

INDIANA-AMERICAN WATER COMPANY, INC.

IURC CAUSE NO. 45142

REBUTTAL TESTIMONY

OF

DOUGLAS A. BROCK

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1 **BACKGROUND**

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

3 A. My name is Douglas Brock. My business address is 153 N. Emerson Avenue,
4 Greenwood, Indiana 46143.

5

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

7 A. I am employed by Indiana-American Water Company, Inc. (“Indiana-American”,
8 “IAWC” or the “Company”) as Vice President, Operations.

9

10 **Q. Did you previously submit direct testimony in this proceeding?**

11 A. Yes I did.

12

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

14 A. The purpose of this rebuttal testimony is to provide a response to recommendations
15 presented by Mr. Thomas W. Malan and Ms. Margaret Stull of the Indiana Office of
16 Utility Consumer Counselor (“OUCC”) in his testimony regarding the adjustment to
17 operation and maintenance (“O&M”) expense for contracted line locates and her
18 testimony on technology investments. My rebuttal will also respond to the
19 recommendations of Mr. Michael P. Gorman, representing the Indiana-American
20 Water Company, Inc. Industrial Group (“Industrial Group”) in his testimony regarding

1 adjustments for labor expenses.

INFORMATION FOR CONTRACTED LINE LOCATES

2 **Q. OUCC Witness Mr. Malan states in his testimony that Indiana American did not**
3 **support the proposed increase for contracted line locates. Please summarize his**
4 **opinion as you understand it.**

5 A. Mr. Malan’s testimony (on pages 2 through 4) states that my requested increase for
6 contracted line locates was not supported. Mr. Malan claims that “the petitioner did not
7 incur any test year¹ expense for contracted line locates but indicates that it intends to
8 use a combination of additional employees and contractors to address the increased
9 demand for line locates” (p.3, lines 7 - 11). Mr. Malan states “it is unclear from the
10 petitioner’s testimony and supporting schedules as to what extent line locates will be
11 performed with contractors versus employees or whether these cost have been double
12 counted in this case” (p.3, lines 16 – 18).

13 **Q. What is Mr. Malan’s recommendation regarding the Company’s proposed**
14 **increase for contracted line locates?**

15

16 A. Mr. Malan recommends the Commission reject the contract line locate adjustment in
17 the amount of \$1,015,028 and proposed a smaller inflation adjustment amount of

¹ The term “test year” refers to a forecast period off of which future revenue recovery is based. The “test year” has not yet happened and represents the May 2019 through April 2020 time frame. I believe Mr. Malan intended to use the phrase “base year” which includes 2017 actual information. The rebuttal for this section is based off of that assumed change.

1 \$65,340 compared to the original amount of \$95,174 due to the removal of the above
2 contracted line locate adjustment.

3

4 **Q. Do you agree with Mr. Malan's recommendation?**

5

6 A. No. Indiana American testimony and workpapers, as filed in its case in chief, provided
7 the information to support the increased demand of line locates and resources needed
8 to complete that demand. The Company has demonstrated a level of demand for line
9 locates and balanced that work between employees and contractors. If the Commission
10 adopts Mr. Malan's recommendation to reject the Company's contractor expenses
11 related to line locates, the Company will continue to be in a position where it will have
12 to shift resources from other activities to perform the locates. This hinders the
13 Company's ability to improve water efficiency through enhanced maintenance
14 activities, which support a more cost effective level of service for our customers over
15 the long term.

