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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)
American Water Company to Increase Its)
Rates for Water Service and Sewer Service.)

Case No. 11-4161-WS-AIR

DIRECT TESTIMONY
OF
DONALD J. PETRY
ON BEHALF OF
OHIO AMERICAN WATER COMPANY

- ___ Management policies, practice and organization
- X Operating income
- ___ Rate base
- ___ Allocations
- ___ Rate of return
- X Rates and tariffs
- ___ Other

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1 **Direct Testimony of**

2 **Donald J. Petry**

3 **I. WITNESS INTRODUCTION**

4 **Q1. Please introduce yourself.**

5 A1. My name is Donald J. Petry, and my business address is 2300 Richmond Road,
6 Lexington, Kentucky 40502. I am employed by American Water Works Service
7 Company (“Service Company”) as Manager of Rates Support. The Service Company is a
8 subsidiary of American Water Works Company, Inc. (“American”) that provides support
9 services to American’s subsidiaries.

10 **Q2. Please summarize your education and business experience.**

11 A2. In 1981, I graduated from Manchester College with a Bachelor of Science Degree in
12 Accounting. In 1995, I earned my Master of Business Administration degree from Tiffin
13 University. I began my professional career in 1981 as an internal auditor for the Service
14 Company. My responsibilities included conducting financial and procedural audits of
15 American system operating companies. In 1983, I was promoted to Business Manager of
16 Ohio American Water Company – Tiffin. I was responsible for the preparation and
17 management of the budget, cash forecasting, and customer service. In 1994, I was
18 promoted to Customer Service Superintendent for Ohio American Water Company state-
19 wide operations. My duties included customer billing and collections, call center, meter
20 reading, and field service. In 2001, I was promoted to Manager of Operations and
21 Performance for American National Customer Service Center (“CSC”). My
22 responsibilities included preparation and presentation of the CSC budget, analysis and
23 reporting of CSC performance, scheduling of the workforce, and operation of the facility.

1 In 2002, I was promoted to CSC Manager of Billing and Collections where I was
2 responsible for all billing and collections activities. In 2004, I transferred back to CSC
3 Manager of Operations and Performance. In 2005, I transferred to Senior Financial
4 Analyst for the Service Company rates department where I prepared and presented rate
5 increase applications and supporting documents and executed the implementation of rate
6 orders. In June of 2011, I was promoted to Manager of Rates Support for the Service
7 Company where I manage rate case preparation for a seven-state area.

8 **Q3. Have you previously participated in regulatory matters?**

9 A3. Yes. I have assisted in the preparation of rate cases and presented testimony to the Public
10 Utilities Commission of Ohio ("PUCO"), the Missouri Public Service Commission
11 ("MPSC"), and the Iowa Utilities Board ("IUB"). I have also prepared Infrastructure
12 System Replacement Surcharge ("ISRS") filings for the MPSC.

II. PURPOSE OF TESTIMONY

13 **Q4. What is the purpose of your testimony in this proceeding?**

14 A4. The purpose of my testimony is to address various adjustments to Operating Expenses as
15 reflected in the following schedules: C-3.1, Adjustment of Water Revenues; C-3.2,
16 Adjustment of Wastewater Revenues; C-3.3, Adjustment of Other Operating Revenues;
17 C-3.17, Adjustment of Miscellaneous Expense; C-3.22, Adjustment of Gross Receipts; C-
18 3.24, Adjustment of PUCO and OCC Fees; C-3.25 Adjustment of Other taxes and
19 licenses; C-5, Social and Service Club dues; C-6, Charitable Contributions; C-7,
20 Customer Service, Sales Promotion, and Miscellaneous Advertising Expense. I also
21 explain almost all of the schedules in Section E. Each of these schedules was prepared
22 by me or under my supervision.

III. REVENUES

Q5. What adjustment is included on Schedule C-3.1?

A5. Schedule C-3.1 reflects the adjustments to water revenues at current rates. The adjustments to revenues at current rates are necessary to reflect a more representative level of water sales and revenues in the case than the unadjusted test year provides. The schedule provides more details on the methodology used to arrive at these adjustments. The pro forma adjustment to water revenues is a \$169,098 reduction in revenues, which is a 0.5% decrease.

Q6. What adjustment is included on Schedule C-3.2?

A6. Schedule C-3.2 reflects the adjustments to wastewater revenues at current rates. The adjustments to revenues at current rates are necessary to reflect a more representative level of wastewater revenues in the case than the unadjusted test year provides. The schedule provides more details on the methodology used to arrive at these adjustments. The pro forma adjustment to sewer revenues is an increase of \$383,019, which represents a 10.4% increase.

Q7. What adjustment is included on Schedule C-3.3?

A7. Schedule C-3.3 reflects the adjustments to revenues generated from Activation Fees and Reconnection Charges at current rates. The adjustments to revenues at current rates are necessary to reflect a more representative level of other revenues in the case than the unadjusted test year provides. The schedule provides more details on the methodology used to arrive at these adjustments. The proforma adjustment is a decrease of \$33,894, which represents a 7.5% decrease.

