

**DIRECT TESTIMONY
OF
DANIEL P. HUNNELL II**

**WITH REGARD TO
PENNSYLVANIA AMERICAN WATER
NORTHEAST WASTEWATER OPERATIONS
LABOR AND LABOR
RELATED O&M EXPENSES**

DOCKET NO. R-2010-2166214

DATE: April 23, 2010

DIRECT TESTIMONY OF DANIEL P. HUNNELL II

I. INTRODUCTION

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1. Q. What is your name and business address?

A. My name is Daniel P. Hunnell II. My business address is 800 West Hershey Park Drive, Hershey, Pennsylvania 17033.

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

A. I am employed by Pennsylvania American Water as a Financial Analyst II.

3. Q. Please summarize your educational background and professional experience.

A. I am a 1990 graduate of DeVry University of Columbus Ohio with a Bachelor of Science Degree in Business Operations, with a minor in accounting. I have been employed by Pennsylvania-American Water (“PAW” or the “Company”) or the American Water Works Service Company since June 1995. From 1995 through 1999, I served as a Collection and Billing Representative. In 1999, I participated on a project team which facilitated the implementation of a new customer service software program. In 2000, I was promoted to Billing Supervisor. In this position, I managed a team of employees which completed the customer billing and billing related functions for the eastern districts of Pennsylvania. In 2001, I moved to the Compliance Department as a Compliance Specialist. In this position, I acted as a point of contact for the Commission’s Bureau of Consumer Services (“BCS”). I was also charged with investigating and responding to informal and mediation

1 complaints filed with the BCS. In 2009, I was promoted to my current position as
2 a Financial Analyst II.

3 **4. Q. What are your duties as Financial Analyst II?**

4 **A.** My duties include the preparation and presentation of rate applications for PAW.

5 **5. Q. Have you previously submitted testimony before the Pennsylvania Public
6 Utility Commission?**

7 **A.** No. However, I have assisted in the preparation of water rate applications before
8 this Commission. I have also assisted in the preparation of water rate applications
9 presented to the Maryland Public Service Commission and the Virginia State
10 Corporation Commission.

11 **6. Q. What is the purpose of your testimony?**

12 **A.** The purpose of my testimony is to explain the portions of Exhibit No. 3-A that I
13 am sponsoring, which relate to the Company's claims for labor and labor related
14 expenses.

1 **II. SALARIES AND WAGES**

2 **7. Q. Please explain the Company’s claim for salaries and wages expense.**

3 **A.** The adjustment to salary and wage expense shown on page 22 of Exhibit No. 3-A
4 was made to reflect the Company’s projected complement of hourly and salaried
5 employees as of the end of the future test year and to annualize the impact of
6 salary and wage rate increases, including annual incentive pay, to be granted
7 through June 30, 2011. The annualization of salary and wage rate increases for a
8 period of six months beyond the future test year was approved by the Commission
9 in its Orders at Docket Nos. R-00943231, R-00016339 and R-00038304. The
10 details of these calculations are set forth in Exhibit No 3-B.

11 **8. Q. What was the basis for the increases in wages and salaries used in developing**
12 **the Company’s claim?**

13 **A.** Wage and salary expense was annualized for hourly employees and salaried
14 employees based on the actual increases granted as of January 2010. In addition
15 wage and salary expense was further annualized to reflect a 3% increase projected
16 to become effective in January 2011 for both hourly and salaried employees.

17 **9. Q. How did the Company determine the portion of total wages and salaries to be**
18 **charged to expense?**

19 **A.** During the historic test year ended December 31, 2009, 4.59% of direct labor
20 costs for the employees claimed in the pro forma salary and labor claim was not

1 charged to O&M expense accounts. This same relationship was assumed in
2 developing the Company's future test year claims.

3 **III. GROUP INSURANCE AND OTHER PAYROLL RELATED**
4 **EXPENSES.**

5 **10. Q. Please explain the development of the adjustment for group insurance shown**
6 **on page 23 of Exhibit No. 3-A.**

7 **A.** The annualized employee group insurance expense for the twelve months ended
8 December 31, 2010 was calculated by first determining the annualized group
9 insurance cost per employee at January 31, 2010. The annualized group insurance
10 cost per employee was then applied to the future test year complement of 4
11 employees, and an amount representing the employee contribution for healthcare
12 coverage was subtracted. The result is the Company's annualized group insurance
13 cost. Since group insurance is an employee cost, it is charged to O&M expense in
14 proportion to direct labor charges. Because 4.59% of labor cost was not charged
15 to expenses (as previously explained), the same percentage was used to calculate
16 the Company's group insurance expense claim. Details of this adjustment are
17 contained in Exhibit No. 3-B

18 **11. Q. Are there any other payroll-related expenses?**

19 **A.** Yes, there are two. First, page 33 of Exhibit No. 3-A sets forth the Company's
20 claim for payroll taxes based on historic and future test year salary and wage
21 expense levels. Second, on page 24 of Exhibit No. 3-A, the Company has made a

1 future test year claim for 401K and defined contribution plan costs. As in the case
2 of group insurance, 4.59% of the calculated payroll taxes, 401K and defined
3 contribution plan costs was not charged to O&M expense. The detailed
4 calculations of these adjustments are contained in Exhibit No. 3-B.

5 **12. Q. Does this conclude your testimony at this time?**

6 **A.** Yes, it does.