Yes, it has. Energy efficiency measures can be a significant source of savings because it takes a significant amount of energy to extract, move, and treat water for drinking and irrigation. NYAW also uses energy in the collection, treatment, and disposal of sewer. A large portion of a typical water utility’s total energy

² Case 11-W-0200 - Proceeding on 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, Order Determining Revenue Requirement and Rate Design issued and effective March 20, 2012.

1 consumption is used to pump water. As pumps age, they wear and become less
2 efficient. As a result, more power is required to pump the same volume of water.

3 To improve electrical energy efficiency, the Company installs only LED
4 lighting on new and replacement projects, solar panels will be installed during
5 major construction of production facility projects where practical, and the Company
6 will install Variable-frequency drives (“VFDs”) for well and booster pumps when
7 motors and electrical switch gear are replaced.

8 **Q. What is NYAW doing to improve pump efficiency?**

9 A. The Company has completed a number of projects across the state to reduce
10 electrical usage and increase pumping efficiency. VFDs, for example, are motor
11 control devices that control the speed of an induction motor. VFDs allow NYAW to
12 operate its pumps at the optimal output, with consideration to pumping
13 requirements that change depending on the demand for water. VFDs reduce
14 electrical demands and more efficiently manage water pump discharge pressures.
15 This results in reduced power usage and more constant and stable pump discharge
16 pressures, which in turn helps control fuel and power costs. Along with NYAW’s
17 comprehensive main repair program, the improved control of pump discharge
18 pressures helps reduce the number of water main and service line breaks that the
19 Company experiences in our distribution systems.

20

1 **18. Q. Are there other benefits of NYAW's VFD program?**

2 A. Yes. The benefits of NYAW's pump efficiency program are three-fold. It provides
3 NYAW with an opportunity to expand our energy efficiency efforts, and it reduces
4 operating costs through reduced energy consumption. And, at the same time, it
5 reduces carbon emissions. System production capacity is also improved to provide
6 for improved fire flows and to provide improved peak demand system pressure.

7 **19. Q. Why is water efficiency important and how else has NYAW promoted water
8 efficiency since its last rate case?**

9 A. Efficient water use helps protect our natural resources, and also reduces capital and
10 operating costs related to the provision of water and sewer services. This is why we
11 proactively promote wise water use to customers, which can reduce customer
12 demand. Company Witness Bruce discusses wise water in more detail in his direct
13 testimony.

14 In this case NYAW is requesting to convert all metered customers who are
15 not already so billed to monthly billing. Monthly billing provides more frequent
16 information regarding water use which has been shown to encourage conservation,
17 as well as provide customers with timely information to find and repair leaks.
18 Company Witness Claase discusses the request to transition to monthly billing in
19 his direct testimony.

20 **20. Q. Has the Company undertaken any other efficiency measures?**

21 A. Completion of the caustic conversion program in the Lynbrook District, a portion of
22 which was completed under Case 14-W-0489, is also expected to result in increased

1 labor efficiencies that could create a possible long-term reduction in O&M
2 expenses in addition to the creation a safer work process as the manual labor
3 currently required to feed lime into the Lynbrook systems will be eliminated. This
4 conversion is approximately 30% complete as of the filing.

5 **NON-REVENUE WATER**

6 **21. Q. What is non-revenue water?**

7 A. Non-revenue water (“NRW”) is the difference between system delivery and sales.

8 **22. Q. Can NRW be measured?**

9 A. Yes.

10 **23. Q. Please explain how NYAW measures NRW.**

11 A. NYAW calculates NRW for each district by calculating the difference between the
12 amount of water delivered to the distribution system in a district on a monthly basis
13 and the amount of water sold as indicated by customer water meters (all districts are
14 100% metered). The results are reported on a 12-month rolling average to account
15 for districts that read customer meters on a quarterly or bi-monthly basis.

