



**State of West Virginia  
Department of Administration  
Purchasing Division**

**NOTICE**

Due to the size of this bid, it was impractical to scan every page for online viewing. We have made an attempt to scan and publish all pertinent bid information. However, it is important to note that some pages were necessarily omitted.

If you would like to review the bid in its entirety, please contact the buyer. Thank you.

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**RESPONSE TO REQUEST FOR QUOTATION FOR  
CONSULTING SERVICES ON  
REVENUE REQUIREMENT ISSUES  
IN RATE FILING OF  
WEST VIRGINIA AMERICAN WATER COMPANY  
PSC CASE NO. 12-1649-W-42T**

**SEALED BID**

**REQUEST FOR QUOTATION NO. PSC13534**

**BID OPENING DATE: FEBRUARY 14, 2013  
BID OPENING TIME: 1:30 PM**

**SUBMITTED TO:**

**Guy Nisbet  
Department of Administration  
Purchasing Division  
2019 Washington Street, East  
P.O. Box 50130  
Charleston, WV 25305-0130**

**SUBMITTED BY:**

**Larkin & Associates, PLLC  
Certified Public Accountants  
And Regulatory Consultants  
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**February 14, 2013**

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**Attachments Bound with Proposal:**

Appendix I – Resumes and Qualifications of Larkin & Associates, PLLC Personnel  
Appendix II – Recent Water Utility Case Summaries for Larkin & Associates PLLC  
Appendix III – Required Forms - Signed “Request for Solicitation”, “Consulting Bid Form”, signed “Vendor Preference Certificate”, signed and notarized “Purchasing Affidavit”, signed “Solicitation Addendum No. 1”, signed “Addendum Acknowledgement Form”, and signed Certification and Signature page”.

## I. COMPANY PROFILE

Larkin & Associates, PLLC is a firm of certified public accountants and regulatory consultants, with offices at 15728 Farmington Road, Livonia, Michigan 48154. The firm is organized as a PLLC in the state of Michigan.

In April 1970, the certified public accounting firm of Larkin, Chapski & Co., was formed by former employees of Peat, Marwick, Mitchell & Co., then a "big eight" accounting and auditing concern. In addition to the auditing, accounting, and tax work typical of CPA firms, Larkin, Chapski & Co., specialized in the area of utility regulation. In September 1982 the firm was reorganized into Larkin & Associates, a certified public accounting and consulting firm with Hugh Larkin, Jr., as senior partner. As such, Mr. Larkin has primary responsibility for all regulatory consulting work performed by the firm. Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. The firm has performed regulatory consulting services for an abundant number of clients.

Larkin & Associates performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.).

Larkin & Associates currently employs eight professional staff members. Of these eight professional staff members, there are three senior professionals, four regulatory analysts and one research associate. The firm also employs secretarial/word processing personnel.

Hugh Larkin, Jr., CPA, is founder and senior partner of Larkin & Associates. As such, Mr. Larkin has ultimate responsibility for all regulatory consulting work performed by the firm and actively participates in the firm's regulatory engagements and presents testimony on a regular basis.

There are two additional senior regulatory consultants on the Larkin & Associates project team: Messrs. Smith and Schultz. These individuals have extensive experience in a variety of public utility regulatory engagements. Each of our senior regulatory consultants is a CPA and presents expert testimony before utility regulatory commissions on a regular basis, and each have at least ten years experience testifying on revenue requirement issues involving regulated utilities.

The other members of our professional staff are regulatory analysts/research associates. They are extensively utilized in regulatory engagements reviewing prior Commission decisions, verifying schedules and workpapers, preparing, reviewing and tracking data requests, and assisting in the preparation of reports and testimony under the supervision of the firm's senior professionals.

Resumes for Larkin & Associates' professionals participating on this project are attached to this proposal as Appendix I.

## II. PROJECT SUMMARY

### Approach to Scope of Work

Per the Request for Quotation (“RFQ”), the Consumer Advocate Division is retaining consultant(s) to review the general rate case filing of West Virginia American Water Company (“WVAWC” or “Company”).

WVAWC is the largest water utility in West Virginia. The Company is requesting a net increase of approximately \$24.073 million or at least 19.7 percent.

