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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
LEWIS E. KEATHLEY
ON BEHALF OF
OHIO AMERICAN WATER COMPANY

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

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1 **Direct Testimony of**

2 **Lewis E. Keathley**

3 **I. WITNESS INTRODUCTION**

4 **Q1. Please introduce yourself.**

5 A1. My name is Lewis E. Keathley. I am employed by American Water Works Service
6 Company, Inc. ("Service Company") as a Financial Analyst II. The Service Company is
7 a subsidiary of American Water Works Company, Inc. ("American") that provides
8 support services to American's subsidiaries. My business address is 727 Craig Road, St.
9 Louis, Missouri 63141.

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

11 A2. I graduated from the University of Missouri – St. Louis, College of Business in 1988 with
12 a Bachelor of Science degree in Business Administration and earned an MBA from
13 Lindenwood University in 2008.

14 My responsibilities as a Financial Analyst II, Rates & Regulation involve providing the
15 following services to American Water's utility subsidiaries in the Eastern Division,
16 including Ohio American Water Company, Inc. ("Ohio American" or "Company"):

- 17 a) Preparing and presenting rate change applications and supporting documents and
18 exhibits according to management policies and guidelines along with regulatory
19 commission requirements;
- 20 b) Implementation of rate orders to produce the proposed revenue level;
- 21 c) Verification and testing of all rate changes to ensure that the billed amounts and
22 bill calculations are accurate;

1 d) Providing financial analysis of special contracts, and ad-hoc financial analysis,
2 including preparation of applicable regulatory commission filings.

3 I have attended the Utility Rate Seminar sponsored by the National Association of
4 Regulatory Utility Commissioners ("NARUC") water committee and I have participated
5 in rates seminars sponsored by the Service Company.

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

7 A3. Yes. I have assisted with the preparation of a 2009 rate case before the Indiana Utility
8 Regulatory Commission (Cause No. 43680), prepared schedules and presented testimony
9 to the Indiana Utility Regulatory Commission for a 2011 rate case (Cause No. 44022),
10 and prepared schedules and presented testimony to the Public Utilities Commission of
11 Ohio in Ohio American's last rate case (Case No. 09-391-WS-AIR).

12 **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 explain the pro forma adjustments presented in the
15 following schedules: C-3.5, Adjustment of Purchased Water; C-3.6, Adjustment of Fuel
16 and Power; C-3.7, Adjustment of Chemicals; C-3.8, Adjustment of Waste Disposal; C-
17 3.13, Adjustment of Insurance Other than Group; C-3.14, Adjustment of Customer
18 Accounting – Uncollectible Expense and Postage; C-3.15, Adjustment of Rent Expense;
19 C-3.16, Adjustment of General Office Expense; and C-3.18, Adjustment of Other
20 Maintenance. I am also supporting Schedules C-11.1, Revenue Statistics; C-11.3, Sales
21 Statistics; and C-12, Analysis of Revenue for Uncollectible Accounts. Each of these
22 schedules were prepared by me or under by supervision.

1 **III. PURCHASED WATER**

2 **Q5. Please discuss the adjustment in Schedule C-3.5.**

3 A5. Schedule C-3.5 contains the Company's adjustment to purchased water expenses. The
4 pro forma cost is determined by pricing the test year amount of water to be purchased at
5 the rates that will be in effect at the end of the test year. The Preble County area of the
6 Marion District purchases all of its supply from the Indiana-American Water Company's
7 Richmond District. The Lawrence County District of the Company purchases all of its
8 water from the Huntington District of West Virginia-American Water Company. The
9 Portage District purchases water from Portage County Water Resources, an unaffiliated
10 entity. Schedule C-3.5 provides more details on the methodology used to arrive at the
11 adjustment of \$42,879.

12 **IV. FUEL AND POWER**

13 **Q6. What adjustments are included on Schedule C-3.6?**

14 A6. Schedule C-3.6 includes two adjustments to fuel and power. The first adjustment is the
15 result of timing, because a January 2011 bill from FirstEnergy Solutions was paid in
16 December 2010. The adjustment for the timing of this payment is \$23,347.63. The
17 second adjustment is to update the fuel and power costs based upon the pro-forma system
18 delivery. The fuel and power system delivery adjustment is \$16,560.18.

19 **V. CHEMICALS**

20 **Q7. Please explain the adjustments included on Schedule C-3.7.**

21 A7. Schedule C-3.7 includes two adjustments for chemicals. The first adjustment is for
22 chemicals used in Franklin County Wastewater. When the chemical budget information

1 was loaded into the Company's financial systems, the fixed cost amount for chemicals
2 was not included. The result is an adjustment of \$23,500. The other adjustment for
3 chemical is to update the chemical usage and cost based on the pro-forma system
4 delivery. The chemical system delivery adjustment is \$13,358.60.