16 **24. Q. What are the Company’s levels of NRW?**

17 A. The NRW levels for each district are set forth below.

NYAW NRW

March 2016	Non-Revenue Water %
Lynbrook	14%
Merrick	9%
Sea Cliff	15%
Cambridge	69%

NYAW NRW

March 2016	Non-Revenue Water %
Wild Oaks	31%
Kingsvale	-12%
Dykeer	20%
Waccabuc	36%
Mt. Ebo	30%
TOTAL	12.2%

1 **25. Q. What efforts does the Company undertake to reduce NRW?**

2 A. The Company tests and calibrates its production and customer meters on a periodic
3 basis. The Company replaces production meters that are found to be at the end of
4 their service life. The Company uses acoustic monitoring equipment to listen for
5 leaks during all valve and hydrant maintenance procedures. Any district with NRW
6 above 40% is targeted for a comprehensive review. This includes: an audit of all
7 potential customers in our service territory to determine which customers may not
8 be metered, review of production meters, facilities, and record keeping procedures,
9 to ensure that the quantity of water produced is accurate, and a systematic leak
10 inspection of the distribution system to detect non-visible leaks. The company has
11 also just completed an AWWA water audit of the Lynbrook system (report is
12 attached) and will complete a similar audit for each of the other operating districts
13 within the next rate year.

14 **26. Q. What have been the results of NYAW's efforts?**

15 A. As a result of NYAW's efforts, the cause of the high NRW at our Cambridge
16 district, a system with approximately 69% NRW when purchased by NYAW has

1 been determined and is currently being repaired. The Company was able to achieve
2 this result through a comprehensive review, which identified several unmetered
3 customers as well as a significant leak in a transmission main in an inaccessible
4 location. NYAW is in the process of correcting these billing issues and is also
5 working to repair the leak. We believe these corrections will have a significant
6 positive impact on the NRW rates in the Cambridge system.

7 We have also investigated the negative NRW at our Kingsvale system and
8 have determined that a faulty production meter is under reporting system delivery.
9 Meter replacement is currently underway.

10 **27. Q. How were the pro forma other O&M expenses developed? (See Page 2 of**
11 **Exhibits FXS-8, FXS-8.1, and FXS-8.2)**

12 A. Please refer to the direct testimony of Company Witness Lori O'Malley, and
13 associated exhibits.

14 **INFORMATION TECHNOLOGY**

15 **28. Q. What is the current status of the information technology (“IT”) system**
16 **upgrade for NYAW?**

17 A. The Customer Information Systems (“CIS”) and Enterprise Asset Management
18 (“EAM”) systems were placed into service for NYAW in 2013. By way of
19 background, CIS includes all billing and personal data about our customers,
20 including billing rates, water consumption, associated charges, meter information
21 and strategies for cultivating and managing interactions with our customers. EAM
22 includes the management of asset life cycles including the design, construction,

1 commissioning, operations, maintenance, decommissioning and replacing plant,
2 equipment and facilities, as well as work management for both customer service
3 fieldwork and transmission and distribution system work.

4 **29. Q. Is the Company requesting rate base recognition for any part of this upgrade**
5 **in this rate proceeding?**

6 A. Yes. We are seeking rate base recognition for the Business Transformation (“BT”)
7 implementation completed for the systems formerly owned by Aqua America, Inc.,
8 as well as the change in expenses associated with adding recent acquisitions (Mt.
9 Ebo, Lucas Estates, Spring Glen Lake, and Mill Neck Estates).

10 **30. Q. Please provide an overview of the BT program.**

11 A. The BT program was a foundational technology investment. BT was the
12 development and system-wide deployment of new, integrated IT systems at
13 American Water to improve technological efficiencies, increase automation, and
14 promote more effective business processes. In Case 11-W-0200, the Commission
15 found that there was a need for the BT program; that the legacy systems were
16 outdated and in need of replacement; and that the processes used to develop the BT
17 program, and the projects that comprise it, can be reasonably expected to satisfy
18 that need. The foundational technology investment in BT enables NYAW to change
19 the way it does business.

