

BEFORE THE  
STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF  
NEW JERSEY-AMERICAN WATER COMPANY, INC.  
FOR APPROVAL OF INCREASED TARIFF RATES  
AND CHARGES FOR WATER AND WASTEWATER SERVICE,  
CHANGE IN DEPRECIATION RATES AND  
OTHER TARIFF MODIFICATIONS

BPU Docket No. WR1709\_\_\_\_\_

**DIRECT TESTIMONY OF**  
**PATRICK L. BARYENBRUCH**

**Exhibit PT-17**



NEW JERSEY-AMERICAN WATER COMPANY, INC.

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

2       A. Patrick L. Baryenbruch, 2832 Claremont Road, Raleigh, North Carolina 27608.

3   **2. Q. Please describe your educational and professional background.**

4       A. I received a Bachelors degree in Accounting from the University of Wisconsin-Oshkosh  
5       in 1974 and a Masters in Business Administration degree from the University of  
6       Michigan in 1979.

7               I am a Certified Public Accountant (CPA) with an active license from the state of  
8       Wisconsin (license number 5343-1). I am a Certified Information Technology  
9       Professional (CITP), an accreditation awarded by the American Institute of Certified  
10      Public Accountants to CPA professionals who demonstrate expertise in Information  
11      Technology management. I also hold a Global Information Assurance Certification  
12      (GIAC) in cybersecurity from the SANS Institute. I am a member of the American  
13      Institute of Certified Public Accountants and the North Carolina Association of Certified  
14      Public Accountants.

15             I began my career with Arthur Andersen & Company where I performed financial  
16      audits of utilities, banks and finance companies. After three years I left to pursue an  
17      M.B.A. degree. Upon graduation from business school, I worked with the consulting  
18      firms of Theodore Barry & Associates and Scott, Madden & Associates.

19             During my consulting career, I have performed consulting assignments for  
20      approximately 50 utilities and 10 public service commissions. I have participated as  
21      project manager, lead or staff consultant for 24 commission-ordered management and  
22      prudence audits of public utilities. Of these, I have been responsible for evaluating the  
23      area of affiliate charges and allocation of corporate expenses in the Commission-ordered

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audits of Connecticut Light and Power, Connecticut Natural Gas, General Water Corporation (Pennsylvania Operations), Philadelphia Suburban Water Company (now Aqua America) and Pacific Gas & Electric Company.

My firm has performed the commission-ordered audit of Southern California Edison's 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate companies.

**3. Q. What are your duties and responsibilities in your current position?**

A. I am the President of my own consulting practice, Baryenbruch & Company, LLC, which was established in 1985. In that capacity, I provide consulting services to utilities and their regulators.

**4. Q. Please describe the reason for your testimony in this case.**

A. I am presenting the results of my study which evaluated the services provided by American Water Service Company (Service Company) during the 12 months ended March 31, 2017 to New Jersey American Water Company (NJAWC). This study was undertaken in conjunction with NJAWC's rate case and is true to the best of my knowledge and belief. The study is attached as Schedule PLB-1.

**5. Q. What were the objectives of your study?**

A. This study was undertaken to answer four questions concerning the services provided by the Service Company to NJAWC, each of which bears on the reasonableness of those charges as incurred during the 2017 test period. First, were the Service Company's charges to NJAWC during the 12 months ended March 31, 2017 reasonable? Second, was NJAWC charged the lower of cost or market value for managerial and professional services provided by the Service Company during the 12 months ended March 31, 2017?

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1 Third, were the 12 months ended March 31, 2017 costs of the Service Company's  
2 customer accounts services, including those of the National Call Centers, comparable to  
3 those of other utilities? Fourth, are the services NJAWC receives from the Service  
4 Company necessary?

