Market to Cost Comparison of Service Company Charges to New York American Water Company

12 Months Ended December 31, 2015

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Baryenbruch & Company, LLC

New York American Water Company
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I – Introduction

Purpose of This Study

This study was undertaken to answer four questions concerning the services provided by American Water Works Service Company, Inc., (Service Company) to New York American Water Company ("NYAW"):

1. Were the Service Company's charges to NYAW during 2015 reasonable?

2. Was NYAW charged the lower of cost or market for managerial and professional services provided by the Service Company during 2015?

3. Were 2015 costs of the Service Company's customer accounts services, including those of the National Call Centers, comparable to those of other utilities?

4. Are the services NYAW receives from the Service Company necessary?

Study Results

Concerning question 1, the following conclusion was reached:

- The Service Company's 2015 cost per NYAW customer is reasonable compared to costs per customer for electric and combination electric/gas service companies. During 2015 NYAW was charged $59 per customer for administrative and general ("A&G")-related services provided by the Service Company. This compares to an average of $108 per customer for service companies reporting to the Federal Energy Regulatory Commission (FERC). Only 5 of the 24 utility service companies that filed a FERC Form 60 for 2014 had a lower per-customer A&G cost than NYAW's charges from the Service Company.

Concerning question 2, the following conclusions were drawn from this study:

- NYAW was charged the lower of cost or market for managerial and professional services during 2015.

- On average, the hourly rates for outside service providers are 57% higher than the Service Company's hourly rates.

- The managerial and professional services provided by the Service Company are vital and could not be procured externally by NYAW without careful supervision on the part of NYAW. If these services were contracted entirely to outside providers, NYAW would have to add at least one position to manage activities of outside firms. This position would be necessary to ensure the quality and timeliness of services provided.

- If all the managerial and professional services now provided by the Service Company had been outsourced during 2015, NYAW and its ratepayers would have incurred over $5 million in additional expenses. This amount includes the higher cost of outside providers and the cost of one NYAW position needed to direct the outsourced work.

- This study's hourly rate comparison actually understates the cost advantages that accrue to NYAW from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company exempt personnel, on the other hand, charge a maximum of 8 hours per day even when they work more hours. If all overtime hours of Service Company personnel were factored into the hourly rate calculation, the Service

Company would have had an even greater annual dollar advantage than the $5 million cited above.

- It would be difficult for NYAW to find local service providers with the same specialized water industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water companies. This specialization brings with it a unique knowledge of water utility operations and regulation that is most likely unavailable from local service providers.

- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from NYAW ratepayers.

Concerning question 3, the following conclusion was reached:

- The cost of the Service Company's customer accounts services, including those provided by the National Call Centers, is well below the average of the neighboring electric utility comparison group. As will be explained further herein, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of the Service Company and NYAW. During 2015, the cost of customer accounts services for NYAW customers was $21.61 compared to the 2014 average of $50.46 for neighboring electric utilities. The highest comparison group per customer cost was $109.96 and the lowest $18.17.

Concerning question 4, the following conclusions were drawn:

- The services that the Service Company provides are necessary and would be required even if NYAW were a stand-alone water utility.

- Furthermore, there is no redundancy or overlap in the services provided by the Service Company to NYAW. For all of the services provided (Exhibit 13), there was only one entity primarily responsible for the service.

II – Background

Overview of American Water Works Service Company

American Water's Service Company exists to provide certain shared services to American Water subsidiaries. It follows a service company model used by many utility holding companies that own multiple regulated utilities. By consolidating executive and professional services into a single service company, utility holding companies are able to realize the following benefits for ratepayers:

- Purchasing Economies – Common expenses (e.g., insurance, chemicals, piping) can be procured on a much larger scale, thereby providing greater bargaining power for the combined entity compared to individual utility operating companies. A service company facilitates corporate-wide purchasing programs through its procurement and contract administration functions.

- Operating Economies of Scale – A service company is able to deliver services more efficiently because workloads can be balanced across more persons and facilities. For instance, American Water's Service Company is able to maintain one principal data center for the entire corporation. This is much more cost-efficient than each operating utility funding its own data center with large fixed hardware, software and staffing costs.

- Continuity of Service – Centralizing service company personnel who perform similar services facilitates job cross-training and sharing of knowledge and expertise. This makes it easier to deal with staff turnover and absences and to sustain high levels of service to operating utilities. An individual operating utility might experience considerable disruption if a key professional left and it were necessary to hire outside to fill the vacancy.

- Maintenance of Corporate-Wide Standards – Personnel in American Water's Service Company establish standards for many functions (e.g., engineering designs, operating procedures and maintenance practices). It is easier to ensure these standards are followed by every operating utility because their implementation is overseen by the Service Company.

- Improved Governance – American Water's Service Company provides another dimension of management and financial oversight that supplements local operating utility management. The Service Company facilitates standard planning and reporting, which helps ensure that operating utilities meet the requirements of their customers in a cost-effective manner.

- Retention of Personnel – A service company organization provides operating utility personnel with another career path beyond what may be available on a local level. These opportunities tend to improve employee retention.

American Water follows the model for other utility service companies in another important regard: Its services are provided to affiliate operating utilities, like NYAW, at cost. American Water's Service Company is not a profit-making entity. It assigns only its actual expenses to the American Water subsidiaries it services.

II – Background

The Service Company provides services to American Water operating companies from the following locations:

- Corporate Headquarters – Provides corporate governance and service functions, including executive management, audit, finance, external affairs and human resources. The corporate headquarters is located in Voorhees, New Jersey.

- Central Lab – The national trace substance laboratory is located in Belleville, Illinois, and performs testing for all American Water operating companies.

- Customer Service Centers – Provides customer call center and billing services from two locations: Alton, Illinois and Pensacola, Florida.

- Customer Relations Centers – Provides customer relations and field resource coordination services from two locations: Belleville, Illinois and Wilkes Barre, Pennsylvania.

- Hershey Information Technology Services Center – American Water’s principal data center, located in Hershey, Pennsylvania, supports the IT infrastructure required to run corporate and operating company business applications and communications systems.

- Haddon Heights Information Technology Services Center - American Water's data center, located in Haddon Heights, New Jersey, maintains data servers for back-up and disaster recovery.

- Woodcrest Office – The Woodcrest Office, located in Cherry Hill, New Jersey, provides individual operating companies with accounting, human resources and benefits and supply chain services. The Woodcrest office is American Water's main IT center for employees, provides software delivery and enhancements for SAP and non-SAP (legacy) systems, provides local on-site support as well as the ITS Service Desk for remote assistance for all employees using personal computers in the performance of their day to day activities, supports mission-critical systems such as SCADA as well as emerging technologies such as GIS and Mobility, and provides technical expertise in project governance and release management while ensuring compliance with all governmental regulations.

- Regional Offices – Regional offices provide operating companies with certain support services that can be performed more effectively on a regional basis because individual operating company/center workloads are not sufficient to warrant a full-time staff for these activities. At the same time, these services require closer proximity to operating companies served so they are not provided by the National Shared Services Center. Examples of regional office services include legal, communication, human resources and maintenance. Five divisional offices (MAD, CD, NED, MO and CA/HI) are also maintained by Regulatory Operations and share office space with local operating companies.

II – Background

Service Company Accounting

Service Company maintains an accounting ledger for recording transactions (e.g., labor, expenses, overhead, capital and other assets, liabilities and equity) in a Service Company ledger separate from Affiliates' ledgers. Monthly financial statements are prepared that summarize month-to-date and year-to-date costs, budgets and prior year, with variances and explanations, by category and function. Accounting categories by transaction type are described below.

- Service Company Labor: The Service Company utilizes a system that tracks time and attendance. Employees electronically enter hours worked (including vacation, sick, family leave, etc.) and accounting information (e.g., business unit; formula; pay type) and electronically submit the timesheet for approval. Submitted timesheets are electronically routed to authorized approvers. Time sheets require approval (of hours and accounting information such as formulas, etc.) by an authorized timesheet approver in the employee's home business unit.

- Service Company Expenses: Expenditures (i.e., standard invoices, purchase orders, electronic disbursements, miscellaneous invoices, recurring invoices, recurring vouchers, and p-cards) and journal entries require a preparer to enter accounting coding details (e.g., cost center, cost element and work breakdown structure) and a reviewer to approve the information in accordance with the corporate Delegation of Authority Policy. Expenditures are processed electronically and are automatically routed to the employee's supervisor for approval. Costs are posted many times daily, in detail, in the business unit selected. Journal entries are submitted as prepared to the appropriate reviewer and posted as approved.

- Service Company Assets: Service Company assets are procured directly by Service Company or through a capital leasing arrangement with Laurel Oak Properties (LOP). Service Company capitalizes these LOP leases as non-utility plant assets in accordance with GAAP. Generally speaking, Service Company assets (including hardware, servers, laptops, desktops, servers, storage racks, furniture, laboratory and test equipment, security cameras, monitors, and leasehold improvements) are acquired through LOP via a capital lease. LOP, on behalf of the Service Company, will acquire the necessary materials and services to build the assets that are needed for the Company to meet its business needs.

- Service Company Overhead: Costs for support personnel (e.g., administrative assistants, mailroom clerks), rents, facility expenses, pension, medical insurance, taxes, general office supplies and other similar expenses are recorded in the ledger of the cost center responsible for incurring the charge. Overhead expenditures are posted using the labor and expense processes noted above, and are recorded, in detail, in the ledger of the cost center responsible for the charge using an overhead WBS element.

Service Company Billing and Clearing

Service Company has developed a billing system which charges directly or allocates costs for services provided to Affiliates. Service Company billing is processed monthly and includes all Service Company costs charged to Affiliates using the Work Breakdown Structure (WBS) element selected for each transaction.

- WBS element: Every Service Company transaction (vouchers, journal entries, payroll batch, etc.) requires a WBS element within the account coding string. Each WBS element is configured in SAP with the following: Affiliate(s) to be charged, percent of charge to be billed to each Affiliate (total must equal 100%), receiving object (e.g., Affiliate's cost center xx0000) for O&M costs or an Affiliate's WBS element for Capex Costs. WBS elements are configured in SAP with an end date (month/year) to prevent transactions from using an expired WBS during data input.

- Affiliate Billing Process: AW Service Company billing is a two-step process that first calculates allocations of transactions for all non-overhead WBS elements. The second step calculates overhead transaction allocations using the ratio of direct labor (Cost Element 5012000) allocations to Affiliates from the first step above multiplied by the pool of overhead expenses by physical location.

- Bill Clearing Process: Service Company billings are cleared through American Water Capital Corporation, Inc., (an Affiliate) monthly via an intercompany journal entry to GL Account 23120000 (Notes Payable – Associated Companies) posted on the last day of the month. Payments are estimated for each Affiliate using the prior month actual billing (current month estimate) with adjustment for prior month actual to estimate (previous month funding) true-up.

III – Service Company Cost Comparison Approach

Service Company Test Period Charges

During 2015 the Service Company billed NYAW a total of $10 million, as shown in the table below. These charges were subjected to a market to cost comparison.

	2015
Management Fees - O&M	$ 7,672,096
Management Fees - Capital	$ 2,332,658
Total Service Company Charges	**$ 10,004,754**

For purposes of comparing these charges to certain outside benchmarks, Service Company services were placed into two categories:

- Managerial and Professional Services – Includes such services as management, accounting, legal, human resources, information technology and engineering.

- Customer Accounts Services – Includes customer-related services, such as call center, credit, billing, collection and payment processing.

Total 2015 Service Company charges break down between management/professional services and customer account services as follows:

	2015	
	Amount	Hours
Management and Professional Services	$ 8,734,299	54,479
Customer Account Services	$ 1,270,455	33,234
Total Service Company Charges	**$ 10,004,754**	**87,713**

Service Company Cost Comparison Approach

This study's first question—whether the Service Company 2015 charges were reasonable—was determined by comparing NYAW's A&G-related Service Company charges per customer to the same charges for utility companies that must file the Federal Energy Regulatory Commission ("FERC") Form 60 – Annual Report of Service Companies.

The second question—whether the Service Company charges during 2015 were at the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to NYAW during 2015. Outside providers' billing rates came from surveys or other information from professionals who could perform the services now provided by the Service Company.

