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September 25, 2015

Ingrid Ferrell  
Executive Secretary  
Public Service Company  
201 Brooks Street  
Charleston, WV 25301

02:33 PM SEP 25 2015 PSC EXEC SEC DIV

Re: 15-0676-W-42T

15-0674-WS-D  
15-0675-S-42T

Dear Ms. Ferrell:

I enclose for filing in the above referenced proceeding the original and twelve copies of the public version of the Direct Testimony of Fred Darryl Stottlemeyer which is being offered in the above-styled matter by Advocates for a Safe Water System. I also enclose the original and two copies, under seal, of the confidential version of the Direct Testimony of Fred Darryl Stottlemeyer.

Please contact me if you have any questions regarding this filing.

Sincerely,

*Paul R. Sheridan /CHK*

Paul R. Sheridan

Enclosure

cc: Service List

Public Service Commission of West Virginia

02:33 PM SEP 25 2015 PSC EXEC SEC DIV

West Virginia American Water  
Company Rule 42T application to  
increase water rates and charges

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)  
)

Case No. 15-0676-W-42T

**DIRECT TESTIMONY  
OF  
FRED D. STOTTLEMYER**

**ON BEHALF OF  
ADVOCATES FOR A SAFE WATER SYSTEM**

**PUBLIC VERSION**

***September 25, 2015***

1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2 A. My name is Fred Darryl Stottlemyer and my home address is 751 Gordon Drive Charleston, WV.

3 Q. ARE YOU CURRENTLY EMPLOYED?

4 A. No. I am retired but work approximately half time as the Central American volunteer field  
5 coordinator for the International Rural Water Association and as the Chairman of the Board of the  
6 International Rural Water Association. Prior to my retirement I was General Manager of the Teays  
7 Valley and South Putnam Public Service Districts, predecessors to the Putnam PSD, for 28 years, from  
8 1976 until 2004. In 1976, I was employed as a planner with the Kanawha County Regional Development  
9 Authority. From 1973 to 1975 I was a special assistant to the President of the United Mine Workers in  
10 Washington D.C. From 1971 to 1972, I worked as a planner with the Community Services program at  
11 West Virginia Tech. From 1970 to 1972, I was the Director of the Knowledge Power program with the  
12 Rural Development Association in Charleston WV. From 1962 to 1964, I was a Peace Corps volunteer  
13 serving in Pakistan.

14 Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

15 A. I am a 1962 graduate of Bethany College, Bethany WV with a degree in sociology and did graduate  
16 work in Urban and Regional planning at the University of Pittsburgh. I was on the board of directors of  
17 the National Rural Water Association for 20 years and served as Vice President of that organization. I  
18 was a board member of the West Virginia Rural Water Association for 20 years, and I served as a board  
19 member of the International Rural Water Association and as President of that board for a number of  
20 years.

21

22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF WEST VIRGINIA?

1 A. Yes. I have testified numerous times before the Commission in certificate and rate cases as part of  
2 my employment with the Teays Valley and South Putnam Public Service Districts. I have also submitted  
3 testimony in Case No. 14-0872-W-GI.

4 Q. HAVE YOU REVIEWED THE INFORMATION SUBMITTED BY THE COMPANY IN THIS CASE?

5 A. Yes I have reviewed the Company's direct testimony and responses to discovery. I also reviewed the  
6 "Kanawha Valley System Comprehensive Planning Study", which was made available to me for review at  
7 the office of the Company's legal counsel.

8

9 Q. PLEASE PROVIDE AN OVERVIEW OF YOUR FINDINGS.

10 A. According to these documents, approximately two thirds of the 28% proposed rate increase is to  
11 cover costs associated with capital expenditures.<sup>1</sup> The Company is seeking to include in rate base both  
12 the capital expenditures that it has made since the last rate case (since July 1, 2012) totaling  
13 approximately \$105 million and capital investments that it plans to make through February 2017  
14 totaling approximately \$98 million.<sup>2</sup>

15

16 The Company continues to experience a high rate of water loss, particularly within its Kanawha Valley  
17 Division where it reports a loss rate more than twice the acceptable standard of 15% established by the  
18 Public Service Commission. Due to this high water loss rate I expected to find that the capital  
19 expenditures made by the Company would give a high priority to the replacement of water mains. But  
20 according to Mr. McIntyre's testimony, at the 2014 level of investment, the replacement rate for the

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<sup>1</sup> Direct testimony of John Tomac, p. 12 lines 1-7

<sup>2</sup> Direct testimony of John Tomac p. 9, lines 18-21

1 Company's water mains is 384 years. As noted by Company witness Morgan, 384 years is "longer than  
2 the useful life of our infrastructure."<sup>3</sup>

3

4 Q. HAVE YOU REVIEWED THE INFORMATION SUBMITTED BY THE COMPANY RELATIVE TO ITS CAPITAL  
5 INVESTMENTS FOR MAIN REPLACEMENT AND IF SO WHAT ARE YOUR FINDINGS?

