

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

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

**DOCKET NO. R-2010-2166212**

**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 a  
2 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 am  
13 sponsoring, which relate to the Company's claims for labor and labor related  
14 expenses.



1 9. Q. Why has the Company claimed the costs associated with its Annual Incentive  
2 Pay (AIP) program as part of its overall salaries and wage expense?

3 A. The Company used a three-year average percentage of actual AIP expense in its  
4 calculation for pro forma purposes. The Company recognizes the opportunity and  
5 the accountability its employees share in achieving the superior level of service they  
6 provide to customers. The Company uses a combination of salary and incentive  
7 compensation to attract and retain employees, and improve performance and  
8 efficiency. Competition for quality employees is keen. In recruiting new employees  
9 or retaining existing employees, we are competing with general industry in the state  
10 and the region, which includes companies in the pharmaceutical, manufacturing,  
11 high tech, and service industries in addition to other water utilities and energy  
12 companies. Our incentive compensation plan is designed to provide our employees  
13 with a total compensation package that is on par with those offered by companies  
14 with whom we compete for employees. Our incentive compensation plan  
15 emphasizes customer service, environmental compliance, a safe work environment,  
16 and other operational goals, as well as certain financial goals which focus on  
17 efficient operation. The companies with whom we compete for employees as a  
18 norm offer a compensation package that includes an incentive program. We would  
19 be at a competitive disadvantage in the marketplace if incentive compensation was  
20 deleted from our overall compensation package. In that situation, we believe we  
21 would lose the ability to attract and retain the talented people we need. Our  
22 incentive plan is not an “extra”, but rather is an essential part of what we hope

1 makes our compensation reasonable in comparison to other companies with whom  
2 we compete for employees.

3 **10. Q. How did the Company determine the portion of total wages and salaries to be**  
4 **charged to expense?**

5 **A.** During the historic test year ended December 31, 2009, 3.77% of direct labor costs  
6 for the employees claimed in the pro forma salary and labor claim was not charged  
7 to O&M expense accounts. This same relationship was assumed in developing the  
8 Company's future test year claims.

9 **III. GROUP INSURANCE and OTHER PAYROLL-RELATED**  
10 **EXPENSES**

11 **11. Q. Please explain the development of the adjustment for group insurance shown**  
12 **on page 26 of Exhibit No. 3-A.**

13 **A.** The annualized employee group insurance expense for the twelve months ended  
14 December 31, 2010 was calculated by first determining the annualized group  
15 insurance cost per employee at January 31, 2010. The annualized group insurance  
16 cost per employee was then applied to the future test year complement of 13  
17 employees, and an amount representing the employee contribution for healthcare  
18 coverage was subtracted. The result is the Company's annualized group insurance  
19 cost. Since group insurance is an employee cost, it is charged to O&M expense in  
20 proportion to direct labor charges. Because 3.77% of labor cost was not charged to  
21 expenses (as previously explained), the same percentage was used to calculate the

1 Company's group insurance expense claim. Details of this adjustment are contained  
2 in Exhibit No. 3-B

3 **12. Q. Are there any other payroll-related expenses?**

4 **A.** Yes, there are two. First, page 38 of Exhibit No. 3-A sets forth the Company's  
5 claim for payroll taxes based on historic and future test year salary and wage  
6 expense levels. Second, on page 27 of Exhibit No. 3-A, the Company has made a  
7 future test year claim for 401K and defined contribution plan costs. As in the case  
8 of group insurance, 3.77% of the calculated payroll taxes, 401K and defined  
9 contribution plan costs was not charged to O&M expense. The detailed calculations  
10 of these adjustments are contained in Exhibit No. 3-B.

11 **13. Q. Does this conclude your testimony at this time?**

12 **A.** Yes, it does.