

**ILLINOIS COMMERCE COMMISSION**

**IAWC EXHIBIT NO. 12.00**

**DIRECT TESTIMONY OF**

**JOHN S. YOUNG**

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**ILLINOIS-AMERICAN WATER COMPANY**

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1                   **I.       WITNESS IDENTIFICATION AND BACKGROUND**

2   **Q1.   Please state your name and business address.**

3   A.   My name is John S. Young. My business address is American Water Works  
4       Service Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ 08043.

5   **Q2.   By whom are you employed and in what capacity?**

6   A.   I am employed by American Water Works Service Company, Inc. (the “Service  
7       Company”) as President. The Service Company is a subsidiary of American  
8       Water Works Company, Inc. (“American Water”) and an affiliate of Illinois-  
9       American Water Company (“IAWC”).

10   **Q3.   Please summarize your education and employment history.**

11   A.   I have a Civil Engineering Bachelor’s Degree from Duke University, and a  
12       Master’s Degree in Environmental Engineering from the University of North  
13       Carolina (Chapel Hill). I have been employed by the Service Company for over  
14       30 years. I began my employment as Director of Water Quality-Eastern Division,  
15       and thereafter held positions of increasing responsibility, including the position of  
16       Director, Engineering Design. From 1991 to 2003, I served as Vice President of  
17       Engineering. I became Chief Operating Officer of American Water (Operating  
18       Companies and the Service Company) in October, 2005, and have been  
19       President of the Service Company since 2005. My resume is attached to this  
20       testimony as Appendix A.

21   **Q4.   Please summarize your responsibilities as President of the Service**  
22       **Company.**

23 A. In this position, I am responsible for managing several functions within the  
24 Service Company, providing appropriate governance and managing the financial  
25 performance of the Service Company.

26 **Q5. Mr. Young, what is the purpose of your testimony?**

27 A. As IAWC witness Karla O. Teasley explains, in the last IAWC rate order, the  
28 Illinois Commerce Commission (“Commission”) required that in its next rate filing,  
29 IAWC include certain information regarding the costs incurred by IAWC for  
30 services provided by the Service Company. As Ms. Teasley indicates, I am one  
31 of the five witnesses presented by IAWC to address this requirement. My  
32 testimony will describe each area of service provided by the Service Company to  
33 IAWC. In addition, I will discuss certain information provided by the Service  
34 Company for use by IAWC witnesses Bernard L. Uffelman and Mark Young in  
35 connection with the Service Company Cost Study marked for identification as  
36 IAWC Exhibit 11.01.

37 **II. DESCRIPTION OF SERVICES**

38 **Q6. Please discuss the areas of service provided by the Service Company that**  
39 **are available to IAWC and other American Water subsidiaries.**

40 A. The principal areas of support services available through the Service Company  
41 are Communications and External Affairs, Corporate Finance, Customer Service,  
42 Division Operations Support and Regulated Operations, Human Resources,  
43 Information Technology Services, Legal, Operations Services, and Shared  
44 Services. Each of these areas includes governance and support responsibilities.  
45 For example, governance responsibilities would include areas such as general

46 policies and practices, and financial and operational oversight. Support related  
47 activities and other areas of service will be discussed below.

48 **Communications and External Affairs**

49 **Q7. Please describe the Communications and External Affairs**  
50 **(“Communications”) function.**

51 A. The Communications function provides comprehensive coordination and support  
52 for the broad spectrum of communications needs of the Operating Companies,  
53 including IAWC. The customers of IAWC (and other Operating Companies),  
54 governmental officials and employees require various types of information. The  
55 Communications function is structured to provide standardized information  
56 resources at an efficient cost, and works with IAWC personnel to assure the  
57 accuracy of all information provided. As one method of communication, the  
58 Communications function works with IAWC in preparing website information  
59 concerning such matters as rates, service application requirements, bill payment  
60 information, a Customer Bill of Rights required by Illinois law, and other customer  
61 information.

62 **Corporate Finance**

63 **Q8. Please discuss the Corporate Finance function of the Service Company**  
64 **and the services provided by this function to IAWC.**

65 A. The Service Company Finance function works in coordination with IAWC  
66 employees, and supports rate activities, budget preparation and analysis, and  
67 other regulatory and financial analysis as requested by the management of  
68 IAWC. The Service Company team includes employees located in St. Louis,

69 Missouri; Voorhees, New Jersey; and the Shared Service Center (“SSC”) located  
70 in Cherry Hill, New Jersey.

71 The Service Company Finance function is organized into the following  
72 areas - Treasury, Controller, and Planning and Reporting. Treasury administers  
73 the investment by American Water in the common equity of the Operating  
74 Companies, and oversees the borrowing and debt compliance requirements of  
75 American Water Capital Corporation (AWCC) and the Operating Companies.  
76 AWCC is a wholly owned subsidiary of American Water that pools the financial  
77 needs of the American Water subsidiaries in order to secure cost-effective  
78 financing for the Operating Companies.

79 The Controller function provides research and interpretation of accounting  
80 pronouncements of regulatory agencies such as the Financial Accounting  
81 Standards Board and the Internal Revenue Service. It is also responsible for the  
82 implementation of required internal controls that protect the interests of  
83 customers and investors.

84 Planning and Reporting reviews the accounting of, and coordinates the  
85 preparation of budgets and financial forecasts for IAWC, other Operating  
86 Companies and the Service Company. This group implements expense controls  
87 and performs variance analysis and detail reviews of Service Company charges  
88 to the Operating Companies.

89 **Customer Service Center**

90 **Q9. Please explain the purpose and operations of the Service Company’s**  
91 **Customer Service Center function.**

92 A. The Customer Service Center (“CSC”) of the Service Company performs many of  
93 the activities involved in providing customer service, including call center  
94 operations and centralized billing and collections activities. Although the CSC is  
95 physically located in two different locations (Alton, IL and Pensacola, FL), it  
96 operates as one organization. These facilities respond to virtually all customers  
97 inquiries from the Operating Companies.

98 **Q10. What customer service functions are performed at the CSC?**

99 A. The CSC responsibilities include the following:

100 *Call Handling* – receive, handle and process inbound customer calls and  
101 correspondence (mail, fax, e-mail) regarding billing, collections, and services;  
102 respond to customer needs; create service orders as required.