III – Service Company Cost Comparison Approach

The third question—whether Service Company's 2015 customer account services charges, including National Call Center costs, were comparable to other utilities—was addressed by comparing NYAW's customer accounts services expenses to those of neighboring investor-owned electric utilities. This utility comparison group was selected because the cost of outside providers of customer accounts services is proprietary and not publicly available. Comparison to electric utilities is appropriate because all utilities, regardless of service type, must perform customer account services activities, including updating customer records for meter reads, printing and mailing bills, and the collection and processing of customer payments. Electric utility costs are available from the FERC Form 1; thus there is appropriate data transparency. The selection of electric utilities from New York and neighboring states provides a sufficiently sized comparison group.

The fourth question—the necessity of Service Company services—was investigated by defining the services provided to NYAW and determining if these services would be required if NYAW were a stand-alone utility.

IV – Question 1 – Reasonableness of Service Company Charges

Methodology

Utility service companies deliver a variety of services. Some support their regulated utility affiliate's operations-related functions (e.g., transmission, distribution). All utility service companies, however, provide A&G services to their affiliates. This is true because there are considerable economies of scale derived from centralizing the management of corporate A&G services such as information technology, finance and human resources. Because A&G-related services are consistently delivered by service companies, this study uses A&G charges per customer as the metric by which to test the reasonableness of services provided by affiliates.

NYAW's Service Company A&G Cost per Customer

During 2015 NYAW was charged $59 per customer by the Service Company for A&G-related services. The calculation of this amount, shown in the table below, starts with total Service Company charges and adjusts for capital and non-A&G function (e.g., engineering, operations and water quality) charges. These adjustments are necessary to develop a per-customer cost that can be compared to the cost of the utility service company comparison group.

		2015
Total Service Company charges	$	10,004,754
Less: Capital charges	$	(2,332,658)
Less: Non-A&G function charges		
Engineering	$	(108,767)
Operations	$	(110,740)
Water Quality	$	(104,086)
A&G-related charges	$	7,348,503
NYAWC Customers		124,597
NYAWC A&G Cost Per Customer	**$**	**59**

Comparison Group Cost Per Customer

Every centralized service company in a holding company system subject to regulation by the FERC must file a Form 60 in accordance with the Public Utility Holding Company Act of 2005, Section 1270, Section 390 of the Federal Power Act, and 18 Code of Federal Regulations paragraph 366.23. This report is designed to collect financial information from service companies that are subject to regulation by the FERC.

Charges to utility affiliates for the comparison group service companies were obtained from Schedule XVI – Analysis of Charges for Service Associate and Non-Associate Companies (p. 303 to 306) of each entity's FERC Form 60. Information from Form 60 schedule Account 457 – Analysis of Billing – Associate Companies was also used to isolate and eliminate charges to non-regulated affiliates from the cost pool used to calculate A&G expenses per regulated service customer.

For 2015, a Form 60 was filed by service companies associated with 24 utility holding companies. These service companies support utilities that provide regulated electric and, in some cases, gas service to retail customers.

IV – Question 1 – Reasonableness of Service Company Charges

FERC Form 60 shows service company charges to affiliates by FERC account. The table below shows a list of FERC A&G accounts and designates which correspond to services the Service Company provides to NYAW. Amounts in the designated FERC accounts are included in the calculation of service company A&G expenses per regulated customer.

FERC Account	Included In Cost Calculation
901 - Supervision	X
902 - Meter reading expenses	
903 - Customer records and collection expenses	X
904 - Uncollectible accounts	
905 - Miscellaneous customer accounts expenses	X
907 - Supervision	
908 - Customer assistance expenses	
909 - Informational And Instructional Advertising Expenses	
910 - Miscellaneous Customer Service And Informational Exp	X
911 - Supervision	
912 - Demonstrating and Selling Expenses	
913 - Advertising Expenses	
916 - Miscellaneous Sales Expenses	
920 - Administrative and General Salaries	X
921 - Office Supplies and Expenses	X
923 - Outside Services Employed	X
924 - Property Insurance	X
925 - Injuries and Damages	
926 - Employee Pensions and Benefits	X
928 - Regulatory Commission Expenses	
930.1 - General Advertising Expenses	
930.2 - Miscellaneous General Expenses	X
931 - Rents	X
935 - Maintenance of Structures and Equipment	X

The A&G expenses per regulated utility customer for the 24 utility companies that filed a Form 60 for 2014 are calculated in Exhibit 1 (page 11).

Exhibit 1 (page 12) shows NYAW's 2015 Service Company cost per customer of $59 to be considerably lower than the average of $108 per customer for the comparison group service companies. Only 5 of 24 comparison group service companies had a lower per-customer A&G cost than NYAW's charges from the Service Company. Based on this result, it is possible to conclude that the Service Company's 2015 charges to NYAW were reasonable.

Exhibit 1

New York American Water Company

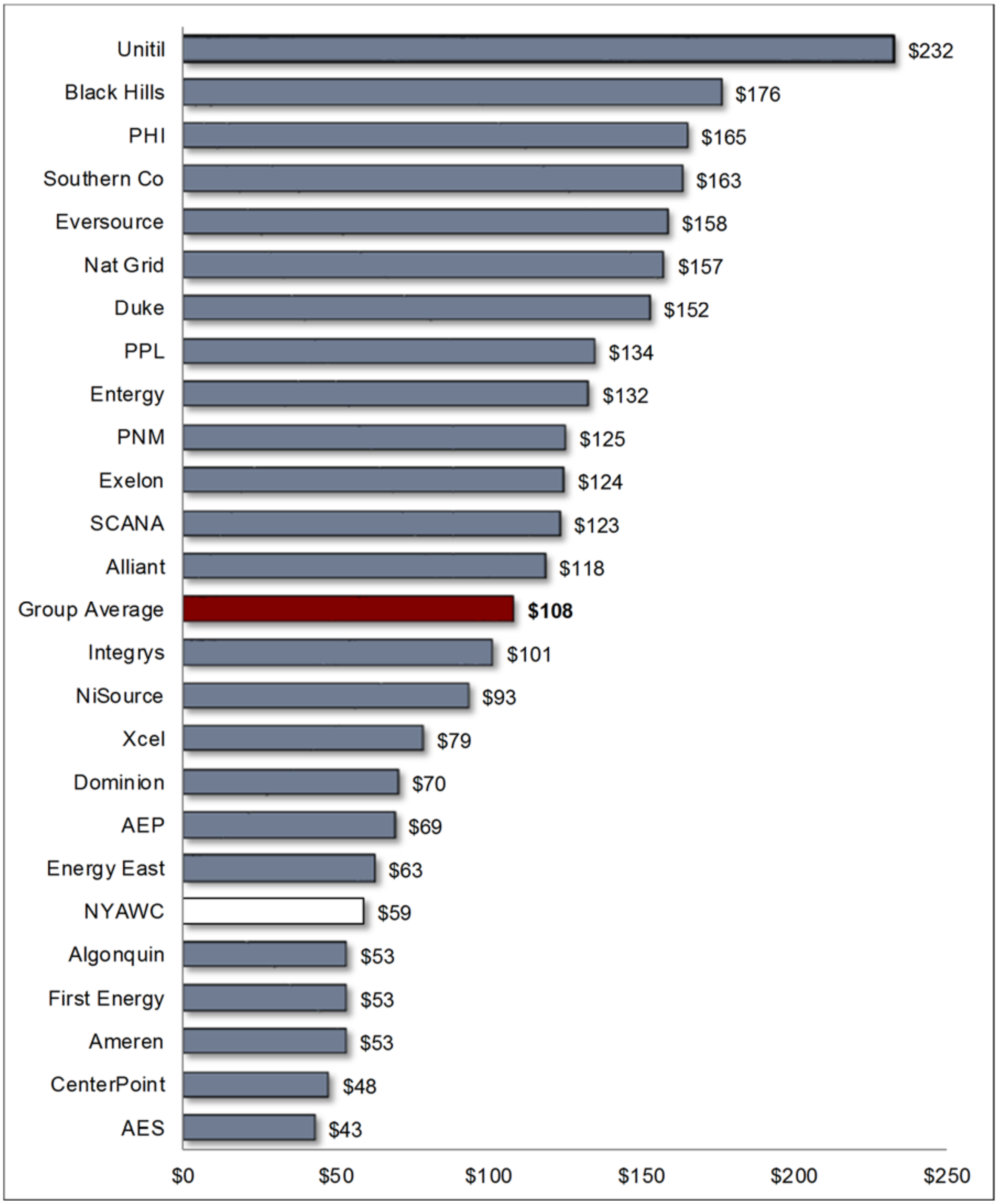
Calculation of 2014 Service Company A&G Expenses Per Customer

Utility Company	2014 Regulated Retail Service Company A&G Expenses	Regulated Retail Customers	Cost per Customer
AEP	$366,217,981	5,300,000	$ 69
AES	$47,179,170	1,100,000	$ 43
Algonquin	$20,417,324	382,000	$ 53
Alliant	$166,839,678	1,412,258	$ 118
Ameren	$175,670,442	3,300,000	$ 53
Black Hills	$130,528,322	742,896	$ 176
CenterPoint	$270,013,027	5,666,980	$ 48
Dominion	$267,125,964	3,800,000	$ 70
Duke	$1,188,590,645	7,800,000	$ 152
Energy East	$151,960,009	2,426,000	$ 63
Entergy	$396,681,235	2,996,000	$ 132
Eversource	$594,005,313	3,755,000	$ 158
Exelon	$968,292,855	7,800,000	$ 124
FirstEnergy	$320,924,738	6,008,000	$ 53
Integrys	$222,847,080	2,205,000	$ 101
Nat Grid	$1,082,848,311	6,900,000	$ 157
NiSource	$337,721,731	3,620,378	$ 93
PHI	$323,833,431	1,967,000	$ 165
PNM	$94,009,450	753,070	$ 125
PPL	$357,358,733	2,661,000	$ 134
SCANA	$190,243,709	1,547,000	$ 123
Southern Co	$733,081,757	4,500,000	$ 163
Unitil	$39,604,542	170,500	$ 232
Xcel	$431,788,464	5,500,000	$ 79
Total	**$8,877,783,910**	**82,313,082**	**$ 108**

Exhibit 2

New York American Water Company

Comparison of Service Company A&G Expenses Per Customer



V – Question 2 – Provision of Services at the Lower of Cost or Market

Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services, it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial and rates and revenues services
- IT Professionals – information technology services
- Professional Engineers – engineering, operations and water quality services.

The services provided by the Belleville lab are assumed to be transferable to professional engineers for purposes of this cost comparison. This was done for two reasons. First, there is no readily available survey of hourly billing rates for testing services such as those performed by Belleville. Second, Belleville personnel have similar scientific educational backgrounds as Service Company engineering personnel. Thus, it is appropriate to compare the hourly rates of Belleville services to those of outside engineering firms.

The Service Company's hourly rates were calculated for each of the five outside service provider categories, based on the dollars and hours charged to NYAW during 2015. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged NYAW during 2015, its hourly rates are actually overstated because some Service Company personnel charge a maximum of 8 hours per day even when they work more. Outside service providers generally bill for every hour worked. If all overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the lower-of-cost-or-market comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

Service Company Hourly Rates

Exhibit 3 (page 15) details the assignment of 2015 management and professional Service Company charges by outsider provider category. Exhibit 4 (page 16) shows the same assignment for Service Company management and professional hours charged to NYAW during 2015.

Certain adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following 2015 test period non-labor Service Company charges:

- Contract Services – 2015 Service Company charges to NYAW include expenses associated with the use of outside professional firms to perform certain corporate-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.

V – Question 2 – Provision of Services at the Lower of Cost or Market

- Travel Expenses – In general, client-related travel expenses incurred by outside service providers are not recovered through their hourly billing rates. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- Information Technology Infrastructure Expenses – Included in 2015 Service Company charges to NYAW are leases, maintenance fees and depreciation related to American Water's enterprise computing and network infrastructure and corporate business applications. An outside provider that would take over operation of this infrastructure would recover these expenses over and above the labor necessary to operate the data center.
- Non-Service Related Expenses – These are corporate expenses such as current and deferred income tax expense, line of credit fees and board expenses. These are not related to the provision of services by Service Company personnel and have been excluded.

Exhibit 5 (page 17) shows how contract services, travel expenses, information technology infrastructure and non-service-related Service Company charges are assigned to the four outside provider categories.