20 **31. Q. How has NYAW’s BT program improved its operational efficiency?**

21 A. As part of the BT program, NYAW implemented both Geographic Information
22 Systems (“GIS”) and Computerized Maintenance Management Systems

1 (“CMMS”). Both of these systems have contributed to NYAW’s operational
2 efficiency improvements, as discussed below.

3 **32. Q. Please explain the GIS.**

4 A. GIS integrate hardware, software, and data for capturing, managing, analyzing, and
5 displaying all forms of geographically referenced information. GIS allow us to
6 view, understand, question, interpret, and visualize data in many ways that reveal
7 relationships, patterns, and trends in the form of maps, globes, reports, and charts.
8 GIS help to answer questions and solve problems by looking at data in a way that
9 we can quickly understand and easily share. Further, GIS technology can be
10 integrated into many enterprise information systems.

11 **33. Q. Please explain CMMS.**

12 A. CMMS maintain a database of information about an organization’s maintenance
13 operations. This information helps maintenance workers do their jobs more
14 effectively (for example, determining which machines and facilities require
15 maintenance), and helps management make informed decisions (for example,
16 calculating the cost of machine breakdown repair versus preventive maintenance for
17 each machine, possibly leading to better allocation of resources). CMMS data may
18 also be used to verify regulatory compliance.

19 **34. Q. What benefits has NYAW realized from using these systems?**

20 A. GIS has improved NYAW’s regulatory hydrant and valve inspection program, for
21 example. Our GIS team has begun to map our valve exercising and hydrant
22 inspection routes in each district. In doing so, we were able to see the geographic

1 extent each route covers, as well as how the routes compare to one another. The
2 results illustrated a high degree of overlap, which we were able to remove, thus
3 reducing the travel time of each route and saving on labor and fuel costs.

4 GIS also supports the continuous improvement of our comprehensive water
5 main repair program. These unscheduled breaks and emergency situations are not
6 only costly to repair, but also interrupt customer service and are prone to causing
7 damage to NYAW property, customer property, and city streets.

8 NYAW has integrated GIS mapping information into its comprehensive
9 review of water main breaks to identify and better prioritize areas with an
10 abnormally high main break frequency over a defined period.

11 **WATER QUALITY**

12 **35. Q. Please discuss the discolored water issue that affects the Company's Long**
13 **Island customers.**

14 A. The drinking water source for our customers on Long Island is entirely
15 groundwater. Iron is a naturally present mineral in the groundwater aquifers that we
16 utilize. While the United States Environmental Protection Agency does not consider
17 the levels of iron in this water to be a health concern, it can cause discoloration,
18 resulting in stained fixtures or stained laundry.

19 Providing high-quality water service is our business, and we have an
20 exceptional track record when it comes to meeting state and federal drinking water
21 standards. While our water quality is 100% in compliance, we continue to work on

1 addressing issues related to discolored water by lowering the amount of iron that is
2 naturally present in the groundwater on Long Island.

3 **36. Q. Please explain the initiatives undertaken by NYAW to address issues related to**
4 **discolored water.**

5 A. Over the years, NYAW has built several iron removal treatment plants. In total, we
6 now own and operate 10 of these facilities in Nassau County alone. And,
7 construction is underway on our 11th iron removal plant in South Hempstead with
8 completion anticipated in the third quarter of 2016. Over the last three years, we've
9 invested more than \$36.9 million to address naturally occurring iron in the water.
10 The Company also has a robust water main replacement program which is targeted
11 on the replacement of unlined cast iron pipe. More than 51,000 feet of this unlined
12 pipe was replaced in 2015. Stations are operated to utilize the wells with iron
13 filtration or lower levels of iron before wells with higher iron levels. In addition,
14 we flush our pipelines annually in the spring to remove sediment that settled in the
15 pipes when water demand was lower, which also reduces the discoloration issue.