103 *Billing* – calculate bills, process adjustments, resolve billing issues.

104 *Collections* – manage collection of unpaid bills, issue notices, handle outbound  
105 calling, issue shut-off orders, resolve collection disputes, and handle bankruptcy  
106 processing.

107 *Education & Development* – train new hires and provide ongoing and refresher  
108 training.

109 *Quality Control* – monitor quality of call handling, service order creation, billing  
110 and collections, and provide reports to CSC leadership regarding quality of call  
111 handling for coaching and ongoing development.

112 *Support Functions* – provide needed finance, work force management, human  
113 resources, information technology, and administration functions, including cost

114 control, recruitment, human resource, staffing, scheduling, overtime needs,  
115 administrative functions, and system/desktop support.

116 **Q11. How does the CSC provide customer service?**

117 A. The CSC and IAWC work together to provide high-quality service delivery to  
118 customers in Illinois. CSC functions include greeting customers making inbound  
119 calls, answering their questions, handling their requests, processing service  
120 orders, processing correspondence, billing accounts, and collecting on accounts.  
121 IAWC field service operations are responsible for reading meters and providing  
122 other required field services to customers.

123 The CSC operates a telephone system to route and deliver calls to call  
124 handling agents, or Customer Service Representatives (“CSRs”). Calls from  
125 Operating Company customers can be answered at either location, with the  
126 exception of certain calls requiring specialized customer support. The CSC uses  
127 a computer telephony interface for screen-pop delivery to CSRs, Interactive  
128 Voice Response (“IVR”) and speech recognition to provide self-service  
129 functionality, and servers for real-time and historical call statistics and reporting.  
130 As calls are received, they are identified by an automatic call distributor (“ACD”)  
131 according to type (e.g., emergencies, inquiries, service calls) and are either  
132 delivered to a waiting CSR or are queued pending CSR availability. The CSC  
133 uses workforce management software for CSR scheduling. This system enables  
134 call center managers to schedule staff, measure performance, and analyze  
135 trends and opportunities, while learning of customer concerns and working with  
136 call center staff.

137                   Operational continuity is assured by routing and switching for personal  
138                   computers and the voice network. Backups are performed off-site. The CSC  
139                   has battery backup and an on-site generator to ensure continuous operation of  
140                   its systems. In addition, it maintains a 24 x 7 maintenance agreement for on-site  
141                   or remote technical support.

142   **Q12. Does the CSC assess the quality of interactions with customers?**

143   A.    Yes. The CSC monitors calls to ensure that customers' issues are resolved  
144           efficiently and courteously. Active listening, effective problem diagnosis and an  
145           emphasis on first-call resolutions are critical metrics developed in response to  
146           customer survey results.

147   **Q13. Does the CSC use any other means to assess performance?**

148   A.    The CSC monitors and tracks internal metrics to assess overall performance and  
149           effectiveness. These include, but are not limited to, service level, abandonment  
150           rate, average speed of answer and first-call resolution.

151   **Q14. Please further discuss the operations of the CSC.**

152   A.    The CSC answers customer calls 24 hours per day, seven days per week. The  
153           CSC is able to effectively smooth call volume peaks by handling a traditional  
154           daily call distribution over the entire day with the latest staffing and scheduling  
155           programs. This enhances customer convenience and improves service levels by  
156           spreading peak volumes. The CSC also invests in leading-edge training facilities  
157           and techniques, which have led to improved first-call effectiveness and increased  
158           customer satisfaction.

159                   The CSC provides economies of scale in the use of technologies needed

160 to meet increasing customer expectations, ongoing comparison with established  
161 measures of service excellence, and a focus on improving customers'  
162 experiences in contacting the Operating Companies, including IAWC.

163 One example of the CSC's services for Illinois is the Chicago Metro  
164 District "specialty desk." In response to increased customer inquiries in Chicago  
165 Metro in 2005, a Chicago-area "specialty desk" was established at the CSC.  
166 Calls coming from the Chicago area have been routed to specially trained CSRs.  
167 CSRs have received additional in-depth training about Chicago systems,  
168 processes and billing, and are available to Chicago Metro customers "24/7".

169 **Divisional Operations Support and Regulated Operations**

170 **Q15. Please describe Divisional Operations Support and Regulated Operations.**

171 A. The Service Company's Western Division multi-state management support  
172 organization provides support to IAWC, primarily in the areas of customer  
173 relations and engineering related services. Customer relations includes Field  
174 Resource Coordination Center ("FRCC") employees that provide support for  
175 activities such as bill reviews and service order reviews, and to IAWC Field  
176 Service Representatives ("FSRs") with regard to dispatch and monitoring of field  
177 work. For example, utilizing innovative software systems implemented several  
178 years ago as part of the "Service First" program, the FRCC coordinators are  
179 responsible for assigning service orders to the FSRs and, throughout the day,  
180 monitoring the FSRs progress and the status of "special handle" service orders  
181 received during the day, such as emergency orders. Customer Service also  
182 includes "Time Critical" employees to assist in the processing of same day

183 service orders like water quality and emergency service requests. Because the  
184 FRCC covers multiple states in the Western Division, it can achieve economies  
185 of scale in the provision of these support services to IAWC. Engineering support  
186 includes assistance in engineering related areas, such as capital program  
187 planning, design, and construction and comprehensive planning activities.

188 Regulated Operations, through the President of Regulated Operations,  
189 provides senior executive management oversight of all Operating Companies.  
190 The President of Regulated Operations is ultimately responsible for the  
191 operational and financial performance of the Operating Companies, including  
192 IAWC, as well as for the effective performance of the national Customer Call  
193 Center.

194 The services performed for IAWC as described above promote integrated  
195 and consistent management and operational support and guidance to drive best  
196 operating practices, facilitate access to cost effective capital, and to thereby help  
197 ensure high quality, reliable, service to customers.

198 The Service Company also provides similar operational support services  
199 to the Eastern Division, which does not provide services to IAWC.