Based on the assignment of expenses and hours shown in Exhibits 2 and 3 and the excludable items shown in Exhibit 4, the Service Company's equivalent costs per hour for 2015 are calculated below.

	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Total
Total management, professional & technical services charges	$ 509,797	$ 1,387,279	$ 1,586,255	$ 4,244,815	$ 1,006,153	$ 8,734,299
Less: Exclusions						
Contract services	$ 122,982	$ 143,326	$ 157,334	$ 1,331,873	$ 4,167	$ 1,759,682
Travel expenses	$ 5,162	$ 8,872	$ 4,257	$ 12,739	$ 9,692	$ 40,723
IT infrastructure expenses	$ -	$ -	$ -	$ 1,151,833	$ -	$ 1,151,833
Non-service related expenses	$ 37,878	$ 28,679	$ 3,361	$ 67,692	$ 57,285	$ 194,896
Total Exclusions	$ 166,022	$ 180,877	$ 164,953	$ 2,564,137	$ 71,145	$ 3,147,134
Net Service-Related Charges (A)	$ 343,775	$ 1,206,402	$ 1,421,302	$ 1,680,678	$ 935,008	$ 5,587,165
Total Hours (B)	1,853	7,772	18,394	15,941	10,519	54,479
Average Hourly Rate (A / B)	**$ 186**	**$ 155**	**$ 77**	**$ 105**	**$ 89**	

Exhibit 3

New York American Water Company

Analysis of 2015 Service Company Charges by Location and Function

Location	Function	2015 Service Company Charges: Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Total
Belleville Lab	Water Quality					$ 106,362	$ 106,362
Call Center	Human Resources		$ 23,434				$ 23,434
Corporate	Accounting			$ 601,539			$ 601,539
	Administration		$ 330,595				$ 330,595
	Audit			$ 79,046			$ 79,046
	Business Development		$ 117,107				$ 117,107
	Business Transformation		$ (34)				$ (34)
	Communications		$ 128,503				$ 128,503
	Engineering					$ 786,832	$ 786,832
	External Affairs		$ 84,977				$ 84,977
	Finance			$ 375,545			$ 375,545
	Human Resources		$ 475,404				$ 475,404
	Information Technology				$ 98,487		$ 98,487
	Legal	$ 287,335					$ 287,335
	Operations					$ 112,924	$ 112,924
	Procurement			$ 176,012			$ 176,012
	Rates & Regulatory			$ 37,629			$ 37,629
	Risk Management		$ 59,369				$ 59,369
Division Offices	Administration		$ 164,672				$ 164,672
	Business Development		$ 1,722				$ 1,722
	Engineering					$ 36	$ 36
	External Affairs		$ 215				$ 215
	Finance			$ 176,647			$ 176,647
	Human Resources		$ 1,314				$ 1,314
	Legal	$ 222,463					$ 222,463
	Rates & Revenue			$ 139,835			$ 139,835
Information Technology	Information Technology				$ 4,146,329		$ 4,146,329
Total Dollars Charged		**$ 509,797**	**$ 1,387,279**	**$ 1,586,255**	**$ 4,244,815**	**$ 1,006,153**	**$ 8,734,299**

Exhibit 4

New York American Water Company

Analysis of 2015 Service Company Hours by Location and Function

		2015 Service Company Hours					
Location	Function	Attorney	Management Consultant	Certified Public Accountant	IT Professional	Professional Engineer	Total
Belleville Lab	Water Quality					1,026	1,026
Call Center	Human Resources		325				325
Corporate	Accounting			8,082			8,082
	Administration		1,002				1,002
	Audit			532			532
	Business Development		367				367
	Business Transformation		1				1
	Communications		1,057				1,057
	Engineering					9,340	9,340
	External Affairs		173				173
	Finance			5,786			5,786
	Human Resources		4,024				4,024
	Information Technology				1,024		1,024
	Legal	436					436
	Operations					153	153
	Procurement			2,154			2,154
	Rates & Regulatory			208			208
	Risk Management		471				471
Division Offices	Administration		349				349
	Business Development						-
	Engineering					-	-
	External Affairs						-
	Finance			335			335
	Human Resources		3				3
	Legal	1,417					1,417
	Rates & Revenue			1,298			1,298
Information Technology	Information Technology				14,917		14,917
Total Hours Charged		**1,853**	**7,772**	**18,394**	**15,941**	**10,519**	**54,479**

Exhibit 5

New York American Water Company
Analysis of 2015 Service Company Charges Excludable from the Hourly Rate Calculation

Charges By Function	Exclusions From Hourly Rate Calculation: Contract Services	Travel Expenses	IT Infrastructure	Non-Services-Related Items	Total	Outside Service Provider Category
Accounting	$ 107,704	$ 1,101		$ 1,082	$ 109,887	Certified Public Accountant
Administration	$ 18,633	$ 3,706		$ 12,702	$ 35,041	Management Consultant
Audit	$ 26,971	$ 70		$ 21	$ 27,062	Certified Public Accountant
Business Development	$ 5,317	$ 819		$ (278)	$ 5,858	Management Consultant
Business Transformation	$ (20)	$ 0		$ 5	$ (15)	Management Consultant
Communications	$ 20,565	$ 285		$ 194	$ 21,044	Management Consultant
Engineering	$ 16,441	$ 8,897		$ 19,972	$ 45,310	Professional Engineer
External Affairs	$ 15,026	$ 532		$ 20	$ 15,578	Management Consultant
Finance	$ 14,637	$ 1,504		$ 1,300	$ 17,440	Certified Public Accountant
Human Resources	$ 84,122	$ 3,364		$ 11,617	$ 99,104	Management Consultant
Information Technology	$ 1,331,873	$ 12,739	$ 1,151,833	$ 67,692	$ 2,564,137	IT Professional
Legal	$ 122,982	$ 5,162		$ 37,878	$ 166,022	Attorney
Operations	$ 9	$ 704		$ 491	$ 1,203	Professional Engineer
Procurement	$ 2,843	$ 978		$ 819	$ 4,640	Certified Public Accountant
Rates & Regulatory	$ 5,180	$ 605		$ 139	$ 5,923	Certified Public Accountant
Risk Management	$ (317)	$ 166		$ 4,419	$ 4,268	Management Consultant
Water Quality	$ (12,283)	$ 91		$ 36,823	$ 24,632	Professional Engineer
Total	**$ 1,759,682**	**$ 40,723**	**$ 1,151,833**	**$ 194,896**	**$ 3,147,134**	

Recap By Outside Provider	Exclusions From Hourly Rate Calculation: Contract Services	Travel Expenses	IT Infrastructure	Non-Services-Related Items	Total
Attorney	$ 122,982	$ 5,162	$ -	$ 37,878	$ 166,022
Management Consultant	$ 143,326	$ 8,872	$ -	$ 28,679	$ 180,877
Certified Public Accountant	$ 157,334	$ 4,257	$ -	$ 3,361	$ 164,953
IT Professional	$ 1,331,873	$ 12,739	$ 1,151,833	$ 67,692	$ 2,564,137
Professional Engineer	$ 4,167	$ 9,692	$ -	$ 57,285	$ 71,145
Total	**$ 1,759,682**	**$ 40,723**	**$ 1,151,833**	**$ 194,896**	**$ 3,147,134**

V – Question 2 – Provision of Services at the Lower of Cost or Market

Outside Service Provider Hourly Rates

The next step in the lower-of-cost-or-market comparison was to obtain the average billing rates for outside service providers. The source of this information and the determination of the average rates are described in the paragraphs that follow.

It should be noted that professionals working for three of the five outside provider categories may be licensed to practice by state regulatory bodies. However, not every professional working for these firms is licensed. For instance, among New York certified public accounting firms, only more experienced staff are predominantly CPAs (see table below). Some Service Company employees also have professional licenses. Thus, it is valid to compare the Service Company's hourly rates to those of the outside professional service providers included in this study.

Position	New York Average
Partners/Owners	94%
Directors (11+ years experience)	87%
Managers (6-10 years experience)	80%
Sr Associates (4-5 years experience)	39%
Associates (1-3 years experience)	13%
New Professionals	0%

Source: AICPA's National PCPS/TSCPA Management of an Accounting Practice Survey (2010)

Attorneys

The New York State Bar does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for New York attorneys. Therefore, an estimate of New York attorney rates was developed from a 2015 billing rate survey from National Law Journal. As shown in Exhibit 6 (pages 20-22), data from this survey has been adjusted for cost-of-living differences between each law firm's location and Lynbrook, New York. The National Law Review Billing survey data is as of December 31, 2014. The calculated average rate was escalated to June 30, 2015—the midpoint of 2015.

Management Consultants

The cost per hour for management consultants was developed from a 2015 survey performed by the Association of Management Consulting Firms—an industry trade organization. The survey includes rates that were in effect during 2014 for firms throughout the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, in this case the U.S. national average is appropriate for comparison.

The first step in the calculation, presented in Exhibit 7 (page 23), was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey covered hourly rates in effect during 2014. The calculated average rate was escalated to June 30, 2015—the midpoint of 2015.

V – Question 2 – Provision of Services at the Lower of Cost or Market

Certified Public Accountants

The average hourly rate for New York CPAs was developed from a 2014 survey performed by the American Institute of Certified Public Accountants (AICPA). The New York version of this survey was used to develop hourly rates for member firms in New York.

As shown in Exhibit 8 (page 24), a weighted average hourly rate was developed based on a set of accountant positions and a percent of time that is typically applied to an accounting assignment. This survey includes rate information in effect during 2013. The calculated average rate was escalated to June 30, 2015—the midpoint of 2015.

Information Technology Professionals

The average hourly rate for information technology consultants and contractors was developed from IT industry hourly billing rate data gathered by Baryenbruch & Company, LLC. As shown in Exhibit 9 (page 25), that data was compiled and a weighted average was calculated based on a percent of time that is typically applied to an IT consulting assignment based on Baryenbruch & Company's experience.

Professional Engineers

2015 professional engineering hourly rates were obtained from proposals submitted by outside engineering firms in response to American Water's annual bid process. As presented in Exhibit 10 (page 26), an average rate was developed for each engineering position level. Then, using a typical percentage mix of project time by engineering position, a weighted average cost per hour was calculated.