16 **37. Q. What effect have the changes you have just described had on complaints**
17 **attributable to discolored water?**

18 A. In 1999, the Company received 2,802 complaints. That number has decreased to
19 870 complaints in 2015. This reduction in complaints is a decline of 69 %.

1 **SERVICE COMPANY**

2 **38. Q. Please describe the role that the American Water Works Service Company,**
3 **Inc. (the “Service Company”) plays in helping NYAW improve water**
4 **efficiency.**

5 A. The Service Company provides support services to NYAW (and its public utility
6 affiliates) in accordance with a Commission-approved agreement. The Service
7 Company provides NYAW an efficient and cost-effective means of obtaining the
8 services that it needs to operate and provide water and sewer services to NYAW’s
9 customers.

10 **39. Q. What services does NYAW obtain from the Service Company?**

11 A. The services include customer service, water quality testing, innovation and
12 environmental stewardship, human resources, communications, information
13 technology, finance, accounting, payroll, tax, legal, engineering, accounts payable,
14 supply chain, and risk management services. The Service Company operates
15 customer service centers in Alton, Illinois and Pensacola, Florida that handle
16 customer calls, billing, and collection activities for NYAW and its public utility
17 affiliates. The customer service centers handle customer inquiries and
18 correspondence, and process service order requests. In addition, the Service
19 Company operates two Field Resource Coordination Centers responsible for
20 tracking and dispatching service orders for our field representatives and distribution
21 crews. The Service Company also operates the Central Laboratory, located in
22 Belleville, Illinois which is one of the most advanced water quality laboratories in

1 the United States. Further, the Service Company’s IT services provides effective
2 information technology support and solutions to meet NYAW’s business needs
3 through standardized technology and processes. Please see the direct testimony of
4 Company Witness Baryenbruch for more information.

5 **40. Q. What is the forecasted Rate Year level of Service Company costs?**

6 A. The Rate Year forecast of Service Company costs in this case is approximately \$7.4
7 million. See the direct testimonies of Company Witnesses Baryenbruch and Hawn,
8 which discuss Service Company costs in detail and provide further support as to
9 their reasonableness.

10 **41. Q. How does the forecasted Rate Year level of Service Company costs compare to
11 the level of Service Company costs authorized in NYAW’s last rate case?**

12 A. NYAW’s authorized level of Service Company costs in Case 11-W-0200 was
13 approximately \$73 per customer. The forecasted Service Company costs for the
14 Rate Year ending March 31, 2018 have decreased by approximately \$13 per
15 customer, to \$60. Please refer to the direct testimony of Company Witness Hawn
16 for more detail on this reduction in Service Company costs per customer.

17 **NYAW’S STAFFING LEVELS**

18 **42. Q. Please discuss how NYAW staffs its business operations.**

19 A. We recognize our duty to staff our business in a manner consistent with the
20 provision of safe and adequate utility service. This requires a constant evaluation of
21 the right mix of internal and contract labor, straight time versus overtime, training
22 programs, and replacing labor with technology. In this vein, we continue to

1 evaluate costs and expenses going forward, always looking for the best solution for
2 the unique and changing challenges we face. A large portion of our cost structure is
3 for labor, and as a position becomes vacant in our organization, we look to the
4 value of that position. We review the overall need for that position and consider,
5 among other things, whether it should be transferred to another area, modified, or
6 even eliminated. Cost control and improved business performance are the goals of
7 these efforts. We continue to evaluate the new roles that will be created as new
8 regulatory requirements are promulgated, and the appropriate positions that NYAW
9 will need to optimize new technology and most effectively serve our customers.

10 **43. Q. Please explain NYAW's efforts to improve its organizational structure since its**
11 **last rate case.**

12 A. NYAW has taken many steps to streamline our organization, which Company
13 Witness Bruce discusses in greater detail in his direct testimony. The Company's
14 request to move to AMI-compatible meters, as discussed by Company Witness
15 Claase, would provide the opportunity to obtain additional work efficiencies in the
16 future, as well as provide another means of promoting conservation to our
17 customers.