## 200 **Human Resources**

### 201 **Q16. Please discuss the Human Resource function.**

202 A. The Human Resources function (“HR”) is responsible for employees from the  
203 beginning of their employment to the termination of their employment and/or  
204 retirement. HR is organized into five areas: Compensation and Benefits,  
205 Employee and Labor Relations, HR Systems and Processes, Business Center

206 and Corporate Staffing, and Organizational and Talent Development. These  
207 functional areas administer compensation and benefits plans, performance  
208 review procedures and forms, HR-related policy and practice administration, and  
209 HR policy analysis and research.

210 Some of the areas of service provided to IAWC include employee benefits,  
211 discrimination issues, collective bargaining unit negotiation strategies, as well as  
212 employee issues, including hiring practices, employee development, training and  
213 relocations. The areas of service provided by HR are further discussed below:

- 214 ■ *Benefits/Benefits Service Center* – Members of HR working in the Benefits  
215 and Compensation area operate a national Benefits Service Center  
216 (“BSC”) for the Operating Companies. The BSC is staffed with specialized  
217 employees who have the knowledge and skill-set necessary to address  
218 employee and retiree questions and to resolve questions raised on a daily  
219 basis by active employees, retirees and their dependents, regarding  
220 obtaining benefits to which they are entitled under benefit plans and  
221 programs.

222 Since the Service Company utilizes a bid process to select benefit  
223 service providers for the Operating Companies, multiple providers may be  
224 selected to provide various types of benefits. As a result, it is more  
225 efficient for the Service Company to staff, equip and operate the BSC to  
226 address the benefit administration questions of active employees, retirees  
227 and their dependents through a single source rather than to rely on  
228 separate communication by the affected individuals with multiple providers.

229 Through the BSC, the Operating Companies receive a cost advantage  
230 from large volume purchasing of benefits plans covering all Operating  
231 Companies, and a reduced cost for administration and vendor selection.

232 ■ *Compensation* – HR designs, implements, and manages compensation  
233 programs that:

- 234 • ensure cost-effective operations and provide strong  
235 competitive market positioning. In establishing compensation  
236 levels, HR conducts extensive research regarding market-  
237 based compensation levels applicable to each employee  
238 position;
- 239 • support the attraction and retention of talent;
- 240 • reinforce the performance culture;
- 241 • put accountability in the hands of line management; and
- 242 • comply with regulatory and statutory requirements.

243 ■ *HR Policy and Practice Administration* – HR also develops and  
244 administers HR-related policies and practices, and conducts industry-wide  
245 HR policy research and analysis for all levels of management. In addition,  
246 HR prepares required reports to governmental agencies at the state and  
247 federal levels.

248 ■ *Labor and Labor Relations* – HR supports Operating Company personnel  
249 with regard to labor relations by:

- 250 • providing training for field negotiations teams;
- 251 • providing information regarding national labor market trends;
- 252 • overseeing recruiting using a variety of national and regional  
253 job boards for all Operating Companies. This approach  
254 reduces the cost of access to these services by leveraging  
255 the combined size of the Operating Companies to obtain  
256 better pricing while localizing recruiting efforts. As a result,

257 IAWC incurs a lower cost for recruiting than it would if this  
258 process were handled on a stand-alone basis;

259 • overseeing and administering the applicant tracking system.  
260 In this regard, HR negotiates price advantages for the  
261 identification of candidates based on the combined volume  
262 of Operating Company use of the services involved;

263 • overseeing and administering background screening for  
264 applicants (criminal background, drug testing, education  
265 confirmation, etc.). HR also obtains volume purchase  
266 discounts for the Operating Companies for background  
267 check services; and

268 • providing training tools and guidance for various employee  
269 development initiatives (supervisory training, ethics/respect  
270 training, etc.).

## 271 **Information Technology Services**

272 **Q17. Please describe the organization and operations of the Information**  
273 **Technology Services (“ITS”) function.**

274 A. The ITS organization is comprised of six departments: Enterprise Architecture,  
275 Security Architecture, Infrastructure and Operations, Business Application  
276 Development, Client Services and Support, and the Project Management Office  
277 (“PMO”).

278 The Enterprise Architecture team focuses on long range ITS technology  
279 planning. The objective is to focus on technologies that provide value to the  
280 Operating Companies, are cost-effective to implement and maintain, and are  
281 consistent with expected performance standards. The objective of Security  
282 Architecture is to develop strategies, policies, and standards for ITS resources  
283 that will ensure information security. Key responsibilities of this organization  
284 include developing information security processes that achieve risk management  
285 objectives and information security controls and measures that protect Operating

286 Company customers' identities.

287 The Infrastructure & Operations team is responsible for the operations,  
288 support, and maintenance of the data center, voice and data communications  
289 infrastructure. This includes responsibility for all the servers in the data center,  
290 back-up and recovery processes, voice and network performance, and bill print  
291 and distribution operations.

292 The Business Application Development team focuses on the design,  
293 development, and delivery of software applications necessary for Operating  
294 Company requirements. Business Application Development also provides  
295 maintenance support for all application-related technology. The team also  
296 addresses ongoing enhancement requests and upgrades to applications.

297 The Client Services and Support organization provides many levels of end  
298 user support. These functions include end user desktop support, service desk  
299 support, user access provisioning, change control management, desktop and  
300 software patching, cyber-security monitoring, vulnerability management, and  
301 security testing.

302 The PMO is responsible for the management of all projects within ITS.

303 As compared to a stand-alone operation for each Operating Company, the  
304 Service Company ITS Function reduces the per-customer cost incurred for  
305 information technology services by taking advantage of economies of scale and  
306 scope, volume discounts where applicable, and by spreading IT costs over the  
307 larger customer base of the combined Operating Companies. For example, ITS  
308 is able to drive down the per customer cost of software licenses based on total

309 volume purchases of the required licenses. Similarly, ITS is able to leverage the  
310 server infrastructure, purchasing fewer larger servers to house applications,  
311 instead of multiple smaller servers at each Operating Company, all of which have  
312 to be monitored, patched, and maintained. With the ITS approach, fewer total  
313 servers can then be maintained by fewer individuals, with less time consumed.  
314 Similarly, applications can be developed and maintained centrally instead of at  
315 each Operating Company. The individual Operating Company approach, by  
316 contrast, would require application changes to be made multiple times, as well as  
317 more resources with more idle time, because of the number of skill-sets required  
318 and the lower volume of work in each of those skill-sets for a single Operating  
319 Company.