New York American Water Company

Estimated Billing Rates for New York Attorneys

		2014 Avg Billing Rates (Note A)		Weighted Average Rate Calculation			Cost of Living (COL) Adjustment			
				0.25	0.75	(X)	COL Indices (Note B)		(Y)	(X x Y)
Firm Name	**Location**	Partner	Associate	Partner	Associate	Weighted Average	Law Firm City	NYAWC - Lynbrook, NY	COL Adjustment	Adjusted Rate
Adams and Reese	New Orleans, LA	$ 420	$ 270	$ 105	$ 203	$ 308	98.2	129.2	131.6%	$ 405
Akerman	Miami, FL	$ 535	$ 305	$ 134	$ 229	$ 363	107.2	129.2	120.5%	$ 437
Akin Gump Strauss Hauer & Feld	Washington, DC	$ 785	$ 525	$ 196	$ 394	$ 590	141.6	129.2	91.2%	$ 538
Alston & Bird	Atlanta, GA	$ 675	$ 425	$ 169	$ 319	$ 488	93.5	129.2	138.1%	$ 673
Andrews Kurth	Houston, TX	$ 890	$ 670	$ 223	$ 503	$ 725	99.0	129.2	130.5%	$ 946
Archer & Greiner	Haddonfield, NJ	$ 400	$ 245	$ 100	$ 184	$ 284	121.2	129.2	106.6%	$ 302
Arent Fox	Washington, DC	$ 650	$ 395	$ 163	$ 296	$ 459	141.6	129.2	91.2%	$ 419
Arnold & Porter	Washington, DC	$ 815	$ 500	$ 204	$ 375	$ 579	141.6	129.2	91.2%	$ 528
Arnstein & Lehr	Chicago, IL	$ 465	$ 250	$ 116	$ 188	$ 304	117.4	129.2	110.0%	$ 334
Baker & Hostetler	Cleveland, OH	$ 449	$ 272	$ 112	$ 204	$ 316	98.2	129.2	131.6%	$ 416
Baker & McKenzie	Chicago, IL	$ 755	$ 395	$ 189	$ 296	$ 485	117.4	129.2	110.0%	$ 534
Baker, Donelson, Bearman, Caldwell	Memphis, TN	$ 400	$ 295	$ 100	$ 221	$ 321	84.9	129.2	152.2%	$ 489
Ballard Spahr	Philadelphia, PA	$ 475	$ 315	$ 119	$ 236	$ 355	121.2	129.2	106.6%	$ 378
Barnes & Thornburg	Indianapolis, IN	$ 480	$ 320	$ 120	$ 240	$ 360	91.1	129.2	141.8%	$ 511
Benesch, Friedlander, Coplan & Aronoff	Cleveland, OH	$ 455	$ 280	$ 114	$ 210	$ 324	98.2	129.2	131.6%	$ 426
Best Best & Krieger	Riverside, CA	$ 455	$ 280	$ 114	$ 210	$ 324	112.0	129.2	115.3%	$ 373
Bingham McCutchen	Boston, MA	$ 795	$ 450	$ 199	$ 338	$ 536	140.1	129.2	92.2%	$ 495
Blank Rome	Philadelphia, PA	$ 640	$ 350	$ 160	$ 263	$ 423	121.2	129.2	106.6%	$ 450
Bond, Schoeneck & King	Syracuse, NY	$ 355	$ 225	$ 89	$ 169	$ 258	104.5	129.2	123.6%	$ 318
Bowles Rice	Charleston, WV	$ 230	$ 135	$ 58	$ 101	$ 159	93.7	129.2	137.8%	$ 219
Bracewell & Giuliani	Houston, TX	$ 760	$ 440	$ 190	$ 330	$ 520	99.0	129.2	130.5%	$ 679
Bradley Arant Boult Cummings	Birmingham, AL	$ 430	$ 260	$ 108	$ 195	$ 303	85.9	129.2	150.3%	$ 455
Brownstein Hyatt Farber Schreck	Denver, CO	$ 520	$ 305	$ 130	$ 229	$ 359	104.0	129.2	124.2%	$ 446
Bryan Cave	St. Louis, MO	$ 620	$ 405	$ 155	$ 304	$ 459	94.4	129.2	136.8%	$ 628
Buchalter Nemer	Los Angeles, CA	$ 605	$ 365	$ 151	$ 274	$ 425	131.0	129.2	98.6%	$ 419
Burr & Forman	Birmingham, AL	$ 371	$ 241	$ 93	$ 181	$ 274	85.9	129.2	150.3%	$ 411
Cadwalader, Wickersham & Taft	New York, NY	$ 930	$ 605	$ 233	$ 454	$ 686	221.3	129.2	58.4%	$ 401
Cole, Schotz, Meisel, Forman & Leonard	Hackensack, NJ	$ 653	$ 302	$ 163	$ 227	$ 390	133.0	129.2	97.1%	$ 379
Connell Foley	Roseland, NJ	$ 425	$ 265	$ 106	$ 199	$ 305	128.4	129.2	100.6%	$ 307
Cooley	Palo Alto, CA	$ 820	$ 515	$ 205	$ 386	$ 591	159.9	129.2	80.8%	$ 478
Covington & Burling	Washington, DC	$ 780	$ 415	$ 195	$ 311	$ 506	141.6	129.2	91.2%	$ 462
Cozen O'Connor	Philadelphia, PA	$ 570	$ 355	$ 143	$ 266	$ 409	121.2	129.2	106.6%	$ 436
Curtis, Mallet-Prevost, Colt & Mosle	New York, NY	$ 800	$ 480	$ 200	$ 360	$ 560	221.3	129.2	58.4%	$ 327
Davis Graham & Stubbs	Denver, CO	$ 435	$ 255	$ 109	$ 191	$ 300	104.0	129.2	124.2%	$ 373
Davis Polk & Wardwell	New York, NY	$ 975	$ 615	$ 244	$ 461	$ 705	221.3	129.2	58.4%	$ 412
Debevoise & Plimpton	New York, NY	$ 1,055	$ 490	$ 264	$ 368	$ 631	221.3	129.2	58.4%	$ 368
Dechert	New York, NY	$ 900	$ 530	$ 225	$ 398	$ 623	221.3	129.2	58.4%	$ 363
Dentons	New York, NY	$ 700	$ 425	$ 175	$ 319	$ 494	221.3	129.2	58.4%	$ 288
Dickstein Shapiro	Washington, DC	$ 750	$ 475	$ 188	$ 356	$ 544	141.6	129.2	91.2%	$ 496
Dinsmore & Shohl	Cincinnati, OH	$ 411	$ 238	$ 103	$ 179	$ 281	91.8	129.2	140.8%	$ 396
DLA Piper	New York, NY	$ 765	$ 510	$ 191	$ 383	$ 574	221.3	129.2	58.4%	$ 335
Dorsey & Whitney	Minneapolis, MN	$ 435	$ 315	$ 109	$ 236	$ 345	110.3	129.2	117.1%	$ 404
Duane Morris	Philadelphia, PA	$ 589	$ 373	$ 147	$ 280	$ 427	121.2	129.2	106.6%	$ 455
Edwards Wildman Palmer	Boston, MA	$ 535	$ 325	$ 134	$ 244	$ 378	140.1	129.2	92.2%	$ 348
Faegre Baker Daniels	Minneapolis, MN	$ 455	$ 260	$ 114	$ 195	$ 309	110.3	129.2	117.1%	$ 361
Foley & Lardner	Milwaukee, WI	$ 600	$ 335	$ 150	$ 251	$ 401	101.7	129.2	127.0%	$ 510
Foley Hoag	Boston, MA	$ 670	$ 325	$ 168	$ 244	$ 411	140.1	129.2	92.2%	$ 379
Fox Rothschild	Philadelphia, PA	$ 530	$ 310	$ 133	$ 233	$ 365	121.2	129.2	106.6%	$ 389
Fried, Frank, Harris, Shriver & Jacobson	New York, NY	$ 1,000	$ 595	$ 250	$ 446	$ 696	221.3	129.2	58.4%	$ 406
Frost Brown Todd	Cincinnati, OH	$ 387	$ 234	$ 97	$ 176	$ 272	91.8	129.2	140.8%	$ 383
Gardere Wynne Sewell	Dallas, TX	$ 635	$ 303	$ 159	$ 227	$ 386	95.7	129.2	134.9%	$ 521

New York American Water Company
Estimated Billing Rates for New York Attorneys

2014 Hourly Billing Rates		2014 Avg Billing Rates (Note A)		Weighted Average Rate Calculation			Cost of Living (COL) Adjustment			
				0.25	0.75	(X)	COL Indices (Note B)		(Y)	(X x Y)
Firm Name	Location	Partner	Associate	Partner	Associate	Weighted Average	Law Firm City	NYAWC - Lynbrook, NY	COL Adjustment	Adjusted Rate
Gibbons	Newark, NJ	$ 560	$ 360	$ 140	$ 270	$ 410	128.4	129.2	100.6%	$ 413
Gibson, Dunn & Crutcher	New York, NY	$ 980	$ 590	$ 245	$ 443	$ 688	221.3	129.2	58.4%	$ 401
Gordon Rees Scully Mansukhani	San Diego, CA	$ 420	$ 300	$ 105	$ 225	$ 330	129.2	129.2	100.0%	$ 330
Greenberg Traurig	New York, NY	$ 763	$ 470	$ 191	$ 353	$ 543	221.3	129.2	58.4%	$ 317
Harris Beach	Rochester, NY	$ 348	$ 230	$ 87	$ 173	$ 260	99.9	129.2	129.3%	$ 336
Harter Secrest & Emery	Rochester, NY	$ 385	$ 250	$ 96	$ 188	$ 284	99.9	129.2	129.3%	$ 367
Haynes and Boone	Dallas, TX	$ 670	$ 405	$ 168	$ 304	$ 471	95.7	129.2	134.9%	$ 636
Holland & Hart	Denver, CO	$ 442	$ 277	$ 111	$ 208	$ 318	104.0	129.2	124.2%	$ 395
Holland & Knight	Washington, DC	$ 625	$ 340	$ 156	$ 255	$ 411	141.6	129.2	91.2%	$ 375
Honigman Miller Schwartz and Cohn	Detroit, MI	$ 390	$ 220	$ 98	$ 165	$ 263	96.1	129.2	134.4%	$ 353
Hughes Hubbard & Reed	New York, NY	$ 890	$ 555	$ 223	$ 416	$ 639	221.3	129.2	58.4%	$ 373
Husch Blackwell	St. Louis, MO	$ 449	$ 275	$ 112	$ 206	$ 319	94.4	129.2	136.8%	$ 436
Ice Miller	Indianapolis, IN	$ 450	$ 270	$ 113	$ 203	$ 315	91.1	129.2	141.8%	$ 447
Irell & Manella	Los Angeles, CA	$ 890	$ 535	$ 223	$ 401	$ 624	131.0	129.2	98.6%	$ 615
Jackson Kelly	Charleston, WV	$ 345	$ 243	$ 86	$ 182	$ 269	93.7	129.2	137.8%	$ 370
Jackson Lewis	Los Angeles, CA	$ 380	$ 290	$ 95	$ 218	$ 313	131.0	129.2	98.6%	$ 308
Jackson Walker	Dallas, TX	$ 622	$ 335	$ 156	$ 251	$ 407	95.7	129.2	134.9%	$ 549
Jenner & Block	Chicago, IL	$ 745	$ 465	$ 186	$ 349	$ 535	117.4	129.2	110.0%	$ 589
Jones Day	New York, NY	$ 745	$ 435	$ 186	$ 326	$ 513	221.3	129.2	58.4%	$ 299
Jones Walker	New Orleans, LA	$ 385	$ 225	$ 96	$ 169	$ 265	98.2	129.2	131.6%	$ 349
Kasowitz, Benson, Torres & Friedman	New York, NY	$ 835	$ 340	$ 209	$ 255	$ 464	221.3	129.2	58.4%	$ 271
Katten Muchin Rosenman	Chicago, IL	$ 615	$ 455	$ 154	$ 341	$ 495	117.4	129.2	110.0%	$ 545
Kaye Scholer	New York, NY	$ 860	$ 597	$ 215	$ 448	$ 663	221.3	129.2	58.4%	$ 387
Kelley Drye & Warren	New York, NY	$ 640	$ 430	$ 160	$ 323	$ 483	221.3	129.2	58.4%	$ 282
Kilpatrick Townsend & Stockton	Atlanta, GA	$ 550	$ 385	$ 138	$ 289	$ 426	93.5	129.2	138.1%	$ 589
King & Spalding	Atlanta, GA	$ 775	$ 460	$ 194	$ 345	$ 539	93.5	129.2	138.1%	$ 744
Kirkland & Ellis	Chicago, IL	$ 825	$ 540	$ 206	$ 405	$ 611	117.4	129.2	110.0%	$ 672
Knobbe Martens Olson & Bear	Irvine, CA	$ 575	$ 360	$ 144	$ 270	$ 414	140.7	129.2	91.8%	$ 380
Kramer Levin Naftalis & Frankel	New York, NY	$ 921	$ 675	$ 230	$ 506	$ 737	221.3	129.2	58.4%	$ 430
Lane Powell	Seattle, WA	$ 516	$ 331	$ 129	$ 248	$ 377	117.5	129.2	110.0%	$ 415
Latham & Watkins	New York, NY	$ 990	$ 605	$ 248	$ 454	$ 701	221.3	129.2	58.4%	$ 409
Lathrop & Gage	Kansas City, MO	$ 420	$ 250	$ 105	$ 188	$ 293	89.5	129.2	144.4%	$ 422
Lewis Roca Rothgerber	Phoenix, AZ	$ 505	$ 400	$ 126	$ 300	$ 426	97.3	129.2	132.8%	$ 566
Lindquist & Vennum	Minneapolis, MN	$ 520	$ 365	$ 130	$ 274	$ 404	110.3	129.2	117.1%	$ 473
Littler Mendelson	San Francisco, CA	$ 550	$ 290	$ 138	$ 218	$ 355	159.9	129.2	80.8%	$ 287
Lowenstein Sandler	Roseland, NJ	$ 765	$ 450	$ 191	$ 338	$ 529	128.4	129.2	100.6%	$ 532
McCarter & English	Newark, NJ	$ 530	$ 300	$ 133	$ 225	$ 358	128.4	129.2	100.6%	$ 360
McElroy, Deutsch, Mulvaney & Carpenter	Morristown, NJ	$ 445	$ 295	$ 111	$ 221	$ 333	133.0	129.2	97.1%	$ 323
McGuireWoods	Richmond, VA	$ 595	$ 360	$ 149	$ 270	$ 419	99.7	129.2	129.6%	$ 543
McKenna Long & Aldridge	Atlanta, GA	$ 530	$ 395	$ 133	$ 296	$ 429	93.5	129.2	138.1%	$ 592
Michael, Best & Friedrich	Milwaukee, WI	$ 445	$ 283	$ 111	$ 212	$ 324	101.7	129.2	127.0%	$ 411
Miles & Stockbridge	Baltimore, MD	$ 478	$ 290	$ 120	$ 218	$ 337	111.3	129.2	116.1%	$ 391
Moore & Van Allen	Charlotte, NC	$ 490	$ 280	$ 123	$ 210	$ 333	96.1	129.2	134.4%	$ 447
Morgan, Lewis & Bockius	Philadelphia, PA	$ 620	$ 390	$ 155	$ 293	$ 448	121.2	129.2	106.6%	$ 477
Morrison & Foerster	San Francisco, CA	$ 865	$ 525	$ 216	$ 394	$ 610	159.9	129.2	80.8%	$ 493
Nelson Mullins	Columbia, SC	$ 444	$ 271	$ 111	$ 203	$ 314	95.7	129.2	134.9%	$ 424
Nixon Peabody	Boston, MA	$ 520	$ 300	$ 130	$ 225	$ 355	140.1	129.2	92.2%	$ 327
Norris McLaughlin & Marcus	Bridgewater, NJ	$ 495	$ 275	$ 124	$ 206	$ 330	122.2	129.2	105.7%	$ 349
Norton Rose Fulbright	Houston, TX	$ 775	$ 400	$ 194	$ 300	$ 494	99.0	129.2	130.5%	$ 645
Nossaman	Los Angeles, CA	$ 579	$ 340	$ 145	$ 255	$ 400	131.0	129.2	98.6%	$ 394
Nutter McClennen & Fish	Boston, MA	$ 575	$ 375	$ 144	$ 281	$ 425	140.1	129.2	92.2%	$ 392