18 **44. Q. What is NYAW's forecasted staffing level in this case?**

19 A. We have identified an average of 128.33 positions as the appropriate staffing level
20 for the Company's water operations for the Rate Year ending March 31, 2018. This
21 is a reduction in the number of positions since the Company's last rate case.

1 **NYAW COMPENSATION**

2 **45. Q. Please describe NYAW's approach to employee compensation.**

3 A. NYAW aims to offer compensation that is on par with that offered by the
4 companies that NYAW competes with for employees. Therefore, NYAW targets
5 its total direct compensation (base and variable compensation) for each role at the
6 Company near the market median (50th percentile) for that role. Offering market-
7 level compensation ensures that NYAW's compensation is not only competitive,
8 but also reasonable.

9 **46. Q. Please identify the various employee classifications at NYAW and briefly
10 describe how are each is group is compensated.**

11 A. There are three classifications of employees at NYAW: hourly union employees;
12 hourly non-union employees; and exempt employees. Hourly union employees
13 receive base pay and overtime pay. Hourly non-union employees receive base pay,
14 overtime pay, and are eligible for performance pay. Exempt employees receive
15 base pay and are eligible for performance pay. Each classification of employees'
16 total direct compensation, therefore, includes fixed pay (base pay) and some
17 form(s) of variable pay (e.g., overtime, shift pay, or performance pay).

18 **47. Q. Is variable compensation provided to exempt and non-union hourly
19 employees?**

20 A. Variable compensation is provided to exempt employees, and in 2016, has been
21 extended to non-union hourly employees through the Company's Annual

1 Performance Plan (“APP”) and Long-Term Performance Plan (“LTPP”). Company
2 Witness Mustich of Willis Towers Watson discusses these plans.

3 **RATE YEAR COMPENSATION COSTS**

4 **48. Q. What is NYAW’s forecasted Rate Year level of employee compensation costs?**

5 A. The Rate Year level compensation cost is \$9.8 million. This includes base pay plus
6 variable compensation for NYAW employees.

7 **49. Q. How did NYAW determine that forecasted cost level?**

8 A. The forecasted Rest Year compensation cost level was calculated on a position-by-
9 position basis. The forecasted Rate Year is based on 128.33 full-time positions
10 (includes 4.33 Full-Time Equivalent summer-help positions). Please see the direct
11 testimony of Company Witness O’Malley for the details and calculations of union
12 and non-union wages for the Rate Year.

13 **50. Q. How does the Company’s forecasted Rate Year compensation cost level in this
14 case compare to the level authorized in the last base rate cases for the former
15 Long Island Water Corporation, New York Water Service, Sea Cliff Water
16 Company, and the five Aqua America, Inc. up-state companies?**

17 A. It is less. The labor expense requested in this case is \$9.8 million, compared to
18 \$10.5 million authorized in the last rate cases for the above mentioned companies.
19 This is a decrease of \$700,000.

1 **51. Q. Is there an objective measurement of the reasonableness of NYAW's**
2 **forecasted Rate Year compensation cost level?**

3 A. Yes. The reasonableness of that overall expense is supported by the review and
4 analysis of NYAW's compensation program conducted by Willis Towers Watson,
5 as explained by Company Witness Mustich. When determining the reasonableness
6 of compensation, the focus should be the reasonableness of the Company's overall
7 compensation. This is particularly true when the compensation levels for many of
8 NYAW's employees are below or near the mid-point of the compensation range for
9 similar positions in the area, and there is no evidence that the Company's
10 employees are overpaid, even when variable pay is included. If overall
11 compensation levels are reasonable, regardless of the combination of fixed and
12 variable payments that the employees earn, then the Company's overall
13 compensation expense is reasonable.

14 **52. Q. Does this conclude your direct testimony?**

15 A. Yes, it does.