320 The ability to efficiently employ the specialized skills of personnel is also a  
321 key benefit provided by ITS. The operation and maintenance of a single software  
322 application requires multiple people with specialized skills because most of the  
323 requisite skills are not found within a single individual. Through ITS, IAWC has  
324 access to a team of skilled technicians that IAWC could not provide on a cost-  
325 effective basis through a stand-alone approach. The work required to maintain  
326 the server infrastructure is the same regardless of the number of end users (e.g.,  
327 10 or 1000) because the application residing on the server has all the same  
328 functions. Additionally, application developers typically specialize in a specific  
329 set of languages. Due to the specialized nature of the skills of each technician,  
330 IAWC as a stand-alone could not as efficiently employ the services of the  
331 required technical staff.

332 **Legal**

333 **Q18. Please describe the Legal function.**

334 A. The Legal function consists of team members who provide legal support for  
335 many aspects of Operating Company functions, including those of IAWC. When  
336 specialized legal counsel is required, members of the legal function make  
337 decisions to select and retain outside counsel. Members of the legal function also  
338 are responsible for corporate governance responsibilities, such as the Corporate  
339 Secretary function for the Operating Companies and the preparation of required  
340 materials for the Operating Company Board of Directors meetings. Members of  
341 the Legal function team also provide legal advice regarding litigation, regulatory  
342 matters, business development, contract negotiations, financings, labor  
343 (including collective bargaining, and the handling of grievances and arbitrations),  
344 purchasing and general corporate matters. Members of the legal team also  
345 provide advice regarding the interpretation of environmental laws and  
346 regulations.

347 In addition, Legal function team members handle certain civil litigation and  
348 manage claims made against the Operating Companies, including IAWC. Legal  
349 team members negotiate for, and review, property easements, leases, and  
350 handle acquisitions and dispositions of real estate. Team members also conduct  
351 discussions with developer representatives regarding the installation of main  
352 extensions and draft-related agreements. In addition, team members conduct  
353 negotiations with governmental bodies regarding franchises for operations within  
354 the boundaries of particular governmental entities. Members of the Legal team

355 also assure compliance with all business registration, licensing and corporate  
356 reporting requirements.

357 As a regulated entity, IAWC must comply with a host of national, state and  
358 local laws, rules and regulations, and is subject to regulations by various state  
359 and federal administrative agencies. The legal function provides IAWC with  
360 access to specialized legal personnel with knowledge and experience related to  
361 the areas of law that affect IAWC's operations on a cost-effective basis. Through  
362 the Legal function, IAWC's legal cost is below the amount it would incur to retain  
363 stand-alone, in-house legal personnel due to the sharing of cost with other  
364 Operating Companies. The Legal function also provides IAWC with access to  
365 legal expertise at a cost below that of retaining outside counsel.

#### 366 **Operations Services Department**

367 **Q19. Could you please describe the Operations Services Department?**

368 A. Operations Services is a multi-disciplined department comprised of technical,  
369 operations and business professionals serving American Water subsidiaries in  
370 the following functional areas: (1) Engineering; (2) Maintenance & SCADA  
371 Services; (3) Innovation and Environmental Stewardship; (4) Central Laboratory  
372 Services; (5) Supply Chain; (6) Best Operating Practices; and (7) Operational  
373 Risk Management. Each of these groups is responsible for establishing and  
374 implementing functional strategies with supporting policies, practices and  
375 standards. These groups also provide specialized consultancy expertise and  
376 resources to the Operating Companies, including IAWC, as appropriate, to  
377 address issues or events, support implementation of functional strategies and

378 augment Operating Company staff on larger or more complex projects. The  
379 Operations Services Department leverages both economies of scale and scope,  
380 as well as expertise to provide highly experienced, specialized resources to the  
381 Operating Companies in a cost-effective manner. The Operations Services  
382 teams are also charged with driving best practices in their respective functional  
383 areas to produce service level benefits and operational efficiencies that  
384 otherwise would be lost.

385 **Q20. Please further discuss the individual functional areas within Operations**  
386 **Services.**

387 A. The following sections provide greater detail on each of the Operations Services  
388 functional departments.

389 1. Engineering.

390 The Engineering group leads the Service Company's functional initiatives  
391 in the areas of Asset Planning and Capital Investment Management ("CIM"),  
392 Technical Services and Design Management, and Project Delivery and  
393 Construction Management. The Asset Planning group maintains the water and  
394 wastewater system planning standards and provides technical resources to the  
395 Operating Companies as needed to support or perform system specific capital  
396 improvement master planning. The output of the asset planning effort is the  
397 primary input to the Operating Companies' and the Service Company's Capital  
398 Investment Programs ("CIP"), and the Engineering function is charged with  
399 establishing and administering the corresponding CIM Policy, Practice and  
400 Standards used to implement the CIP.

401           The Technical Services team within Engineering is responsible for  
402 maintaining the technical standards, specifications, approved product listings, etc.  
403 applicable to the asset base. This team also provides specialized engineering  
404 expertise in the areas of treatment process selection and design, and the  
405 structural, geotechnical, electrical and control system disciplines. Resources  
406 from this group are used, upon request, to augment the Operating Company  
407 staffs to study alternatives and develop conceptual design solutions and manage  
408 the detailed design effort for larger or more complex capital projects.

409           The Project Delivery and Construction Management team is charged with  
410 developing and maintaining the various project delivery models and supporting  
411 documents needed to satisfy the range of projects (size, complexity, schedule  
412 drivers, etc.) to be delivered in the CIP. Project delivery methods include  
413 traditional design-bid-build delivery and a range of alternative project delivery  
414 methods. The Project Delivery team provides guidance and training on the  
415 selection of project delivery methods. Resources from this group are used to  
416 augment the Operating Company staffs on larger and more complex projects to  
417 develop bidding and contract documents, administer the bidding and award of  
418 contracts and to manage the construction, field inspection and facility  
419 commissioning tasks. The group also investigates innovative approaches to  
420 complete needed projects on a cost-effective basis.

421           This approach to functional alignment within the Engineering discipline  
422 produces timely, high quality, and proactive capital plans with efficient and  
423 effective technical design, procurement and delivery of the CIP.