16

17 **Q. Please describe how Indiana American supported its increased demand of line**
18 **locates and resources needed to complete that demand?**

19 A. Direct testimony and exhibits in this cause support the projected increased demand
20 for line locate requests.

21 At page 20 of my direct testimony, I provided the annual volume of locate requests
22 from 2014 through 2017. This historical increase in demand represents an annual

1 increase of approximately 61,000 locate requests. Based on the historical increase in
2 demand, along with the projected annual growth estimated to be 8% through our future
3 test year, the Company reasonably expects to perform approximately 230,000 locate
4 requests in the future test year (p. 20, lines 14 – 21). The combined annual increased
5 demand of approximately 99,000 additional locates (230,000-131,000) above the 2014
6 level requires additional resources to perform the locate requests. As I testified on direct
7 at page 20, the basis for this 8% increase comes directly from the State of Indiana:
8 “Indiana 811 has estimated that the level of line locates each year will continue to
9 increase by approximately 8%.” Mr. Malan does not respond to this. By
10 recommending the contractor portion of the expense to complete this work, he asks that
11 the Commission ignore the State’s projection and assume the demand for line locates
12 will be flat.

13 In addition, Financial Exhibit OM5 WP1 demonstrates how the Company calculated
14 the resources needed to perform the increased locate requests. The schedule can be
15 found in file entitled INAWC Estimated Resources by Maintenance Activity and is
16 discussed in more detail below.

17
18 **Q. Did you provide in direct testimony the basis for the dollar value projection for**
19 **the future test year?**

20 **A.** Yes. The Company provided Exhibit OM5 WP1 to calculate the needed resources to
21 perform the increased demand for line locate requests. That exhibit provides
22 estimates of the resources needed to perform the additional line locates for the future

1 test year. This workpaper also shows the projected locate volumes for 2018 through
2 the future test year and assumptions used to calculate the estimated resources for the
3 increase of 99,000 line locate requests since 2014. The assumptions used to calculate
4 the resources needed for the additional line locate requests are also shown here:

- 5 • An employee will average 3 locates per hour.
- 6 • FTE annual available hours - 1,650 hours
- 7 • FTE can complete approximately 4,950 locates per year

8 Mathematically, we can show it like this:

9 3 locates per hour x 1,650 hours worked per year = 4,950 locates per year per
10 employee.

11 To calculate the resources needed for the additional 99,000 line locate requests
12 projected, we divided by the approximate number of line locate requests that can be
13 completed by an FTE each year which is 4,950 (see above). That calculation results in
14 an estimated 20 FTEs ($99,000 / 4,950 = 20$). In my direct testimony (page 21, line 19
15 – 21), I state that the Company proposes using a combination of employees and
16 contractors. The Company estimated an additional 6 employees would be the resources
17 needed to perform approximately 30,000 line locate requests. The remaining 69,000 of
18 the approximate 99,000 then would need to be performed by contractors. I plainly
19 explained at page 21 in my direct testimony that “[r]ather than diverting resources from
20 maintenance to meet the increased demand in line location services, the Company
21 proposes that this increased work load will be performed by a combination of additional
22 employees and contractors .”

1

2 Had Mr. Malan taken issue with our decision to split the additional locates between
3 FTEs and contractors as we project, I would have expected him to include additional
4 FTEs to complete the locates he proposed not to do by contract. He hasn't disputed
5 the State's forecasted 8% increase nor has he disputed our calculation of how many
6 locates can be completed by each additional FTE. Mr. Malan also doesn't take issue
7 with the decision to complete 30,000 with 6 FTEs. Yet he leaves unfunded the
8 additional 69,000 forecasted line locates, despite the Company's support for the need
9 to perform such work and explanation of how the contractor expense was determined.
10 The footnote on page 21 of my direct testimony clearly states the increase in contract
11 service expenses is based on estimates provided by a contractor.

12 **Q. Mr. Malan (page 3, line 18) stated that the petitioner did not indicate in which**
13 **districts contract labor will be used or how many they will perform. Is he**
14 **correct?**

15 A. Not entirely. We did not specify which precise districts would use contract labor versus
16 additional FTEs, but I do not believe that level of detail is necessary to support our
17 overall expense. Currently not all of our collective bargaining agreements with our
18 unions permit contracting locate requests. In the districts that allow contracting of
19 locate requests, we are generally proposing to use contractors.² We are currently having
20 discussions with contractors to identify those areas where they will perform the work.
21 Had Mr. Malan wanted to know this level of detail or more about how and where we

² Some districts are too small to make it economically feasible for a contractor to be utilized for line locates. In those instances, the Company will use internal resources as well.