6 A. Yes I have. From the information provided in the Company's submittals it is clear that the largest  
7 portion of the Company's recent and proposed capital expenditures for main replacements are  
8 categorized as "Mains – Replaced / Restored" or "Mains – Unscheduled". From July 1, 2012 through  
9 December 31, 2014, the Company spent \$11.4 million on main replacement/restoration and \$10.5  
10 million on unscheduled main replacement. <sup>4</sup> From January 1, 2015 through February 28, 2017, the  
11 Company plans to spend \$12.6 million on main replacement/restoration and \$11.5 million on  
12 unscheduled main replacement.<sup>5</sup>

13

14 Q. WHAT IS UNSCHEDULED MAIN REPLACEMENT?

15 A. The Company's witness Brett Morgan in response to a discovery question stated that "Unscheduled  
16 main replacement is typically used for capital replacement of a short section of main due to a leak."<sup>6</sup> It is  
17 my observation that much of its line replacement effort is not being carried out in a planned fashion but  
18 instead is a result of leak repairs that occur on the system. While leak repair is a necessary maintenance  
19 activity to assure the supply of water to customers, leak repairs on aged lines which have reached or  
20 nearly reached their useful life clearly do not increase the capital value of the system nor significantly  
21 improve the system reliability over the longer term.

22

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<sup>3</sup> Direct testimony of Brett Morgan, p. 21 line 16.

<sup>4</sup> Response to ASWS 2-011.

<sup>5</sup> Response to ASWS 1-005.

<sup>6</sup> Response to ASWS 2-007.

1 Q. DO YOU BELIEVE IT IS APPROPRIATE FOR THE COMPANY TO INCLUDE UNSCHEDULED MAIN  
2 REPLACEMENT AS A CAPITAL EXPENSE?

3 A. No. While main repair costs are necessary and the Company is entitled to recover those costs it is  
4 questionable whether the Company should be permitted to capitalize such costs for the purpose of rate  
5 determination. An analogy of this practice would be for a building owner to increase the rent on his  
6 tenants each time he made a hasty repair to a leaky roof. While a tenant may expect a rent increase if  
7 the owner replaced the entire roof he would not readily accept paying for frequent temporary patches  
8 after a leak had disrupted the use of their rented space.

9

10 Q. IF THE PROPOSED RATE INCREASE IS APPROVED, DOES THE COMPANY PLAN TO REDUCE THE  
11 REPLACEMENT RATE FOR ITS SYSTEM BELOW 384 YEARS?

12 A. Apparently not. The Company stated in response to discovery that if its rate increase request is  
13 approved, "the funds allocated to main replacements are not expected to significantly reduce the 384  
14 year main replacement life cycle."<sup>7</sup>

15

16 Q. IN ADDITION TO THE COMPANY'S INSUFFICIENT INVESTMENT IN MAIN REPLACEMENT, DO YOU HAVE  
17 OTHER CONCERNS WITH THE COMPANY'S INVESTMENT STRATEGY?

18 A. Yes. [[BEGIN CONFIDENTIAL

19 END CONFIDENTIAL]]

20

21 Q. PLEASE EXPLAIN.

22 A. The Company recently experienced a major main failure in Dunbar, impacting at least 25,000  
23 customers, on a pre-cast concrete pipe.

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<sup>7</sup> Response to ASWS 1-006

1 I was aware that this type of pipe was used by the Company on an extensive basis at the time it  
2 constructed the Kanawha Valley treatment plant and the related transmission system in the early  
3 1970's. Last year I became aware through an article in the magazine *Water Efficiency* that this type of  
4 pipe manufactured during the period when the Company made its installations was the subject of  
5 frequent failures in a number of cities around the country and in effect had reached its useful life and  
6 was requiring complete restoration and/or replacement even though it was only a little over 40 years  
7 old. It was only a few months later that the first public report of this main failing on the Company's  
8 system was reported on Charleston's West side, and not long after that the major failure took place in  
9 Dunbar.