5 **6. Q. What conclusions were you able to draw concerning question number 1, whether**  
6 **the Service Company charges to NJAWC were reasonable?**

7 A. The Service Company's 12 months ended March 31, 2017 cost per NJAWC customer is  
8 reasonable compared to cost per customer for electric and combination electric/gas  
9 service companies. During the 12 months ended March 31, 2017, NJAWC was charged  
10 \$58 per customer for administrative and general (A&G)-related services provided by the  
11 Service Company. This compares to an average of \$113 per customer for service  
12 companies reporting to the Federal Energy Regulatory Commission (FERC). Nineteen  
13 of the 25 utility service companies that filed a FERC Form 60 for 2016 had a higher per-  
14 customer A&G cost than NJAWC's charges from the Service Company.

15 **7. Q. What conclusions were you able to draw concerning question number 2, whether**  
16 **NJAWC was charged the lower of cost or market services provided by the Service**  
17 **Company?**

18 A. I was able to draw the following conclusions:

- 19 (1) NJAWC was charged the lower of cost or market for managerial and professional  
20 services during the 12 months ended March 31, 2017.
- 21 (2) On average, the hourly rates for outside service providers are 36% higher than  
22 the Service Company's hourly rates.

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- 1           (3)    The managerial and professional services provided by the Service Company are  
2                    vital and could not be procured externally by NJAWC without careful  
3                    supervision on the part of NJAWC. If these services were contracted entirely to  
4                    outside providers, NJAWC would have to add at least 3 positions to manage  
5                    activities of outside firms. These positions would be necessary to ensure the  
6                    quality and timeliness of services provided.
- 7           (4)    If all the managerial and professional services now provided by the Service  
8                    Company had been outsourced during the 12 months ended March 31, 2017,  
9                    NJAWC and its ratepayers would have incurred almost \$16.2 million in  
10                  additional expenses. This amount includes the higher cost of outside providers  
11                  and the cost of three NJAWC positions needed to direct the outsourced work.
- 12          (5)    This study's hourly rate comparison actually understates the cost advantages that  
13                    accrue to NJAWC from its use of the Service Company. Outside service  
14                    providers generally bill for every hour worked. Service Company exempt  
15                    personnel, on the other hand, charge a maximum of 8 hours per day even when  
16                    they work more hours. If all overtime hours of Service Company personnel were  
17                    factored into the hourly rate calculation, the Service Company would have had  
18                    an even greater annual dollar advantage than the \$16.2 million cited above.
- 19          (6)    It would be difficult for NJAWC to find local service providers with the same  
20                    specialized water industry expertise as possessed by the Service Company staff.  
21                    Service Company personnel spend substantially all their time serving operating  
22                    water companies. This specialization brings with it a unique knowledge of water

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1 utility operations and regulation that is most likely unavailable from local service  
2 providers.

3 (7) Service Company fees do not include any profit markup. Only its actual cost of  
4 service is being recovered from NJAWC ratepayers.

5 **8. Q. What conclusions were you able to draw concerning question number 3, whether**  
6 **the 2010 costs of the Service Company's customer account services, including**  
7 **those of the National Call Centers, were reasonable?**

8 A. The cost of the Service Company's customer accounts services, including those provided  
9 by the National Call Centers, is well below the average of the neighboring electric utility  
10 comparison group. As will be explained further herein, this group of companies provides  
11 a reasonable proxy group for comparison to a regulated utility of the size and scope of  
12 the Service Company and NJAWC. During 12 months ended March 31, 2017, the cost  
13 of customer accounts services for NJAWC customers was \$20.92 compared to the 2016  
14 average of \$48.58 for neighboring electric utilities. The highest comparison group per  
15 customer cost was \$103.52 and the lowest \$12.71.

16 **9. Q. What conclusions were you able to draw concerning question number 4, whether**  
17 **the services NJAWC receives from the Service Company are necessary?**

18 A. I was able to draw the following conclusions:

19 (1) The services that the Service Company provides are necessary and would be  
20 required even if NJAWC were a stand-alone water utility.

21 (2) There is no redundancy or overlap in the services provided by the Service  
22 Company to NJAWC.

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1    **10. Q. Does this complete your testimony?**

2       A. Yes.