New York American Water Company
Estimated Billing Rates for New York Attorneys

2014 Hourly Billing Rates

Firm Name	Location	2014 Avg Billing Rates (Note A) Partner	Associate	Weighted Average Rate Calculation 0.25 Partner	0.75 Associate	(X) Weighted Average	Cost of Living (COL) Adjustment: COL Indices (Note B) Law Firm City	NYAWC - Lynbrook, NY	(Y) COL Adjustment	(X x Y) Adjusted Rate
Ogletree Deakins	Atlanta, GA	$ 360	$ 260	$ 90	$ 195	$ 285	93.5	129.2	138.1%	$ 394
Orrick Herrington & Sutcliffe	New York, NY	$ 845	$ 560	$ 211	$ 420	$ 631	221.3	129.2	58.4%	$ 368
Paul Hastings	New York, NY	$ 815	$ 540	$ 204	$ 405	$ 609	221.3	129.2	58.4%	$ 355
Paul, Weiss, Rifkind, Wharton & Garrison	New York, NY	$ 1,040	$ 678	$ 260	$ 509	$ 769	221.3	129.2	58.4%	$ 449
Pepper Hamilton	Philadelphia, PA	$ 645	$ 390	$ 161	$ 293	$ 454	121.2	129.2	106.6%	$ 484
Perkins Coie	Seattle, WA	$ 615	$ 425	$ 154	$ 319	$ 473	117.5	129.2	110.0%	$ 520
Pillsbury Winthrop Shaw Pittman	Washington, DC	$ 865	$ 520	$ 216	$ 390	$ 606	141.6	129.2	91.2%	$ 553
Polsinelli	Kansas City, MO	$ 435	$ 279	$ 109	$ 209	$ 318	89.5	129.2	144.4%	$ 459
Proskauer Rose	New York, NY	$ 880	$ 465	$ 220	$ 349	$ 569	221.3	129.2	58.4%	$ 332
Quarles & Brady	Milwaukee, WI	$ 519	$ 335	$ 130	$ 251	$ 381	101.7	129.2	127.0%	$ 484
Quinn Emanuel Urquhart & Sullivan	New York, NY	$ 915	$ 410	$ 229	$ 308	$ 536	221.3	129.2	58.4%	$ 313
Reed Smith	Pittsburgh, PA	$ 737	$ 420	$ 184	$ 315	$ 499	92.2	129.2	140.1%	$ 699
Richards, Layton & Finger	Wilmington, DE	$ 678	$ 414	$ 170	$ 311	$ 480	108.4	129.2	119.2%	$ 572
Riker Danzig Scherer Hyland & Perretti	Morristown, NJ	$ 455	$ 250	$ 114	$ 188	$ 301	133.0	129.2	97.1%	$ 293
Robinson & Cole	Hartford, CT	$ 500	$ 300	$ 125	$ 225	$ 350	122.5	129.2	105.5%	$ 369
Rutan & Tucker	Costa Mesa, CA	$ 490	$ 320	$ 123	$ 240	$ 363	140.7	129.2	91.8%	$ 333
Saul Ewing	Philadelphia, PA	$ 546	$ 344	$ 137	$ 258	$ 395	121.2	129.2	106.6%	$ 420
Sedgwick	San Francisco, CA	$ 425	$ 325	$ 106	$ 244	$ 350	159.9	129.2	80.8%	$ 283
Seward & Kissel	New York, NY	$ 735	$ 400	$ 184	$ 300	$ 484	221.3	129.2	58.4%	$ 282
Seyfarth Shaw	Chicago, IL	$ 610	$ 365	$ 153	$ 274	$ 426	117.4	129.2	110.0%	$ 469
Sheppard Mullin Richter & Hampton	Los Angeles, CA	$ 685	$ 415	$ 171	$ 311	$ 483	131.0	129.2	98.6%	$ 476
Shumaker Loop & Kendrick	Toledo, OH	$ 413	$ 256	$ 103	$ 192	$ 295	93.5	129.2	138.2%	$ 408
Shutts & Bowen	Miami, FL	$ 430	$ 260	$ 108	$ 195	$ 303	107.2	129.2	120.5%	$ 364
Skadden, Arps, Slate, Meagher & Flom	New York, NY	$ 1,035	$ 620	$ 259	$ 465	$ 724	221.3	129.2	58.4%	$ 422
Snell & Wilmer	Phoenix, AZ	$ 525	$ 280	$ 131	$ 210	$ 341	97.3	129.2	132.8%	$ 453
Squire Patton Boggs	Washington, DC	$ 655	$ 355	$ 164	$ 266	$ 430	141.6	129.2	91.2%	$ 392
Sterne, Kessler, Goldstein & Fox	Washington, DC	$ 577	$ 346	$ 144	$ 260	$ 404	141.6	129.2	91.2%	$ 368
Stoel Rives	Portland, OR	$ 492	$ 287	$ 123	$ 215	$ 338	119.1	129.2	108.5%	$ 367
Strasburger & Price	Dallas, TX	$ 435	$ 270	$ 109	$ 203	$ 311	95.7	129.2	134.9%	$ 420
Stroock & Stroock & Lavan	New York, NY	$ 960	$ 549	$ 240	$ 412	$ 652	221.3	129.2	58.4%	$ 380
Taft Stettinius & Hollister	Cincinnati, OH	$ 415	$ 285	$ 104	$ 214	$ 318	91.8	129.2	140.8%	$ 447
Thompson & Knight	Dallas, TX	$ 535	$ 370	$ 134	$ 278	$ 411	95.7	129.2	134.9%	$ 555
Thompson Coburn	St. Louis, MO	$ 440	$ 270	$ 110	$ 203	$ 313	94.4	129.2	136.8%	$ 428
Troutman Sanders	Atlanta, GA	$ 620	$ 340	$ 155	$ 255	$ 410	93.5	129.2	138.1%	$ 566
Venable	Washington, DC	$ 660	$ 430	$ 165	$ 323	$ 488	141.6	129.2	91.2%	$ 445
Vinson & Elkins	Houston, TX	$ 600	$ 390	$ 150	$ 293	$ 443	99.0	129.2	130.5%	$ 578
Waller Lansden Dortch & Davis	Nashville, TN	$ 460	$ 245	$ 115	$ 184	$ 299	86.3	129.2	149.7%	$ 447
Weil, Gotshal & Manges	New York, NY	$ 930	$ 600	$ 233	$ 450	$ 683	221.3	129.2	58.4%	$ 398
White & Case	New York, NY	$ 875	$ 525	$ 219	$ 394	$ 613	221.3	129.2	58.4%	$ 358
Wiley Rein	Washington, DC	$ 665	$ 445	$ 166	$ 334	$ 500	141.6	129.2	91.2%	$ 456
Williams Mullen	Richmond, VA	$ 385	$ 295	$ 96	$ 221	$ 318	99.7	129.2	129.6%	$ 411
Willkie Farr & Gallagher	New York, NY	$ 950	$ 580	$ 238	$ 435	$ 673	221.3	129.2	58.4%	$ 393
Wilmer Cutler Pickering Hale and Dorr	Washington, DC	$ 905	$ 290	$ 226	$ 218	$ 444	141.6	129.2	91.2%	$ 405
Winston & Strawn	Chicago, IL	$ 800	$ 520	$ 200	$ 390	$ 590	117.4	129.2	110.0%	$ 649
Wolff & Samson	West Orange, NJ	$ 400	$ 340	$ 100	$ 255	$ 355	128.4	129.2	100.6%	$ 357

Overall 2014 Average Hourly Billing Rate	$ 434
Escalation to Test Period Midpoint (June 30, 2015)	
CPI at December 31, 2014	234.8
CPI at June 30, 2015	238.6
Inflation/Escalation (Note C)	1.6%
Average Hourly Billing Rate For Attorneys At June 30, 2015	**$ 441**

Note A: Source is National Law Journal

Note B: Cost of Living Indes, Source Council for Community and Economic Research (2013 edition)

Note C: Source is U.S. Bureau of Labor Statistics (http://data.bls.gov/cgi-bin/surveymost)

Exhibit 6

New York American Water Company

Billing Rates of U.S. Management Consultants

Survey billing rates in effect in 2014 (Note A)

A. Calculation of Average Hourly Billing Rate by Consultant Position

	Average Hourly Rates (Note A)				
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
Average	$ 151	$ 218	$ 273	$ 310	$ 358

B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement

	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	$ 151	$218	$273	$310	$358	
Percent of Consulting Assignment	30%	30%	20%	10%	10%	Weighted Average
	$ 45	$ 65	$ 55	$ 31	$ 36	**$ 232**

Escalation to Test Period Midpoint (June 30, 2015)	
CPI at December 31, 2014	234.8
CPI at June 30, 2015	238.7
Inflation/Escalation (Note B)	1.6%
Average Hourly Billing Rate For Management Consultants At June 30, 2015	**$ 236**

Note A: Source is "Operating Ratios For Management Consulting Firms, 2015 Edition," Association of Management Consulting Firms

Note B: Source is U.S. Bureau of Labor Statistics (http://data.bls.gov/cgi-bin/surveymost)

Exhibit 7

New York American Water Company

Billing Rates Of New York Certified Public Accountants

A. Calculation of Average Hourly Billing Rate by Public Accounting Position

Survey billing rates were those in effect in 2013 (Note A)

	Average Hourly Billing Rate (Note A)				
	Staff Accountant	Senior Accountant	Director/ Manager	Partner	
Average Hourly Billing Rate by CPA Firm Position	$ 114	$ 144	$ 175	$ 278	
					Weighted Average
Percent of Accounting Assignment	30%	30%	20%	20%	
	$ 34	$ 43	$ 35	$ 56	**$ 168**

Escalation to Test Period Midpoint (June 30, 2015)	
CPI at December 31, 2013	233.0
CPI at June 30, 2015	238.6
Inflation/Escalation (Note B)	2.4%
Average Hourly Billing Rate For Management Consultants At June 30, 2015	**$ 172**

Note A: Source is AICPA's 2014 National PCPS/TSCPA Management of an Accounting Practice Survey (New York edition)

Note B: Source is U.S. Bureau of Labor Statistics (http://data.bls.gov/cgi-bin/surveymost)