5 VI. WASTE DISPOSAL

6 **Q8. What adjustment is included on Schedule C-3.8?**

7 A8. Schedule C-3.8 reflects an adjustment to waste disposal. An analysis of actual waste
8 disposal expenses in the Franklin County Wastewater District has disclosed a trend of
9 rising costs for regular monthly service from the Company's vendor. This trend is
10 attributable to both price increases and increased volume. The wastewater operation
11 incurs regular monthly expenses for waste disposal rather than accruing long-term for
12 periodic lagoon cleanings as in the water districts. This has resulted in a pro forma
13 adjustment to test year waste disposal expense of \$19,406.

14 VII. INSURANCE OTHER THAN GROUP

15 **Q9. Please explain the adjustment on Schedule C-3.13.**

16 A9. Schedule C-3.13 lists the adjustment to Insurance Other Than Group. Ohio American
17 Water Company has experienced a reduction in insurance premiums for the year ending
18 December 31, 2011 resulting in an adjustment of (\$127,005).

19 VIII. CUSTOMER ACCOUNTING

20 **Q10. Please discuss Schedule C-3.14.**

21 A10. Schedule C-3.14 relates to customer accounting – uncollectible expenses and postage
22 expenses. The Company is not proposing any adjustments to test year postage expenses.

Schedule C-3.14 does represent an adjustment to Customer Accounting Uncollectible Expense. The adjustment calculates the uncollectible accounts expense by applying a ratio of net charge-offs to revenues to the pro forma level or revenues at present rates. The ratio used reflects the actual average experience for the most recent three years (2008 - 2010) and results in an adjustment of \$166,768.

IX. RENT EXPENSE

Q11. What adjustments are proposed for Schedule C-3.15?

A11. Schedule C-3.15 relates to rent expenses. The Company is not proposing any adjustments to test year rent expenses.

X. GENERAL OFFICE EXPENSES

Q12. Please discuss Schedule C-3.16.

A12. Schedule C-3.16 relates to general office expenses. The Company is not proposing any adjustments to test year general office expenses.

XI. OTHER MAINTENANCE EXPENSES

Q13. Please discuss Schedule C-3.18.

A13. Schedule C-3.18 relates to other maintenance expenses. There are two adjustments included in Schedule C-3.18, \$722,393 for tank painting expense and \$15,750 for unbudgeted maintenance costs. The latter adjustment is for three preventative maintenance agreements and two separate repairs that were not captured in the original 2011 budget, and are itemized in the workpaper for schedule C-3.18

Q14. Please explain the tank painting adjustment.

A14. This adjustment is necessary to capture unbudgeted test year costs to maintain all

1 structures that require regular refinishing.

2 **Q15. Does the adjustment reflect additional structures not included in previous rate**
3 **cases?**

4 A15. Yes. In previous rate cases, the Company did not include every concrete structure, such
5 as basins, holding tanks and filters, which do not require typical tank painting. These
6 structures however, do require periodic refinishing which includes pressure washing and
7 sealing. This increases the useful life of the structures and reduces the need for more
8 costly maintenance work.

9 **Q16. What information did you rely on to make the adjustment in Schedule C-3.18?**

10 A16. The adjustment is based on two sources of information. For some tanks, detailed reports
11 were provided to the Company by its tank painting consultants, who performed detailed,
12 on-site inspections of the Company's structures. The reports list the condition of the
13 tanks, any safety or operational deficiencies, and also the ultrasonic thickness
14 measurements of the surface. The reports then list the specific costs associated with
15 painting and repair. The non-capital portion of the estimate was used to calculate the pro-
16 forma tank painting expense. For structures that do not have a detailed report, the
17 Company uses a calculation based upon the square footage of the tank, both interior and
18 exterior, and applies a price per square foot. Certain adjustments are then made for
19 special known circumstances, such as an interior drying expense.

20 **XII. REVENUE AND SALES STATISTICS**

21 **Q17. Please discuss Schedule C-11.1.**

22 A17. Schedule C-11.1 contains Revenue Statistics, and breaks out the Company's revenue by

customer class. Also included are the number of customers by class and a calculation presenting the average revenue per customer. Schedule C-11.2, Revenue Statistics – Jurisdictional, is not applicable to the Company.

Q18. Please explain Schedule C-11.3.

A18. Schedule C-11.3 contains Sales Statistics, and breaks out the Company's sales by customer class. Also included is the number of customers by class. Schedule C-11.4, Sales Statistics – Jurisdictional, is not applicable to the Company.

XIII. ANALYSIS OF RESERVE FOR UNCOLLECTIBLE ACCOUNTS

Q19. Please explain Schedule C-12.

A19. Schedule C-12 is the Analysis of Reserve for Uncollectible Accounts and presents the total reserve amounts, along with the uncollectible expense and net charge-offs for the test year and the four most recent calendar years. This information is used to determine the three-year average charge-off percentage, which is the basis for the Customer Accounting adjustment discussed in Schedule C-3.14.

Q20. Does this conclude your direct testimony?

A20. Yes, it does.