1 will deploy additional FTEs versus contractors, he could have asked. As to the second
2 part of the question (concerning how many additional locates would be completed), I
3 disagree. As I explain above, we will do approximately 69,000 locate requests with
4 contractors.

5 **Q. Mr. Malan stated that the petitioner did not incur any test year expense for**
6 **contracted line locates. Is that correct?**

7 A. No. The test year commences May 1, 2019, and we will incur contracted line locates
8 during the test year consistent with our forecast. To the extent Mr. Malan incorrectly
9 uses “test year” to refer to the base year of 2017, he is correct. Historically line locates
10 have been performed by employees, which means there were no expenses in the base
11 year for contracted line locates. However, with the increased demand for locates, the
12 Company is proposing to use a combination of employees and contractors starting in
13 the future test year.

14

INFORMATION FOR TECHNOLOGY INVESTMENTS

15

16 **Q. Ms. Stull characterizes \$17,938,297 of projected recurring technology**
17 **investments as “unsupported and unidentified computer software costs” and**
18 **“unsupported corporate computer software expenditures.” (Stull pp. 23, 26-27.)**
19 **Are those characterizations correct?**

1 A. No. Ms. Stull is referring to the technology investment category RP-K3. They are not
2 merely “software costs,” nor are they unsupported or unidentified. As Company
3 witness Stacy Hoffman stated in his direct testimony (Hoffman pp. 27-28):

4 RP-K3 investments are recurring T&I investments consisting of hardware,
5 software, and related T&I appurtenances that provide the core T&I systems
6 infrastructure across all of American Water for use by all American Water
7 regulated subsidiaries including the Service Company and Indiana-American.
8 American Water identifies, prioritizes and implements technology projects after
9 considering the input and priorities of the utilities and functions. The T&I
10 investments include upgrades and enhancements to our foundational
11 technology, as well as new technology that integrates with existing systems that
12 the Company can leverage to support its field operations and enhance its service
13 to customers and its customer service applications and systems. Some examples
14 include improvements to our time management system, enhancing our GIS
15 platform and upgrading customer service infrastructure to improve interactions
16 with customers and make customer information more easily accessible in the
17 field to better serve our customers.

18 The OUCC did not issue any discovery seeking additional information regarding the
19 total spend for these recurring projects or regarding the projects identified in Mr.
20 Hoffman’s direct testimony. Nevertheless, OUCC proposes disallowing the entirety of
21 the expenditure. Upon my review, I identified seven (7) projects in excess of five
22 hundred thousand dollars (\$500,000) each³ which should have included more detail.
23 The remaining capital projects were identified and supported by Mr. Hoffman.

³ Contact Call Center Routing & Optimization (\$977,465 in 2019), myTime (\$1,279,786 in 2019), Amwater.com (\$663,600 in 2019), Meter Data Management (\$1,422,000 in 2020), Call Center CRM-CSR Oneview (\$853,200 in 2020), Enterprise Asset Management (1,042,800 in 2020), and Emerging technologies (\$568,800 in 2020).

UNFILLED POSITIONS FOR EMPLOYEE EXPENSES

1 **Q. On page 6 of his testimony, the Industrial Group Witness Mr. Gorman proposes**
2 **that Indiana American labor expense be reduced by \$2.2 million to remove the**
3 **unfilled positions and the associated employee expenses from the forecasted future**
4 **test year expense. Please further describe Mr. Gorman’s recommendation.**

