

ILLINOIS-AMERICAN WATER COMPANY

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RESPONSE TO ILLINOIS ATTORNEY GENERAL
U.S. DOCKET NO. 07-0507DATA REQUEST NUMBER AG 7.23 AG Cross Exhibit No. 17

Witness _____

Witness Responsible: Stephen P. Schmitt Date 3-26-08 Reporter CB
 Title: Vice President, Operations Services
 Phone No.: (856) 346-8263
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AG 7.23

Does Mr. Schmitt see any value in comparing the performance of IAWC or any of its affiliates or districts with the performance of any other water system? If yes, please explain how Mr. Schmitt would use such comparisons.

RESPONSE

As discussed in Mr. Schmitt's rebuttal testimony, American Water does not consider it appropriate to use the AWWA Benchmarking Survey, or other data of the type used by Mr. Rothstein, for cost or rate comparisons between utility systems and has not used such comparisons to set O&M costs or customer rates. American Water believes that data of this type is not reliable for such purposes because system specific influences can significantly impact such high level metrics. Such influences include, but are not limited to, source of supply differences, treatment requirements, system age, system demand & hydraulics, customer density, investments in automation, service level requirements, labor relations and energy supply and cost. High level calculations of O&M cost per customer or O&M cost per MG produced are broad indicators that reflect the combination of numerous and varied inputs (all elements of O&M costs and subject to differences such as those discussed above) applied against an output variable (number of customers, MG produced) having no specific parameters. The resulting "benchmark" is so general and high level that it becomes of little use. The metric is in actuality just a general survey result, or for Mr. Rothstein's comparison MOUs, a few data points, but not actually a "benchmark" from which a meaningful comparison, decision or conclusion can be drawn. (Note that to ensure that Mr. Schmitt's Rebuttal Testimony is clear on this point, Mr. Schmitt intends to revise his testimony to state, at lines 76-80, "American Water also has not used the Benchmark Survey for

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO ILLINOIS ATTORNEY GENERAL
DATA REQUEST NUMBER AG 7.23
PAGE 2

analysis of Operations & Maintenance ("O&M") costs or customer rates. For the reasons I will explain in this Rebuttal Testimony, the Benchmark Survey (and data of the type set forth on Exhibit EPR-3) are not appropriate for cost or rate comparison purposes.")

If within an area of study one views a series of tasks or inputs to be a defined process, with the buildup of multiple processes then translating into an entire system, attempting to benchmark at the system level often fails to produce sufficient resolution or visibility into the underlying factors driving the numbers. If, however, the focus of the study is narrowed to processes expected to involve similar activities or transactions (and an expectation of at least some standardization of accounting practices with respect to the costs to be compared), the resulting data may become more specific and potentially useful for some comparative purposes. Thus more narrowly focused performance measurements may have some limited use for comparisons to others performing similar activities. Whether this more limited focus is useful however, still depends on the similarity of conditions and performance levels between the comparison groups. One example of where American Water subsidiaries have conducted comparisons in this more focused and limited fashion is in the area of customer account services expenses using a comparison group of electric utilities within the same geography and of similar size. This was felt to be appropriate in that the customer accounting environment of tasks and processes is sufficiently narrow and similar among utility companies and within a well established regulatory framework (FERC Chart of Accounts) which is used by all the comparison utilities (though not water utilities) to track and report costs in a similar manner. Electric public utilities within FERC jurisdiction are required to maintain their books and records in accordance with the Commission's Uniform System of Accounts and file an annual report using FERC Form 1. This formal process provides at least some expectation of accuracy and consistency of this data as compared to a survey process. Other more focused comparisons could also add value within a performance monitoring and improvement effort by suggesting areas that may be susceptible to improvement. As indicated above, however, a comparison of broad categories of dissimilar expenses, such as

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO ILLINOIS ATTORNEY GENERAL
DATA REQUEST NUMBER AG 7.23
PAGE 3

all "O&M" costs", among entities with no showing of standardized accounting/cost recording practices, and no demonstrated similarity of service area characteristics, operating practices and processes, service area characteristics, facilities, or applicable service and regulatory standards is meaningless.

Date Response Provided: 2.29.08