424 2. Maintenance and SCADA Services.

425 The Maintenance and SCADA Services department provides technical  
426 services in the areas of maintenance management, equipment testing and  
427 diagnostics, and Supervisory Control and Data Acquisition (“SCADA”) systems.  
428 The resources and expertise in this department supplement the Operating  
429 Company staff and are charged with implementing the Service Company’s  
430 Reliability Centered Maintenance (“RCM”) and SCADA strategies. RCM is a  
431 widely recognized best practice that proactively considers service level  
432 requirements, related asset criticality, asset failure cost and other factors, in  
433 order to set forth an appropriate and cost-effective maintenance plan. RCM also  
434 requires the assessment of asset condition, performance of equipment diagnostic  
435 testing and predictive maintenance tasks. The Service Company has developed  
436 the expertise within the Maintenance Services staff to provide these services  
437 which include infrared thermography, advanced vibration analysis, motor winding  
438 analysis, insulating and lubrication oil testing, ultrasonic testing, as well as other  
439 more traditional electrical and mechanical testing and diagnostic techniques.  
440 When deficiencies are identified through the diagnostic testing, the Maintenance  
441 Services Department also performs the needed repairs. The Maintenance  
442 Services team has also recently completed the design and configuration of a  
443 Computerized Maintenance Management System (CMMS) for the Operating  
444 Companies. Currently, around 7,000 assets are being managed within the  
445 American Water system, and the expanded deployment of this system is  
446 continuing. IAWC will begin building its database for the system in 2009.  
447 SCADA services provided by this group include setting strategy, technical and

448 equipment standards and providing programming services and field technician  
449 support. These services address ongoing equipment and control system  
450 calibration, maintenance and repairs, emergency response support during  
451 operational events and providing system configuration input, design support and  
452 control system programming for new and expanded facilities.

453 3. Innovation and Environmental Stewardship.

454 The Innovation and Environmental Stewardship function is a team of  
455 scientists and environmental engineers charged with setting Environmental  
456 Policy and directing the Service Company's programs for water quality,  
457 environmental compliance and stewardship, and applied research. The team is  
458 also responsible for regulatory interface (for example, with the United States  
459 Environmental Protection Agency ("USEPA")), including the direct input and  
460 collaboration on new or updated water quality or environmental regulations. This  
461 team also conducts comprehensive facility environmental audits and provides  
462 expert resources to operations when needed to address difficult treatment, water  
463 quality or other complex environmental issues. The applied research efforts of  
464 this function are tailored to serve the needs of the Operating Companies and  
465 include nationally recognized work in the areas of drinking water quality,  
466 infrastructure needs, and wastewater. The research activities are well aligned  
467 with Operating Company needs.

468 4. Central Water Quality Laboratory.

469 The Central Laboratory, located in Belleville, Illinois, is a key service  
470 offering supporting American Water's mission to provide high quality drinking  
471 water to customers and the communities it serves. The Laboratory employs

472 highly skilled scientific personnel and is certified by the Illinois Environmental  
473 Protection Agency (“ILEPA”) and other state water quality certification programs  
474 in states where the Operating Companies provide service. These certifications  
475 are done in accordance with the requirements set forth by the National  
476 Environmental Laboratory Accreditation Conference. The Laboratory provides  
477 timely, accurate and cost-effective water chemistry analytical services to assure  
478 regulatory compliance, support treatment process control and optimization,  
479 maintain and improve distribution system water quality, and address customer  
480 inquiries related to water quality.

481           Using many certified analytical methods, nearly 53,000 water quality tests  
482 were conducted in 2008 covering more than 100 regulated analytes under the  
483 Safe Drinking Water Act (and approximately 200 analytes in total). As a  
484 dedicated facility, the Laboratory consolidates all analytical testing and archived  
485 data in a single location and is able to offer a higher level of service, at a lower  
486 cost, when compared to the alternative of commercial laboratories. This topic is  
487 further discussed in the testimony of Mr. Edward Grubb. The higher service  
488 levels include sample kit scheduling, shipping and management, filing of  
489 analytical reports to meet regulatory compliance requirements, comparison of  
490 test results to regulatory limits and action levels with immediate issuance of alerts  
491 as needed, and the handling of rush or special requests. The Laboratory works  
492 closely with the USEPA and other laboratories to maintain an expert position on  
493 challenging and new analytical methods and upcoming regulations. In 2008, the  
494 Laboratory became one of only 14 laboratories in the country to achieve

495 certification for the testing methods related to Phase 2 of the USEPA  
496 Unregulated Contaminant Monitoring Rule (UCMR2). Through these efforts, the  
497 Laboratory is able to provide expert guidance to American Water field personnel  
498 for complex water chemistry conditions and analytical requirements for current  
499 and new regulations.

500 5. Supply Chain Department.

501 The Supply Chain Department engages in strategic sourcing on behalf of  
502 Operating Companies. Through strategic sourcing, Supply Chain procures  
503 goods and materials, such as chemicals, pipe, meters, hydrants and other items  
504 directly from manufacturers, thus eliminating the mark-up from distributors and  
505 maintaining a direct vendor management relationship with the manufacturer. For  
506 goods and materials that cannot be procured nationally, procurement  
507 professionals perform a similar function by working with regional suppliers to  
508 obtain beneficial pricing on items such as copper tubing and certain other items  
509 which must be purchased regionally. Strategic sourcing also includes the  
510 sourcing of local contractors who perform duties such as, street paving, residual  
511 removal/disposal and distribution system routine replacement and repair. By  
512 consolidating the purchasing needs of all Operating Companies, each Operating  
513 Company, including IAWC, benefits from economies of scale that would not  
514 otherwise be obtained. In 2008, the Supply Chain Department managed more  
515 than 800 vendor agreements covering approximately \$560 million of external  
516 spend for the Service Company. Through these efforts the Service Company  
517 achieved Purchasing Performance savings of more than \$42 million for all  
518 Operating Companies. Of this amount, the savings realized by IAWC were

519 approximately \$6.6 million. Purchasing Performance savings are the difference  
520 between the average market price quoted to the Supply Chain Department and  
521 the price paid by the Operating Companies for goods and materials procured.  
522 This is a conservative measure of the savings achieved through Supply Chain's  
523 strategic sourcing activities.