5 **A.** Mr. Gorman’s testimony clearly expresses that he recommends removing \$2.2 million
6 from the Company’s labor expense, which he asserts is “to eliminate the portion of
7 employee expenses that is attributable to new positions and vacant positions.” Gorman,
8 p. 22. He then states that “IAWC’s pro forma salaries and wages should only reflect
9 currently staffed positions and should not provide it with cost recovery for unfilled
10 positions.” Mr. Gorman, however, fails to articulate the point in time he used to
11 determine whether positions were filled or the number of positions he is eliminating as
12 part of his recommendation. His adjustment suggests that Mr. Gorman is eliminating
13 34 positions out of the 374 proposed by the Company, or alternatively, recommending
14 that the Company only receive cost recovery for 340 positions. Regardless of what Mr.
15 Gorman is intending, as I have explained in my direct testimony, the Company is
16 adding FTEs to improve water efficiency through enhanced maintenance activities in
17 an effort to establish and sustain a more cost effective level of service for our customers
18 over the long term. I do not see anywhere that Mr. Gorman disputes that or the need
19 for any of the additional FTEs we project to hire.

20

21 **Q. Do you agree with Mr. Gorman’s recommendation?**

1 A. No. All of the positions that are outlined in my direct testimony support the
2 Company's efforts to establish and sustain a more cost effective level of service for
3 our customers over the long-term; no one has disputed that. Mr. Gorman states the
4 Company has "consistently" had a number of unfilled positions relative to its
5 budgeted⁴ level. In fact, the Company has had more FTEs and incurred more labor
6 expense, in salary and wages, than was requested and authorized in its last rate case,
7 Cause No. 44450. In Cause No. 44450, rates were based upon 328 FTEs and the
8 actual staffing level over the last two years has been higher than 328 FTEs. The
9 Company's actual current staffing level is 362 FTEs, 15 more FTEs than were filled
10 at the time the Company filed this cause. This is higher than the staffing level that is
11 used for purposes of Mr. Gorman's adjustment, and we are actively seeking to fill all
12 currently vacant positions. The Company holds bi-weekly meetings to discuss the
13 status of each vacancy and move them forward in the process. Currently, every
14 vacant position (except for the one related to the Charlestown acquisition) is in some
15 stage of the recruiting and hiring process. Charlestown will be filled upon closing,
16 which will be very soon given the Court's decision.

17 Further, as noted above, Mr. Gorman is recommending the Company only recover
18 costs for 340 FTEs, asserting that "salaries and wages should only reflect currently
19 staffed positions." Yet Mr. Gorman's proposal fails to comport with his own
20 rationale. As explained on page 24 of my direct testimony, the Company already had
21 filled 347 FTEs as of August 31, 2018. But Mr. Gorman fails to include the
22 "currently staffed positions" as of the filing of this cause. However, following Mr.

⁴ The Company interprets Mr. Gorman's use of the term budget to mean future test year forecast.

1 Gorman's rationale, the Company should at the very least receive cost recovery for
2 the 362 "currently staffed positions."

3 The Company continues to believe that 374 FTEs reflects the appropriate staffing
4 level for Indiana-American's operations, as explained and supported in my direct
5 testimony. Mr. Gorman states that the Company's forecasted labor expense costs
6 include positions not yet filled and, therefore, the expenses associated with these
7 positions should not be allowed. I disagree. The purpose of the future test year
8 process is to forecast expenses the Company expects to incur during the year in which
9 rates are in effect, which is what was done with the labor expenses. There may be
10 unfilled positions as we continue to hire the staff to establish and sustain a more cost
11 effective level of service for our customers over the long term, but as noted above the
12 Company is actively seeking to fill these positions.

13

14 **Q. As of today, how many FTEs does the Company presently have?**

15 A. The Company's current staffing level is 362 FTEs.

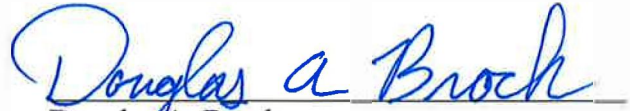
16

17 **Q. Does this conclude your prepared rebuttal testimony?**

18 A. Yes, it does.

VERIFICATION

I, Douglas A. Brock, Vice President, Operations for Indiana-American Water Company, Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.


Douglas A. Brock

Date: 01/18/2019