Exhibit 8

New York American Water Company

Billing Rates of Information Technology Professionals

A. Calculation of Average Hourly Billing Rate by Information Technology Position

Survey billing rates were those in effect in 2015 (Note A)

	Average Hourly Billing Rate (Note A)					
	Contractor Positions		Consultant Positions			
	Contractor	Senior Contractor	Associate	Manager	Partner	
Average Hourly Billing Rate by IT Position Category	$ 100	$ 160	$ 255	$ 345	$ 450	
Percent of IT Assignment	30%	30%	20%	10%	10%	Weighted Average
	$ 30	$ 48	$ 51	$ 35	$ 45	**$ 209**

Average Hourly Billing Rate For IT Professionals During 2015 **$ 209**

Note A: Source is Baryenbruch & Company, LLC

Exhibit 9

New York American Water Company
Billing Rates Of New York Engineers

A. Calculation of Average 2015 Hourly Rate by Engineer Position (Note A)

	Average Hourly Billing Rates			
Firm	Technician Senior Technician	Engineer Design Engineer Project Engineer	Project Manager Sr. Mgr. Engineer	Officer Principal Engineer
Firm #1	$98	$117	$182	$216
Firm #2	$72	$89	$154	$195
Firm #3	$148	$166	$268	$355
Firm #4	$96	$117	$189	$242
Firm #5	$99	$108	$144	$180
Firm #6	$70	$115	na	na
Firm #7	$88	$106	$137	$163
Firm #8	$84	$98	$188	$231
Firm #9	$73	$94	$156	$186
Firm #10	$119	$117	$159	na
Firm #11	$145	$153	$198	$281
Firm #12	$98	$110	$156	$205
Firm #13	$86	$129	$199	$245
Firm #14	$89	$106	$154	$212
Firm #15	$100	$110	$138	$182
Firm #16	$132	$175	$227	$235
Firm #17	$92	$118	$187	$250
Firm #18	$93	$119	$163	$215
Firm #19	$94	$110	$153	$201

B. Calculation of Overall Average Engineering Hourly Billing Rate

	Technician Senior Technician	Engineer Design Engineer Project Engineer	Project Manager Sr. Mgr. Engineer	Officer Principal Engineer	
Average Hourly Billing Rate (From Above)	$99	$119	$175	$223	
Typical Percent of Time on an Engineering Assignment	30%	35%	25%	10%	Weighted Average
	$30	$42	$44	$22	**$137**

Note A: Source is information provided by New York American Water Company

V – Question 2 – Provision of Services at the Lower of Cost or Market

Service Company versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

	12 Months Ended December 31, 2015		
Service Provider	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	$ 186	$ 441	$ (255)
Management Consultant	$ 155	$ 236	$ (81)
Certified Public Accountant	$ 77	$ 172	$ (95)
IT Professional	$ 105	$ 209	$ (104)
Professional Engineer	$ 89	$ 137	$ (48)

Based on these cost-per-hour differentials and the number of managerial and professional services hours billed to NYAW during 2015, outside service providers would have cost $5,012,306 more than the Service Company (see table below). Thus, on average, outside providers' hourly rates are 57% higher than those of the Service Company ($5,012,306 / $8,734,299).

	12 Months Ended December 31, 2015		
Service Provider	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	$ (255)	1,853	$ (472,573)
Management Consultant	$ (81)	7,772	$ (629,502)
Certified Public Accountant	$ (95)	18,394	$ (1,747,445)
IT Professional	$ (104)	15,941	$ (1,657,860)
Professional Engineer	$ (48)	10,519	$ (504,925)
Service Company Less Than Outside Providers			$ (5,012,306)

It should be noted that the cost differential associated with using outside providers is even greater because exempt Service Company personnel do not charge more than 8 hours per day even when they work more. Outside providers generally charge clients for all hours worked. Thus, NYAW would have been charged by outside providers for overtime worked by Service Company personnel who are not paid for that time.

If NYAW were to use outside service providers rather than the Service Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform more than 54,400 hours of work (around 36 full-time equivalents at 1,500 "billable" hours per FTE per year) would add a significant workload to the existing NYAW management team. Thus, it would be necessary for NYAW to add at least one position to supervise the outside firms and ensure they deliver quality and timely services. The individual who would fill this position would need a good understanding of each profession being managed. The person must also have management experience and the authority necessary to give them credibility with the outside firms. As calculated in the table below, the position would add $149,000 per year to NYAW's personnel expenses.

V – Question 2 – Provision of Services at the Lower of Cost or Market

Cost of Adding 1 Professional Position To NYAWC Staff

	Total
New Position's Salary	$ 100,000
Benefits (at 49%)	$ 49,000
Office Expenses (15%)	$ 15,000
Total Cost of Full Time Position	$ 149,000

Thus, the total effect on the ratepayers of NYAW of contracting all services now provided by Service Company would be an increase in their costs of $5,161,306 ($5,012,306 + $149,000). Based on the results of this comparison, it is possible to conclude that the Service Company charged NYAW at the lower of cost or market for services provided during 2015.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

Methodology

Customer Accounts Services involve the processes that occur from the time meter-read data is recorded in the customer information system through the printing and mailing of bills, concluding with the collection and processing of customer payments. Customer Accounts Services are accomplished by the following utility functions:

- Customer Call Center Operations – customer calls/contact, credit, order taking/disposition, bill collection efforts and outage calls
- Customer Call Center Maintenance – support of phone banks, voice recognition units, call center software applications and telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing customer payments received in the mail
- Bill payment centers – processing customer payments at locations where customers can pay their bills in person

Neighboring electric utility cost information comes from the FERC Form 1 that each utility subject to FERC regulation must file. FERC's chart of accounts is defined in Chapter 18, Part 101 of the Code of Federal Regulations. FERC accounts that contain expenses related to customer accounts services are Account 903 Customer Accounts Expense – Records and Collection Expense and Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense. Exhibit 11 provides FERC's definition of the type of expenses that should be recorded in these accounts.

In addition to the charges in these FERC accounts, labor-related overhead charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905:

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA)

Comparison Group

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 reports show amounts for accounts 903 and 905.

New York	• Central Hudson Gas & Electric • Consolidated Edison • New York State Electric & Gas	• Niagara Mohawk Power • Orange & Rockland Utilities • Rochester Gas & Electric
Pennsylvania	• Duquesne Light • Metropolitan Edison • PECO Energy • Pennsylvania Electric	• Pennsylvania Power • PPL Electric • West Penn Power
New Jersey	• Atlantic City Electric • Jersey Central Power	• Public Service Electric & Gas • Rockland Electric
Connecticut	• Connecticut Light & Power	• United Illuminating
Massachusetts	• Fitchburg Gas & Electric • Massachusetts Electric	• Western Mass Electric
Vermont	• Central Vermont Pub Svc	• Green Mountain Power

New York American Water Company
FERC Account Descriptions

903 – Customer Records and Collection Expenses

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

New York American Water Company
FERC Account Descriptions

905 – Miscellaneous Customer Accounts Expenses
This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

NYAW's Cost per Customer

As calculated below, NYAW's customer accounts services expense per customer was $21.61 for 2015. The cost pool used to calculate this average includes charges for Service Company services (e.g., call center, billing, payment processing) and postage and forms expenses, which are incurred directly by NYAW. It was necessary to adjust the Service Company's National Call Center charges because electric utilities experience an average of 2.50 calls per customer compared to American Water's 1.01 calls per customer in 2015. Thus, National Call Center expenses was increased, for comparison purposes, to reflect its costs if it has 2.50 calls per customer.

New York American Water 2015 Cost Per Customer	Cost Component	Year Ended 12/31/15 Service Co Charges	Adjustment Fewer Calls For Water Cos. (A)	Adjusted	
Service Company					
Call Centers	Call processing, order processing, credit, bill collection	$ 1,270,455	$ 664,044	$ 1,934,499	
Operating Company	Customer payment processing			$ 158,520	Note B
Operating Company	Postage & forms			$ 599,961	
			Cost Pool Total	$ 2,692,981	
			Total Customers	124,597	
	12 Months Ended December 31, 2015 Cost Per NYAWC Customer			**$ 21.61**	

Note A: Adjustment for American Water's fewer calls per customer

This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities

Call handling expenses		$ 451,331
Electric utility industry's avg calls/customer	2.50	
American Water's avg calls/customer	1.01	
Percent different	147%	147%
Total Adjustment		$ 664,044

Note B: Estimated customer payment processing expenses

Number of customers	124,597
Number of payments/customer/year	9.40
Total payments processed/year	1,171,620
Bank charge per item	$ 0.1353
Total estimated annual expense	$ 158,520

Electric Utility Group Cost per Customer

Exhibit 12 (pages 34-37) shows the calculation of customer accounts expense per customer for 2014 for the electric utility comparison group. All of the underlying data was taken from the utilities' FERC Form 1.

VI - Question 3 - Reasonableness of Customer Accounts Services Costs

Summary of Results

As shown in the table below, NYAW's cost per customer is well below than the 2014 average cost of the neighboring electric utility comparison group. It can be concluded that NYAW's 2015 customer accounts expenses, including those of the Alton and Pensacola Call Centers, assigned by the Service Company to NYAW are comparable to those of other utilities.

Average Customer Accounts Expense Per Customer	
Pennsylvania Power	$ 18.17
Metropolitan Edison	$ 19.25
Pennsylvania Electric	$ 19.91
New York American Water	**$ 21.61**
Green Mountain Power	$ 22.43
Jersey Central Power	$ 25.90
Duquesne Light	$ 26.05
West Penn Power	$ 26.42
Nstar	$ 26.53
PPL Electric Utilities	$ 35.05
Niagra Mohawk Power	$ 36.23
United Illuminating	$ 38.66
New York State Electric & Gas	$ 39.58
Rochester Gas& Electric	$ 40.31
Connecticut Light & Power	$ 49.63
Fitchburg Gas & Electric	$ 50.46
Comparison Group Average	**$ 50.46**
Western Mass Electric	$ 51.09
PECO Energy	$ 54.31
Consolidated Edison	$ 58.13
Central Hudson Gas & Electric	$ 65.37
Orange & Rockland Utilities	$ 75.77
Atlantic City Electric	$ 80.62
Public Service Electric & Gas	$109.96

New York American Water Company
Comparison Group 2014 Actual Customer Accounts Expense Per Customer