524           Within the Supply Chain Department there is an energy management  
525 group which works with local Operating Company operations staff and third-party  
526 electric providers to enter into long-term contracts that lock in rates for the  
527 Operating Companies' large consumption locations. The goals of this energy  
528 supply procurement process are to achieve lower pricing than would be possible  
529 without an agreement and to reduce price volatility. Where Operating Company  
530 facilities are served under a regulated tariff instead of by a competitive provider,  
531 the Supply Chain takes steps to ensure that its facilities are served at the most  
532 appropriate and cost-effective rate schedule.

533           Supply Chain also administers American Water's Supplier Diversity  
534 Program. American Water recognizes the value of supplier diversity as a  
535 strategic business decision and our Supplier Diversity Policy broadens the  
536 supplier base, increases competition, and ensures that American Water receives  
537 the finest materials and services at the best available cost.

538 6.    Best Operating Practices.

539           The Best Operating Practices ("BOP") team specializes in the areas of  
540 water treatment and production facility operations, distribution system operations  
541 and maintenance, and field customer service. This team also administers  
542 Customer Satisfaction and Service Quality survey programs. The team

543 collaborates with numerous operational working teams to develop practices or  
544 strategies in the areas of distribution system operations and maintenance, meter  
545 reading, material inventory, and field customer service. The BOP team also  
546 conducts targeted operational reviews.

547 7. Operational Risk Management.

548 The Operational Risk Management function administers the following  
549 programs for the Operating Companies, including IAWC: Health and Safety,  
550 Operational and Physical Security, Event Management, Business Continuity and  
551 Emergency Response Planning, Hazardous Materials Management, Accident  
552 Investigation and Claims Management related to Workers Compensation,  
553 General and Auto Liability.

554 Through these focused efforts IAWC has been able to achieve  
555 improvements in terms of reduced injury rates, lost workday cases, and workers  
556 compensation claims. The reduction of work-related injuries is a positive  
557 indicator of business performance in that safe working conditions, worker  
558 productivity and effective safety programs are not mutually exclusive, but rather  
559 are synergistic. Strong safety performance results in higher productivity,  
560 improved business efficiencies and customer service through decreased  
561 employee absenteeism, decreased overtime and decreased administrative costs.  
562 It also results in higher employee morale which positively impacts productivity. In  
563 the area of security, the Service Company supports the efforts of Operating  
564 Companies to insure the safety and security of Operating Company customers  
565 and employees.

566

567 **Shared Service Center**

568 **Q21. Please describe the Shared Service Center (“SSC”).**

569 A. The SSC provides various accounting and financial activities on behalf of the  
570 Operating Companies, including IAWC. The services provided include, but are  
571 not limited to: general accounting, financial reporting, payroll processing and  
572 reporting, oversight of accounts payable and purchasing card transactions,  
573 invoice payments, the processing of capital expenditures and fixed asset  
574 processing, the receipt and distribution of cash (cash management), tax-related  
575 services, and providing support for the rates and regulation functions of IAWC  
576 and other American Water subsidiaries.

577 Operation of the SSC allows IAWC (and the other Operating Companies)  
578 to realize economies of scale that could not be obtained on a subsidiary stand-  
579 alone basis. Also, the use of specialized software technology at the SSC, such  
580 as for asset capitalization and maintenance, sales and use tax management,  
581 treasury workstation, automated cash handling, bank lockbox management and  
582 invoice scanning and documentation software, provide benefits to each  
583 Operating Company. The cost to purchase, implement, and train the users of  
584 these vital technologies would be higher for IAWC on a stand-alone basis.  
585 Centralizing the knowledge-base necessary to utilize these technologies allows  
586 IAWC (and other Operating Companies) to realize additional economies of scale.

587 **Other Services**

588 **Q22. Are there other services available to IAWC through the Service Company?**

589 A. Yes. The discussion above addresses the principal areas of service. The

590 Service Company, however, provides certain other services for the Operating  
591 Companies, including IAWC, which include:

592 (1) Business Development – This function provides coordination for the  
593 Operating Companies of business development resources, activities and  
594 reporting, including acquisition support and training;

595 (2) Regulatory Programs – This function provides the Operating Companies with  
596 expertise and support as needed with respect to regulatory issues and policies.  
597 Regulatory Programs also provides support for litigation involving rate cases and  
598 other regulatory proceedings or investigations, as well as civil litigation.

599 (3) Internal Audit – The Internal Audit team conducts periodic audits of accounts,  
600 records, policies and procedures; and

601 (4) Investor Relations – This function has strategic responsibility that integrates  
602 expertise in finance, communication, marketing and securities law compliance to  
603 enable effective communication with the financial community. Such programs  
604 maximize the financial resources of the Operating Companies, enabling them to  
605 support the infrastructure necessary to meet its public service obligations at a low  
606 cost to customers.

### 607 III. SERVICE COMPANY COST STUDY

608 **Q23. Did the Service Company provide information which was utilized by**  
609 **Deloitte & Touche, LLP (“Deloitte & Touche”) in preparing the Service**  
610 **Company Cost Study marked for identification as IAWC Exhibit 11.01?**

611 A. Yes. As discussed in IAWC Exhibit 11.01, the Service Company provided to  
612 Deloitte & Touche information regarding the services expected to be provided to  
613 IAWC for the 2010 forecasted test year. This information included: an

614 identification of the business units and locations providing services; the functional  
615 areas of service; the categories of service to be provided; the job titles of the  
616 personnel expected to provide service; the number of positions by job title; the  
617 number of hours expected to be worked in providing service; and the cost  
618 expected to be incurred (including the cost of labor, labor overheads, building  
619 and office costs and other overheads). The information included the projected  
620 unitized cost per hour for each service.

621 The Service Company also worked with Deloitte & Touche in assigning  
622 the Service Company positions to the market service pricing categories identified  
623 by Deloitte & Touche through its market research. The alignment of Service  
624 Company personnel with the market categories was based on consideration, for  
625 each position, of the work responsibilities and the required level of education,  
626 training and experience.