10

11 Due to the nature of this type of pipe, repairs are both difficult and costly and in some situations are  
12 most efficiently completed by shutting down the main and installing special manway entries for workers  
13 to enter the pipe and make the repairs from the inside. While the leak itself may only involve a short  
14 section of pipe the repairs including the installation of a sealable manway are extremely costly.

15

16 Q. WAS THE COMPANY AWARE OF THIS RISK?

17 A. [[BEGIN CONFIDENTIAL

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END CONFIDENTIAL]] It appears that the Company investment strategy is not to include the restoration or replacement of this main in its capital budget through 2020<sup>8</sup>, other than for those costs associated with making leak repairs as they occur and including those repairs as unscheduled main replacements. Based on the national experience it is highly likely that the frequency of problems and failures of the Company's pre cast concrete pipe will become more frequent as the pipe ages, and that while the cost of repairs will be excessive these expenditures will not be a true restoration of this pipe but rather just be expensive patches without adding any capital value.

Q. DID YOUR REVIEW OF THE COMPREHENSIVE PLAN FOR THE KANAWHA VALLEY SYSTEM REVEAL ANY OTHER SIGNIFICANT INFORMATION?

A. [[BEGIN CONFIDENTIAL

END CONFIDENTIAL ]]

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<sup>8</sup> Response to CAD DEP 1-045.



1 Because my review of the Comprehensive Plan was limited, I was not able to undertake an in-depth  
2 review of the majority of projects identified in the Plan. I believe a more detailed analysis of the Plan is  
3 warranted.

4

5 Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH THE COMPANY'S PLANNING PRIORITIES?

6 A. Yes. I notice that the Company proposes to include in rate base \$334,000 for the "Weston to Webster  
7 Springs Interconnection."<sup>9</sup> This amount of money is not sufficient to cover the full cost of the  
8 interconnection project, so I assume that the Company is planning to seek recovery of the expense for  
9 completing the project in a future rate case.

10

11 Indeed, the Company's capital budget dated July 13, 2015 shows that the Company plans to spend \$20  
12 million from 2017 through 2020 on "Weston to Webster Springs Regionalization (Expand Weston WTP  
13 and Interconnect to Webster Springs)."<sup>10</sup>

14

15 It is difficult to see how the proposed investment of \$20 million for the Weston-Webster Springs project  
16 could have any comparable value to a \$20 million investment in replacing or restoring mains in the  
17 Kanawha Valley District. A costly regionalization plan to eliminate the Webster Springs plant has a per  
18 customer cost of around \$20,000 while a similar investment in the Kanawha Valley District would have a  
19 per customer cost of around \$220. In looking at this another way, a \$20 million investment in main  
20 restoration would provide benefit to an estimated 90,000 customers while a similar investment in the  
21 proposed Webster Springs regionalization plan would only benefit around 1,000 customers. Thus the  
22 Kanawha Valley investment would have a 90 to 1 benefit ratio. It has been my experience that the  
23 implementation of a plan requires that priority in investment be given to the items in a plan that deal

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<sup>9</sup> Direct testimony of Brett Morgan at p. 19 line 17 and p. 21 lines 1-9.

<sup>10</sup> Response to CAD DEP 1-045.

1 with the most likely cause for a system's failure and to those investments that result in the greatest  
2 benefit to the most people.

3

4 Q. WHAT ARE YOUR CONCLUSIONS?

5 A. It appears that the Company management has given priority not to those main replacement projects  
6 required to reduce risk but to those projects that either enhance the IT systems, replace meters or  
7 implement regionalization objectives.<sup>11</sup> [[BEGIN CONFIDENTIAL

8

9 END CONFIDENTIAL]]

10

11 As a planner and former water system manager I find the Company's capital investment strategy  
12 inadequate to provide its customers with a reliable water supply.

13

14 Q. WHAT ARE YOUR RECOMMENDATIONS?

15 A. Based on my review of the Company's capital investments, I recommend that the Commission require  
16 a management audit focused on investigating how the Company prioritizes capital investment projects  
17 that are included in rates.

18 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

19 A. Yes.

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<sup>11</sup> From July 1, 2012 through December 31, 2014, the Company invested \$19.6 million in "Computer Software," mainly related to the Company's Business Transformation IT program. The largest category of capital expenditure from January 1, 2015 through February 28, 2017 is the \$15.9 million investment in meter replacement. (See responses to ASWS 1-005 and ASWS 2-010).

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing public version of the Direct Testimony of Fred Darryl Stottlemeyer was served on the 25th day of September, 2015, on the parties and/or counsel of record in the proceeding as follows:

Via Hand Delivery

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Paul R. Sheridan

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