	New York					
	Central Hudson Gas & Electric	Consolidated Edison	New York State Electric & Gas	Niagra Mohawk Power	Orange & Rockland Utilities	Rochester Gas & Electric
Customer Account Management Cost Pool						
FERC Account Balances:						
Account 903 - Customer Records & Collection (page 322, line 161)	$ 11,771,507	$ 121,879,128	$ 19,778,980	$ 36,884,965	$ 12,254,055	$ 9,874,360
Account 905 - Misc Customer Accounts (page 322, line 163)	$ 958,088	$ 626,959	$ 13,946,654	$ 538,623	$ 81,774	$ 5,130,425
Subtotal	$ 12,729,595	$ 122,506,087	$ 33,725,634	$ 37,423,588	$ 12,335,829	$ 15,004,785
Add: Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits **Note A**	$ 2,885,821	$ 65,944,552	$ 203,928	$ 6,829,936	$ 4,295,080	$ (358,308)
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) **Note B**	$ 553,072	$ 7,331,070	$ 1,043,453	$ 1,509,117	$ 554,919	$ 357,359
Total Cost Pool	**$ 16,168,488**	**$ 195,781,709**	**$ 34,973,015**	**$ 45,762,641**	**$ 17,185,828**	**$ 15,003,837**
Total Customers (page 304, line 43)	247,333	3,367,759	883,559	1,262,994	226,809	372,237
Customer Account Services Expense per Customer	**$ 65.37**	**$ 58.13**	**$ 39.58**	**$ 36.23**	**$ 75.77**	**$ 40.31**
Note A: Calc of Pension & Benefits Pertaining to Cust Acct Svcs						
Account 926 - Employee Pension & Benefits (page 323, line 187)	$ 28,158,073	$ 508,587,448	$ 1,823,062	$ 99,580,924	$ 41,569,623	$ (3,841,252)
Total O&M Payroll (page 355, line 65)	$ 70,542,979	$ 739,082,059	$ 121,937,089	$ 287,621,263	$ 70,205,852	$ 50,079,530
Benefits as Percent of Payroll	39.9%	68.8%	1.5%	34.6%	59.2%	-7.7%
Payroll Applicable to Customer Account Services						
Total Payroll Charged to Customer Accounts Function						
Electric (page 354, line 7)	$ 8,541,575	$ 119,376,956	$ 18,156,539	$ 21,053,013	$ 8,738,568	$ 5,578,446
Percent Applicable to Customer Accounts Services (903 and 905):						
Account 903 - Customer Records & Collection (page 322, line 161)	$ 11,771,507	$ 121,879,128	$ 19,778,980	$ 36,884,965	$ 12,254,055	$ 9,874,360
Account 905 - Misc Customer Accounts (page 322, line 163)	$ 958,088	$ 626,959	$ 13,946,654	$ 538,623	$ 81,774	$ 5,130,425
Subtotal - Total Charges Applicable to Customer Accounts Services	$ 12,729,595	$ 122,506,087	$ 33,725,634	$ 37,423,588	$ 12,335,829	$ 15,004,785
Account 902 - Meter Reading Expenses (page 322, line 160)	$ 2,309,868	$ 30,100,129	$ 11,167,686	$ 2,515,505	$ 2,524,902	$ 2,913,619
Total Charges Applicable to Customer Acccounts Svcs & Meter Reading	$ 15,039,463	$ 152,606,216	$ 44,893,320	$ 39,939,093	$ 14,860,731	$ 17,918,404
Percent Applicable to Customer Accounts Services (903 and 905)	84.6%	80.3%	75.1%	93.7%	83.0%	83.7%
Customer Account Services Portion of Total Payroll	$ 7,229,699	$ 95,830,983	$ 13,639,909	$ 19,727,020	$ 7,253,848	$ 4,671,364
Pension & Benefits Pertaining to Customer Accounts Services	$ 2,885,821	$ 65,944,552	$ 203,928	$ 6,829,936	$ 4,295,080	$ (358,308)
Note B: Calculation of Employer's FICA Pertaining to Customer Acct Svcs						
Customer Account Services Portion of Total Payroll	$ 7,229,699	$ 95,830,983	$ 13,639,909	$ 19,727,020	$ 7,253,848	$ 4,671,364
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	$ 553,072	$ 7,331,070	$ 1,043,453	$ 1,509,117	$ 554,919	$ 357,359

New York American Water Company
Comparison Group 2014 Actual Customer Accounts Expense Per Customer

	Pennsylvania						
	Duquesne Light	Metropolitan Edison	PECO Energy	Pennsylvania Electric	Pennsylvania Power	PPL Electric Utilities	West Penn Power
Customer Account Management Cost Pool							
FERC Account Balances:							
Account 903 - Customer Records & Collection (page 322, line 161)	$ 10,219,052	$ 6,390,401	$ 57,894,079	$ 6,803,691	$ 1,753,182	$ 39,398,215	$ 12,349,994
Account 905 - Misc Customer Accounts (page 322, line 163)	$ -	$ 213,065	$ 21,370,286	$ 238,517	$ 48,786	$ 2,015,225	$ 129,282
Subtotal	$ 10,219,052	$ 6,603,466	$ 79,264,365	$ 7,042,208	$ 1,801,968	$ 41,413,440	$ 12,479,276
Add: Employee Benefits & Employer FICA (not included in above amounts)							
Account 926 - Employee Pension & Benefits **Note A**	$ 4,502,171	$ 3,911,697	$ 5,329,467	$ 4,476,977	$ 1,092,802	$ 6,323,134	$ 6,290,287
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) **Note B**	$ 682,507	$ 200,141	$ 2,023,038	$ 197,801	$ 51,018	$ 1,836,423	$ 249,474
Total Cost Pool	**$ 15,403,730**	**$ 10,715,304**	**$ 86,616,870**	**$ 11,716,985**	**$ 2,945,788**	**$ 49,572,997**	**$ 19,019,037**
Total Customers (page 304, line 43)	591,422	556,577	1,594,763	588,587	162,163	1,414,297	719,944
Customer Account Services Expense per Customer	**$ 26.05**	**$ 19.25**	**$ 54.31**	**$ 19.91**	**$ 18.17**	**$ 35.05**	**$ 26.42**
Note A: Calc of Pension & Benefits Pertaining to Cust Acct Svcs							
Account 926 - Employee Pension & Benefits (page 323, line 187)	$ 32,357,990	$ 34,233,635	$ 37,729,190	$ 45,181,103	$ 9,839,313	$ 23,964,624	$ 44,354,791
Total O&M Payroll (page 355, line 65)	$ 64,121,782	$ 22,896,116	$ 187,213,129	$ 26,093,891	$ 6,004,629	$ 90,980,746	$ 22,994,983
Benefits as Percent of Payroll	50.5%	149.5%	20.2%	173.1%	163.9%	26.3%	192.9%
Payroll Applicable to Customer Account Services							
Total Payroll Charged to Customer Accounts Function							
Electric (page 354, line 7)	$ 12,012,904	$ 4,340,377	$ 28,858,250	$ 4,272,311	$ 1,138,583	$ 25,353,534	$ 5,039,268
Percent Applicable to Customer Accounts Services (903 and 905):							
Account 903 - Customer Records & Collection (page 322, line 161)	$ 10,219,052	$ 6,390,401	$ 57,894,079	$ 6,803,691	$ 1,753,182	$ 39,398,215	$ 12,349,994
Account 905 - Misc Customer Accounts (page 322, line 163)	$ -	$ 213,065	$ 21,370,286	$ 238,517	$ 48,786	$ 2,015,225	$ 129,282
Subtotal - Total Charges Applicable to Customer Accounts Services	$ 10,219,052	$ 6,603,466	$ 79,264,365	$ 7,042,208	$ 1,801,968	$ 41,413,440	$ 12,479,276
Account 902 - Meter Reading Expenses (page 322, line 160)	$ 3,540,764	$ 4,351,862	$ 7,233,503	$ 4,593,823	$ 1,274,475	$ 2,325,527	$ 6,804,577
Total Charges Applicable to Customer Acccounts Svcs & Meter Reading	$ 13,759,816	$ 10,955,328	$ 86,497,868	$ 11,636,031	$ 3,076,443	$ 43,738,967	$ 19,283,853
Percent Applicable to Customer Accounts Services (903 and 905)	74.3%	60.3%	91.6%	60.5%	58.6%	94.7%	64.7%
Customer Account Services Portion of Total Payroll	$ 8,921,667	$ 2,616,219	$ 26,444,939	$ 2,585,633	$ 666,903	$ 24,005,529	$ 3,261,092
Pension & Benefits Pertaining to Customer Accounts Services	$ 4,502,171	$ 3,911,697	$ 5,329,467	$ 4,476,977	$ 1,092,802	$ 6,323,134	$ 6,290,287
Note B: Calculation of Employer's FICA Pertaining to Customer Acct Svcs							
Customer Account Services Portion of Total Payroll	$ 8,921,667	$ 2,616,219	$ 26,444,939	$ 2,585,633	$ 666,903	$ 24,005,529	$ 3,261,092
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	$ 682,507	$ 200,141	$ 2,023,038	$ 197,801	$ 51,018	$ 1,836,423	$ 249,474

New York American Water Company
Comparison Group 2014 Actual Customer Accounts Expense Per Customer

	New Jersey				Connecticut	
	Atlantic City Electric	Jersey Central Power	Public Service Electric & Gas	Rockland Electric	Connecticut Light & Power	United Illuminating
Customer Account Management Cost Pool						
FERC Account Balances:						
Account 903 - Customer Records & Collection (page 322, line 161)	$ 43,055,846	$ 14,260,119	$ 70,254,345		$ 43,144,294	$ 12,307,856
Account 905 - Misc Customer Accounts (page 322, line 163)	$ -	$ 443,209	$ 160,988,510		$ 16,807,583	$ 79,141
Subtotal	$ 43,055,846	$ 14,703,328	$ 231,242,855		$ 59,951,877	$ 12,386,997
Add: Employee Benefits & Employer FICA (not included in above amounts)						
Account 926 - Employee Pension & Benefits **Note A**	$ 748,850	$ 13,268,891	$ 6,988,271		$ 520,906	$ -
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) **Note B**	$ 153,447	$ 537,034	$ 3,996,132		$ 267,305	$ -
Total Cost Pool	**$ 43,958,144**	**$ 28,509,253**	**$ 242,227,258**		**$ 60,740,088**	**$ 12,386,997**
Total Customers (page 304, line 43)	545,281	1,100,630	2,202,838		1,223,741	320,449
Customer Account Services Expense per Customer	**$ 80.62**	**$ 25.90**	**$ 109.96**	See New York	**$ 49.63**	**$ 38.66**
Note A: Calc of Pension & Benefits Pertaining to Cust Acct Svcs						
Account 926 - Employee Pension & Benefits (page 323, line 187)	$ 10,255,963	$ 100,834,618	$ 48,737,858		$ 14,096,228	$ 18,409,778
Total O&M Payroll (page 355, line 65)	$ 27,471,315	$ 53,347,637	$ 364,313,370		$ 94,556,168	$ 68,655,187
Benefits as Percent of Payroll	37.3%	189.0%	13.4%		14.9%	26.8%
Payroll Applicable to Customer Account Services						
Total Payroll Charged to Customer Accounts Function						
Electric (page 354, line 7)	$ 2,236,745	$ 12,434,091	$ 56,037,704		$ 3,748,186	$ -
Percent Applicable to Customer Accounts Services (903 and 905):						
Account 903 - Customer Records & Collection (page 322, line 161)	$ 43,055,846	$ 14,260,119	$ 70,254,345		$ 43,144,294	$ 12,307,856
Account 905 - Misc Customer Accounts (page 322, line 163)	$ -	$ 443,209	$ 160,988,510		$ 16,807,583	$ 79,141
Subtotal - Total Charges Applicable to Customer Accounts Services	$ 43,055,846	$ 14,703,328	$ 231,242,855		$ 59,951,877	$ 12,386,997
Account 902 - Meter Reading Expenses (page 322, line 160)	$ 4,956,246	$ 11,339,583	$ 16,824,862		$ 4,358,045	$ 4,033,408
Total Charges Applicable to Customer Acccounts Svcs & Meter Reading	$ 48,012,092	$ 26,042,911	$ 248,067,717		$ 64,309,922	$ 16,420,405
Percent Applicable to Customer Accounts Services (903 and 905)	89.7%	56.5%	93.2%		93.2%	75.4%
Customer Account Services Portion of Total Payroll	$ 2,005,848	$ 7,020,049	$ 52,237,021		$ 3,494,185	$ -
Pension & Benefits Pertaining to Customer Accounts Services	$ 748,850	$ 13,268,891	$ 6,988,271		$ 520,906	$ -
Note B: Calculation of Employer's FICA Pertaining to Customer Acct Svcs						
Customer Account Services Portion of Total Payroll	$ 2,005,848	$ 7,020,049	$ 52,237,021		$ 3,494,185	$ -
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%		7.65%	7.65%
Estimated Employer's Portion of FICA	$ 153,447	$ 537,034	$ 3,996,132		$ 267,305	$ -