627 Also, as discussed in IAWC Exhibit 11.01, Deloitte & Touche requested  
628 information from American Water with regard to the pricing of services offered to  
629 or obtained by American Water or one of its subsidiaries from non-affiliate  
630 providers in relevant markets. As discussed in IAWC Exhibit 11.01, Deloitte &  
631 Touche utilized this information to supplement the market data obtained from  
632 other sources. The Service Company obtained the supplemental data from  
633 sources throughout the American Water system, and provided the information to  
634 Deloitte & Touche. The forecasted Service Company hourly cost and  
635 supplement market data referenced above was utilized in preparing the following  
636 Schedules of IAWC Exhibit 11.01: 1.1, 2.1, 2.2, 3.1, 3.3, 4.1, 4.4, 5.1 and 5.2.

637 Each Schedule identifies the information that the Service Company provided. As  
638 shown, Schedules 1.1, 2.1, 3.1, 4.1 and 5.1 of Exhibit 11.01 were prepared by  
639 the Service Company.

640 The Service Company also provided to Deloitte & Touche with the  
641 forecasted customer service cost data for the Service Company shown on  
642 Schedule 7.1 of IAWC Exhibit 11.01. As in the case of the hourly cost data  
643 referenced above, the forecasted data utilized for Schedule 7.1 is based on the  
644 2010 forecast data utilized for the test year.

645 **Q24. Does this conclude your direct testimony?**

646 A. Yes.

# APPENDIX A

# JOHN S. YOUNG, JR.

**Business:** American Water  
1025 Laurel Oak Road  
Voorhees, New Jersey 08043  
856-346-8250

**Education:** B. S. Civil Engineering, Duke University, 1975;  
M.S. Environmental Engineering, University of North Carolina at Chapel Hill,  
August 1977 (two year program)  
Thesis: "Chloroform Formation in Public Water Supplies: A Case Study";  
presented at the 97th Annual Convention of AWWA, May, 1977; published  
JAWWA February, 1979

## Employment Record:

**President**  
**7/08 - Present**

**American Water Works Service Company**  
**American Water Services**

Responsible for the management of American Water Works Service Company which provides functional support services to the business and operation of American Water utility subsidiaries. Responsible for a business transformation program to improve process and efficiency, enhance customer service and replace antiquated IT systems across the business. Additionally responsible for facilitating and managing growth opportunities within American Water.

**Chief Operating Officer**  
**10/05 – 7/08**

**American Water**

Responsible for developing and integrating the Company's strategic plan including establishing balance between the company's immediate business goals and long-term vision, developing and implementing policies, procedures and standards, as well as maintaining and enhancing quality service.

**Vice President – Operations and Investment Performance**  
**11/03 – 10/05**

**American Water**

Responsible for the following functions/activities:

- 1) Identifying and implementing operational improvements, and efficiencies and best practices across the business;
- 2) Managing the Americas Region \$600M capital program;
- 3) Risk Management – Health & Safety, Security and Event Management;
- 4) Environmental compliance, management and stewardship;

- 5) Engineering;
- 6) Research & Technology.
- 7) Assessment of commercial and growth initiatives.

**Vice President – Technical Services**  
**1/03 – 11/03**

**American Water**

Responsible for managing the American Water technical services including the engineering, environmental management and research functions. Additionally, responsible for improving business performance through identifying and implementing operational efficiencies, material procurement and energy management initiatives. Provide technical leadership for commercial opportunities to maximize value and performance.

**Vice President – Engineering**  
**4/91 – 1/03**

**American Water Works Service Co., Inc.**

Responsible for managing the engineering function of the American Water System. This includes the preparation of comprehensive planning studies for system operations in twenty-two (22) states and the design, design overview and construction management of projects involving water supply, treatment, pumping, distribution and transmission facilities. Responsibilities also include development of engineering standards, project management procedures, employee development and business development.

**Director – Engineering Design**  
**1/86 – 4/91**

**American Water Works Service Co., Inc.**

Responsible for managing engineering design for American System Engineering Office. Responsibilities include:

- 1) Review and approval of in-house design of water treatment, pumping and storage facilities.
- 2) Development of detailed design concepts and coordination of water works design and construction.
- 3) Pilot plant testing and start-up of new or expanded facilities.
- 4) Instruction at training seminars.
- 5) Technical presentations.
- 6) Expert testimony.

**Director – Engineering Planning**  
**9/84 – 12/85**

**American Water Works Service Co., Inc.**

Responsible for managing engineering planning for American System Engineering Office. This group developed Comprehensive Planning Studies for water systems which included water demand projections and regional water supply plans, analysis of sources of supply and production facilities and modeling of distribution systems.

**Supervising Engineer**  
**10/82 – 9/84**

**American Water Works Service Co., Inc.**

Served as project engineer for the major design projects within System Engineering Office and supervised personnel on other design and planning projects.

**System Environmental Engineer**  
**12/79 – 10/82**

**American Water Works Service Co., Inc.**

Project engineer with primary responsibility for process, hydraulic, chemical feed and instrumentation and control design and coordination of structural, electrical and HVAC for new and renovated water works facilities. These facilities included turbidity removal, greensand filtration, lime softening, GAC adsorption, air stripping and residual solids processing.

**System Water Quality Engineer**  
**10/78 – 12/79**

**American Water Works Service Co., Inc.**

Evaluated the performance and efficiency of treatment facilities for American System Water Quality Office.

**Director of Water Quality –  
Eastern Division**  
**9/77 – 10/78**

**American Water Works Service Co., Inc.**

Responsible for the review and implementation of recommendations to improve finished and raw water quality, treatment efficiency and laboratory.

**Teaching Assistant**  
**9/76 – 6/77**

**University of North Carolina**

Involved the preparation and instruction of laboratory exercises for three graduate level courses in water and wastewater unit processes.

**Student Research Assistant**  
**9/75 – 9/76**

**Bogue Sound Water Quality Study**

**University of North Carolina**

Duties included field sampling and collection of background data to develop recommendations for pollution abatement.

**Assistant Engineer**  
**1975, 1976 (part-time)**

**Wiggins-Rimer & Associates**

Collection and analysis of watershed and stream flow data for 208 regional water quality/quantity planning studies.

**Professional Certifications**

Registered Professional Engineer in multiple states.