1 **IV. MISCELLANEOUS EXPENSE**

2 **Q8. Please discuss the adjustments to Miscellaneous Expenses in Schedule C-3.17.**

3 A8. Schedule C-3.17 contains eight adjustments to Miscellaneous Expense, as is shown in the
4 Schedule C-3.17 workpapers. Company Witness Melissa Schwarzell addresses the pro
5 forma adjustment to 401k and the Defined Contribution Plan in her testimony. The
6 adjustment for lobbying consists of two components, eliminating the test year balance in
7 the lobbying expense account in the amount of \$38,168 and adjusting the portion of the
8 dues related to lobbying for the National Association of Water Companies in the amount
9 of \$2,954, for a total adjustment \$41,122. There were no penalties during the test year,
10 so no adjustment for Nondeductible Penalties is needed. There is an adjustment for the
11 Orcom software amortization that was approved in Case No. 06-433-WS-AIR. The
12 Orcom amortization expense was not included in the budget, so the adjustment is for
13 eight months of amortization in the amount of \$104,164 to annualize the amortization.
14 There is the adjustment for normalization of leased vehicle expense in the amount of
15 \$22,364. There is a decrease adjustment to insurance premiums for vehicles of \$3,249
16 and to test year AWWA dues expense of \$5,406. Finally, there is an adjustment for
17 NAWC dues, which reflects an increase of \$12,460.

18 **V. GROSS RECEIPTS**

19 **Q9. Please discuss the adjustment in Schedule C-3.22.**

20 A9. Schedule C-3.22 reflects the adjustment of to state excise or gross receipts tax at pro
21 forma revenue levels. The tax rate is currently 4.75% on operating revenues less the first
22 \$25,000, less uncollectible expense, plus taxable and less non-taxable receipts. The

adjustment reduces the expense by \$9,043.

VI. PUCO AND OCC FEES

Q10. Please discuss the adjustment in Schedule C-3.24.

A10. Schedule C-3.24 adjusts the PUCO and OCC fees based on the 2010 assessment rates and pro forma revenues at current rates. The adjustment is an increase of \$2,440.

VII. OTHER TAXES AND LICENSES

Q11. Please explain Schedule C-3.25.

A11. Schedule C-3.25 reflects the pro forma expense for Other Taxes and Licenses. The Company is not proposing any adjustments to the test year expense for Other Taxes and Licenses.

Q12. Please discuss Schedules C-5 through C-7.

A12. Schedule C-5 reflects the amount of costs associated with social and service club dues in the amount of \$31,258, such as national water associations and local chambers of commerce. The actual and/or projected social organization/service club dues are listed as part of the schedule.

Schedule C-6 reflects charitable contributions made on behalf of the Company in the amount of \$37,820. A further breakdown of the charitable organizations is included in the workpapers for Schedule C-6.

Schedule C-7 reflects the costs associated with customer service, sales promotion and miscellaneous advertising expense in the amount of \$54,233.

VIII. RATES AND TARIFFS

Q13. Please explain Schedules E-1 through E-3.

A13. Schedule E-1 is a clean copy of Ohio American's proposed tariffs, reflecting the proposed changes shown in Schedule E-2.1. Ohio American is proposing to change the rates contained in Revised Sheet Nos. 1, 1A, 2, 3. Ohio American is also proposing language changes on Revised Sheet Nos. 6, 7, 37, 39, 42A, 42B, 45, 46, 46A, and Attachment 1.

Schedule E-2 is an excerpt of Ohio American's current tariff pages on file with the Commission. The pages contained in Schedule E-2 correspond with the pages contained in Schedule E-1.

Schedule E-3 provides a rationale for the proposed changes shown in Schedules E-1 and E-2.1. Ohio American proposes several rate changes, as shown in pages 1 through 4 of Schedule E-3, to implement its requested revenue increase in the application. Ohio American also proposes several language changes, as shown in pages 5 through 15 of Schedule E-3, to conform Ohio American's tariff language to ensure consistency with current Administrative Code provisions applicable to service connection, disconnection and reconnection; credit and collections; meter reading; and complaint handling procedures. All of the changes proposed by the Company are consistent with current Administrative Code requirements.

Q14. Please explain Schedule E-3.1.

A14. Schedule E-3.1 is a summary of the customer charge and minimum bill rationale, broken out by customer class pursuant to the cost of service study.

1 **Q15. Please explain Schedule E-4.**

2 A15. Schedule E-4 is a summary of the comparison between the annualized test year revenues
3 at the proposed rates and the current rates for each of Ohio American's blocks: Water A,
4 Water C, and Wastewater.

5 **Q16. Please describe Schedule E-4.1 through E-4.3.**

6 A16. Schedule E-4.1 provides a breakdown, by meter size and customer class, comparing the
7 annualized test year revenues at the proposed rates and the current rates. Though it is
8 included, Schedule E-4.2 does not apply to the Company since it is not a telephone
9 utility. Finally, Schedule E-4.3 will be completed within three months of the end of the
10 test year, which will end on December 31, 2011.

11 **Q17. Please describe Schedule E-5.**

12 A17. Schedule E-5 is the typical monthly bill comparison between the current and proposed
13 rates for each of Ohio American's rate blocks. This schedule was also attached to Ohio
14 American's Notice of Intent to File Application to Increase Water and Sewer Service
15 Rates filed on July 1, 2011.

16 **Q18. Does this conclude your direct testimony?**

17 A18. Yes, it does.