New York American Water Company

Comparison Group 2014 Actual Customer Accounts Expense Per Customer

		Massachusetts			Vermont
		Fitchburg Gas & Electric	Nstar	Western Mass Electric	Green Mountain Power
Customer Account Management Cost Pool					
FERC Account Balances:					
Account 903 - Customer Records & Collection (page 322, line 161)		$ 1,456,076	$ 23,686,451	$ 8,070,508	$ 4,943,371
Account 905 - Misc Customer Accounts (page 322, line 163)		$ -	$ 1,310,182	$ 1,959,081	$ 71,398
Subtotal		$ 1,456,076	$ 24,996,633	$ 10,029,589	$ 5,014,769
Add: Employee Benefits & Employer FICA (not included in above amounts)					
Account 926 - Employee Pension & Benefits	**Note A**	$ 11,295	$ 5,132,984	$ 521,290	$ 660,102
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	**Note B**	$ 942	$ 1,167,657	$ 70,418	$ 137,979
Total Cost Pool		**$ 1,468,313**	**$ 31,297,273**	**$ 10,621,297**	**$ 5,812,850**
Total Customers (page 304, line 43)		29,098	1,179,867	207,877	259,192
Customer Account Services Expense per Customer		**$ 50.46**	**$ 26.53**	**$ 51.09**	**$ 22.43**
Note A: Calc of Pension & Benefits Pertaining to Cust Acct Svcs					
Account 926 - Employee Pension & Benefits (page 323, line 187)		$ 1,747,068	$ 51,124,252	$ 11,580,833	$ 15,071,462
Total O&M Payroll (page 355, line 65)		$ 1,904,904	$ 152,023,518	$ 20,449,506	$ 41,180,841
Benefits as Percent of Payroll		91.7%	33.6%	56.6%	36.6%
Payroll Applicable to Customer Account Services					
Total Payroll Charged to Customer Accounts Function					
Electric (page 354, line 7)		$ 12,612	$ 19,103,169	$ 1,020,733	$ 2,108,595
Percent Applicable to Customer Accounts Services (903 and 905):					
Account 903 - Customer Records & Collection (page 322, line 161)		$ 1,456,076	$ 23,686,451	$ 8,070,508	$ 4,943,371
Account 905 - Misc Customer Accounts (page 322, line 163)		$ -	$ 1,310,182	$ 1,959,081	$ 71,398
Subtotal - Total Charges Applicable to Customer Accounts Services		$ 1,456,076	$ 24,996,633	$ 10,029,589	$ 5,014,769
Account 902 - Meter Reading Expenses (page 322, line 160)		$ 35,035	$ 6,288,157	$ 1,092,149	$ 847,873
Total Charges Applicable to Customer Acccounts Svcs & Meter Reading		$ 1,491,111	$ 31,284,790	$ 11,121,738	$ 5,862,642
Percent Applicable to Customer Accounts Services (903 and 905)		97.7%	79.9%	90.2%	85.5%
Customer Account Services Portion of Total Payroll		$ 12,316	$ 15,263,484	$ 920,498	$ 1,803,644
Pension & Benefits Pertaining to Customer Accounts Services		$ 11,295	$ 5,132,984	$ 521,290	$ 660,102
Note B: Calculation of Employer's FICA Pertaining to Customer Acct Svcs					
Customer Account Services Portion of Total Payroll		$ 12,316	$ 15,263,484	$ 920,498	$ 1,803,644
Employer's Portion of FICA (6.20%) and Medicare (1.45%)		7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA		$ 942	$ 1,167,657	$ 70,418	$ 137,979

Group Average
$ 942,883,865
18,685,180
$ 50.46

VI - Question 4 – Need for Service Company Services

Analysis of Services

The final aspect of this study was an assessment of whether the services provided to NYAW by the Service Company would be necessary if NYAW were a stand-alone water utility. The first step in this evaluation was to determine specifically what the Service Company does for NYAW. Based on discussions with Service Company personnel, the matrix in Exhibit 13 (pages 39-41) was created showing which entity—NYAW or a Service Company location—is responsible for each of the functions NYAW requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Exhibit 13, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if NYAW were a stand-alone water utility.

- There is no redundancy or overlap in the services provided by the Service Company to NYAW. For all of the services listed in Exhibit 13, there was only one entity that was primarily responsible for the service.

New York American Water Company
Designation of Responsibility for Water Utility Functions

P - Primarily Responsible
S - Provides Support

Water Company Function	Performed By: NYAWC	American Water Service Company: Customer Call Center	NED	Central Services	IT Service Centers	Central Lab
Engineering and Construction Management						
CPS Preparation	S			P		
Five-Year System Planning	P		S			
Engineering Standards & Policies Development				P		
Project Design						
Major Projects (e.g., new treatment plant)	P			S		
Special Projects	P		S	S		
Minor Projects (e.g., pipelines)	P					
Construction Project Management						
Major Projects	P		S			
Special Projects	P		S			
Minor Projects	P					
Hydraulics Review	P		S			
Developers Extensions	P					
Tank Painting	P		S			
Water Quality and Purification						
Water Quality Standards Development			S	P		S
Research Studies	S		S	P		S
Water Quality Program Implementation	P		S	S		
Water Treatment Operations & Maintenance	P		S			
Compliance Sampling	P		S			S
Testing/Other Sampling	S		S			P
Transmission and Distribution						
Preventive Maintenance Program Development	P		S			
System Maintenance	P					
Leak Detection	P		S			
Customer Service						
Community Relations	P		S	S		
Customer Contact (A)	S	P				
Call Processing (A)		P				
Service Order Processing	S	P				
Customer Credit		P				
Meter Reading	P					
Customer Bill Preparation (A)					P	
Bill Collection (A)	S	P				
Customer Payment Processing (A)	S			P		
Meter Standards Development	P		S			
Meter Testing, Maintenance & Replacement	P					

Note A: Does not include wastewater service.

New York American Water Company
Designation of Responsibility for Water Utility Functions

P - Primarily Responsible **S - Provides Support**	Performed By:					
		American Water Service Company				
Water Company Function	NYAWC	Customer Call Center	NED	Central Services	IT Service Centers	Central Lab
Financial Management						
Financial Planning	P		S	S		
Financings--Equity	S		S	P		
Financings--Long Term Debt & Preferred (Note B)	S		S	P		
Short Term Lines of Credit Arrangements(Note B)	S		S	P		
Investor Relations				P		
Insurance Program Administration	S		S	P		
Loss Control/Safety Program Administration	S		P	S		
Pension Fund Asset Management				P		
Cash Management/Disbursements				P		
Internal Auditing				P		
Budgeting and Variance Reporting						
Corporate Guidelines & Instructions				P		
Regional Guidelines & Instructions			P			
Budget Preparation						
Revenue and O&M	S			P		
Depreciation and Interest Expense	P		S	S		
Budget Preparation--Service Company Charges	S	S	S	P	S	S
Capital Budget Preparation—Projects	P		S			
Capital Budget Preparation—Non-Project Work	P		S			
Prepare Monthly Budget Variance Report (Budget/Plan Analysis)			S	P		
Prepare Capital Project Budget Status Report	P		S			
Year-End Projections	P		S			
Accounting and Taxes						
Accounts Payable Accounting	S			P		
Payroll Accounting	S			P		
Work Order Accounting	S		S	P		
Fixed Asset Accounting	S		S	P		
Journal Entry Preparations--Billing Corrections	S		S	P		
Journal Entry Preparation--All Others	S		S	P		
Financial Statement Preparation	S		S	P		
State Commission Reporting	S		S	P		
Income Taxes--State				P		
Income Taxes--Federal				P		
Property Taxes	S		S	P		
Gross Receipts (Town) Taxes	S		S	P		

Note B: Lines of credit are the responsibility of American Water Capital Corporation (AWCC). AWCC is also responsible for Corporate financings which may be distributed to the regulated subsidiaries.

Exhibit 13
Page 3 of 3

New York American Water Company
Designation of Responsibility for Water Utility Functions

P - Primarily Responsible **S - Provides Support**	Performed By:					
		American Water Service Company				
Water Company Function	NYAWC	Customer Call Center	NED	Central Services	IT Service Centers	Central Lab
Rates						
Rate Studies & Tariff Change Administration	S		P	S		
Rate Case Planning and Preparation	S		P	S		
Rate Case Administration	S		P	S		
Commission Inquiry Response	S		P	S		
Legal	S		P	S		
Purchasing and Materials Management – National (pipe, chemicals, meters, etc.)						
Specification Development	S		S	P		
Bid Solicitation	S			P		
Contract Administration	S			P		
Purchasing and Materials Management – State (state supplier service agreements)						
Specification Development	P		S			
Bid Solicitation	P					
Contract Administration	P					
Ordering	P					
Inventory Management	P					
Human Resources Management						
Benefit Program Development			S	P		
Benefits Program Administration			S	P		
Management Compensation Administration			P	S		
Wage & Salary Program Design			S	P		
Wage & Salary Administration			P	S		
Labor Negotiations--Wages	P		S			
Labor Negotiations--Benefits	P		S	S		
Labor Negotiations-- Work Rules	P		S			
Training Program Development			S	P		
Training--Course Delivery			P			
Affirmative Action/EEO--Plan Development				P		
Affirmative Action/EEO--Implementation			P			
Information Systems Services						
Service Company Data Centers						
System Operations & Maintenance					P	
Software Maintenance					P	
Network Administration					P	
PC Acquisition & Support	S				P	
Help Desk					P	

VI - Question 4 – Need for Service Company Services

Governance Practices Associated with Service Company Charges

There are several ways by which NYAW exercises control over Service Company services and charges. The most important of these are described below.

- **NYAW Company Board Oversight** – The NYAW Board of Directors includes members of the NYAW management team and external business and community leaders. The NYAW Board meets at a minimum of four times each year and at every meeting financial and operational results and issues are discussed at length. The NYAW Board of Directors includes the President of NYAW, the Director of Financial Planning and Analysis (FP&A) for the Northeast Division and an external business and community leader. This diverse Board ensures that NYAW's needs are a factor in the delivery of Service Company services.
- **Senior Vice President - Northeast Division & NYAW President Oversight** – The NYAW president is responsible for the overall performance of NYAW, including services and charges received from the Service Company. The President of NYAW reports directly to the Senior Vice President – Northeast Division who serves on the Service Company Board of Directors and reports to American Water's Chief Operating Officer (COO).
- **NYAW Vice President and Treasurer** – The Director FP&A and Treasurer is responsible for the financial reporting and performance, as well as the internal control performance of the NYAW. The Director FP&A and Treasurer monitors the performance, expense and reporting from the Service Company and verifies and validates the cost of services received. In addition, the Director FP&A and Treasurer through the Financial Planning and Analysis staff reviews the monthly charges and investigates whether the amount, quality and/or services are appropriate.
- **Service Company Board Oversight** – The Service Company Board of Directors is currently comprised of 12 members, including the Senior Vice President - Northeast Division. The Service Company Board of Directors typically meets four times a year to provide governance oversight of the activities and bylaws of Service Company. Their primary responsibilities include:
    - Approve the Business Plan and Operating Budget
    - Review Financial Performance of the Service Center
    - Review performance metrics of certain functional groups
    - Approve policy, procedures and practices of American Water as they relate to Service Company.
- **Service Company Budget Review/Approval** – The Senior Vice President – Northeast Division and other state regulated water utility presidents serve on the Service Company board of directors and that board must formally approve the budget for Service Company charges for the next year. These budgeted charges are consolidated with the operating company's own spending into an overall budget which must be approved by the individual operating company's board of directors (e.g., NYAW).
- **Major Project Review and Approval –** Major non-capital projects undertaken by the Service Company must first be reviewed by American Water's Executive Leadership Team, which includes the President of Regulated Operations. The President of Regulated Operations, with significant input from his/her direct reports (including the Senior Vice President – Northeast Division), has the ability to adjust all new initiatives and projects before they are authorized. Major non-capital projects and initiatives for the Service Company are approved through the Business Plan.

VI - Question 4 – Need for Service Company Services

- **Capital Investment Management** (CIM) – CIM covers capital and asset planning and is employed throughout American Water, including the Service Company. CIM provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CIM ensures that:
  - Capital expenditure plans are aligned with the strategic intent of the business
  - The impact of capital expenditure and income plans are fully reflected in operating expense plans
  - The impacts of these plans are understood and affordable
  - Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

  The CIM process was designed to optimize the effectiveness of asset investment.

- **Accounting and Financial Reporting** – The Service Company follows the same accounting and financial reporting processes as the rest of American Water. During each month accounting transactions are recorded. At month end, the Service Company Accounting and Service Company Finance teams review all transactions. Variance analyses are performed based on month to month actual as well as actual to budget to ensure accuracy. Once completed, the service company bill is run and the actuals are "pushed down" and allocated to the states based on predetermined formulas. A conference call is scheduled before the operating companies close their books each month to discuss performance, and explanations are reported for expense variances that meet or exceed certain thresholds. At this time, the operating companies may question Service Company expenses and spending for better understanding of results. NYAW FP&A personnel review the monthly Service Company bill for accuracy and reasonableness on a monthly basis. Any mistakes or overcharges are credited on a subsequent billing.
- **NYAW Company Budget Variance Reporting** – The financial analysis prepared monthly by each operating company has a line item for Service Company charges. In this way, Service Company budget versus actual charges as charged to the operating company can be monitored and reviewed for the month and year to date as compared to prior year, plan and reforecast.