**Professional Organizations:**

**National Drinking Water Advisory Council (2001- 2007)**

NDWAC Affordability Workgroup

NDWAC Water Security Workgroup

**American Water Works Association**

Standards Council Member

Chair – AWWA/ASDWA Additives Committee

1992-1994 New Jersey Section Program Committee Chair

1994-1999 New Jersey Section Board of Trustees

1997 New Jersey Section Chair

1994 Fuller Award Recipient

2007 – 2010 AWWA Board of Directors

**American Society of Civil Engineers**

**Design/Build Institute of America**

Board Member 2004-2010

Treasurer 2009

## **USEPA Effective Utility Management Workgroup**

**Court Appointed Special Master, Jefferson County  
Alabama – Sewer System. November 2008**

### **Civic:**

#### **Trinity Presbyterian Church**

Board of Deacons

Moderator – Board of Deacons

Elder – Session

President – Board of Trustees

Chair - \$1.5 Million Capital Campaign

### **Awards:**

Betty Anne Simon Dollar Energy Low Income Community Award,  
2007.

Distinguished Alumnus Award: University of North Carolina –  
Chapel Hill, School of Public Health, 2008.

### **Presentations and Publications:**

- “Effective Utility Management Application of the EUM Primer”, presented at the 2009 AWWA/WEF Utility Management Conference, in New Orleans, LA, February 2009.
- “Energy Management & Alternative Energy Use in the Water Sector”, presented at the Mayors Water Council Summit, in Palm Beach, FL, November 2008.
- “Privatization/Regionalization in Water Resource Management”, presented at a memorial symposium for Dr. Daniel A. Okun, in Chapel Hill, NC, November 2008.
- Key Note Speaker, NJAWWA Annual Conference, Atlantic City, NJ, March 2008.
- “State of the Sector – Water Emerging Trend” presented at the Center for Public Utilities Current Issues Conference, in Santa Fe, NM, March 2008.
- “Water Resource Technologies” presented at the National Drinking Water Symposium, in La Jolla, CA, October 2007.
- Keynote – “U.S. Water System Needs and Affordability” presented at the National Low Income Energy Consortium Conference (NLIEC), in Nashville, TN, June 2007.
- “Emerging Water Utility Trends” presented at the New Jersey Section – American Water Works Association, March 2007.
- “Effective Water Utility Management – Goals, Performance, Planning & Leadership” presented at the New Jersey American Water Works Association Seminar, February 2007.
- “Challenges and Benefits of Total Water Management” Published in *Underground Infrastructure Management*; November/December 2006.

- ◆ “Challenges and Benefits of Total Water Management”, Published in *Journal* of the American Water Works Association; June 2006.
- ◆ “A Paradigm Shift for Owners”, Design-Build and the Water/Wastewater Sector: Risks and Opportunities, Published in *Design-Build DATELINE*; January 2006.
- ◆ “Emerging Water Utility Trends” presented at the Association of Metropolitan Water Agencies, 2005 Annual Meeting; October 2005.
- ◆ “American Waters Business Process Transformation: Enhancing Asset Management” presented at the American Water Works Association, National Convention; June 2005.
- ◆ “High Performance Supply Chain” presented at the International Utilities and Energy Conference – Barcelona, Spain; April 2005.
- ◆ “Affordability: An Industry Perspective” presented at the National Association of Water Company Conference; October 2004.
- ◆ “Small Systems Affordability” presented at the National Association of Regulatory Utility Commissioners (NARUC) Conference; February 2003.
- ◆ “Automation and Instrumentation, Making the Most of Technology in Our Operations” presented for American Water Works Association teleconference; November 2000.
- ◆ “The Future of Drinking Water Treatment” presented to the American Water Works Association – Water Quality Technology Conference; November 1999.
- ◆ “Waste Stream Recycle” presented to U.S. EPA Stakeholders Meeting for Filter Backwash Recycle Rule; July 1998.
- ◆ “Innovative Project Delivery Techniques” presented to the American Water System – Annual Business Forum; April 1997.
- ◆ “Facility Reliability and Reserve Capacity” presented to the American Water System – Annual Business Forum; May 1996.
- ◆ “Facility Automation” presented to the American Water System – Annual Business Forum”; May 1995.
- ◆ “Source Remediation” presented to the American Water System – Annual Business Forum”; May 1995.
- ◆ “Industry Leadership through Participation in Water Industry Activities” presented to the American Water System – Annual Business Forum; May 1994.
- ◆ “Preparing a Request for Proposal” presented to the American Commonwealth Management Service meeting; March 1990.

- ◆ “Using Technology as a Management Tool – Management through Facility Design” presented at American Water System Management Seminar; May 1988.
- ◆ “Process Selection for Arsenic Removal” presented to the Indiana Section – American Water Works Association; November 1987.
- ◆ “Pilot Treatment Studies for the Kentucky River” presented to the Kentucky-Tennessee Section – American Water Works Association; September 1987.
- ◆ “On-Line Instrumentation – Practical Consideration” presented to the New Jersey Section – American Water Works Association; March 1986.
- ◆ “Pilot-Scale Investigation of Air Stripping for Removal of Volatile Organics” presented to New Jersey Section – American Water Works Association; September 1981.
- ◆ “Utilization of Belt Filter Press for Dewatering Water Treatment Plant Sludge” presented to the New Jersey Section – American Water Works Association; September 1981.
- ◆ “Operating Experience with Granular Activated Carbon” presented to the New Jersey Section – American Water Works Association; September 1979.
- ◆ “Chloroform Formation in Public Water Supplies: A Case Study” presented to the 97<sup>th</sup> Annual Convention of the American Water Works Association; May 1977. Published in *Journal* of the American Water Works Association; February 1979.
- ◆ “Adsorption of Alkyl Phenols by Activated Carbon”; Singer, Yen, Young; presented at American Chemical Society – Division of Environmental Chemistry; September 1978.
- ◆ “Adsorption of Phenolic Constituents of Coal Conversion Wastewaters”; Singer, Yen, Young; presented at the Purdue Industrial Waste Conference; 1977.

**Guest Lecturer:** Johns Hopkins University: “Pilot Studies for Process Selection”.  
 Rowan University: “Challenges in the Water Industry”.  
 Lehigh University: “Water Treatment Process Selection Criteria”

**Instructor:** American Water System – Water Treatment Plant Design Course.