The purpose of this contract will be to have Larkin & Associates, PLLC provide technical assistance to the West Virginia Consumer Advocate Division (CAD) by performing a comprehensive analysis of WVAWC's requested increase in base rates. Larkin & Associates proposes to address all revenue requirement issues. This would include rate base, revenues, expenses, service company billings, taxes and operating income, along with all of the sub-areas that fall into these categories. We will coordinate with any issues that CAD would like to have addressed or handled by CAD internal staff.

The ultimate objective of this project involves presenting our conclusions and recommendations, in the form of oral testimony before the West Virginia Public Service Commission (“Commission”). We will assess, in light of the CAD’s regulatory philosophies and goals, an appropriate revenue requirement for WVAWC, which will be finalized at the hearing. Thus, we will determine a revenue requirement that can be effectively and convincingly supported at the proceeding. Our recommended revenue requirement will incorporate the impact of other CAD witnesses’ recommendations on working capital, payroll, consolidated tax savings, rate of return, and any additional areas addressed internally by the CAD in this case. We have worked with the CAD in several past cases and have incorporated the impact of their recommendations in our revenue requirement calculations and recommendations.

In order to meet these objectives, we will perform a thorough review of the Company’s filing and supporting workpapers underlying the request for an increase in rates. From this initial review, we will develop discovery which will extensively question the Company’s representations in the filing, as well as the underlying methodologies and philosophies. Due to the increasing ability to send and receive information electronically, we do not anticipate an on-site review being necessary as part of our audit at this time. However, if based on responses to discovery it is determined that an on-site review may be needed in this case, we will discuss this with the CAD staff assigned to the project. All information obtained through discovery, along with other publicly available information, will not only address the issues set forth in the Company’s filing and testimony, but also to identify other issues that could have an impact on West Virginia ratepayers.

Our findings will be presented first in the form of discussions with the Consumer Advocate Division staff working on the project. Upon completion of the analytical work, we will prepare and submit to the appropriate personnel, drafts of testimony. Subsequent to discussions with these persons, and following their approval, our findings will be

presented to the Commission in the form of written testimony and exhibits. This will be followed with direct oral testimony and cross-examination at the hearings. In order to present a convincing and accurate case to the Commission, we will utilize to the fullest extent possible, our accumulated expertise in accounting, taxation and utility ratemaking.

Testimony in American Water Works Utility Rate Cases

We will use our recent experience with the last WVAWC rate case and other American Water subsidiary rate cases (as well as a detailed review of WVAWC’s 42T filing and testimony in the current case) to help focus on important issues. Mr. Smith has testified in several other American Water subsidiary rate cases in recent years. Recent testimony in rate cases involving other American Water Works utility operating subsidiaries are listed below – copies of testimony can be provided if desired:

Affiliated Utility Company	Docket/Case Number	Testimony	Status
Virginia American	PUE 2008-000009	Direct	Completed; Case Settled; Order Issued
Illinois American (water and sewer rates)	09-0319	Direct and Rebuttal	Litigated; Completed; Commission Order has been Issued
Illinois American (water and sewer rates)	11-0767	Direct and Rebuttal	Litigated; Completed; Commission Order has been Issued
Indiana American	44022	Direct	Litigated; Completed; Commission Order has been Issued
Arizona American* (water and sewer rates)	W-0130A-09-0343	Direct and Surrebuttal	Litigated; Order has been issued
Kentucky American	2010-00036	Direct	Litigated; Order has been issued
Pennsylvania American Four Wastewater Areas (non-consolidated concurrent sewer rate cases):			
Coatesville	R-2010-2166212	Direct	Settled; Order Issued
Claysville	R-2010-2166210	Direct	Settled; Order Issued
Clarion	R-2010-2166208	Direct	Settled; Order Issued
Northeast	R-2010-2166214	Direct	Settled; Order Issued
Pennsylvania American Water	R-2011-2232243	Direct	Settled; Order Issued
West Virginia American	10-0920-W-42T	Direct	Litigated; Order Issued
California American Water	A.10-07-007	Direct	Partially Settled; Order Issued in Phase I for Revenue Requirement

\*Arizona American was sold subsequent to this rate case and is no longer an American Water Works subsidiary.

Specific Tasks

The work on this project will be divided into multiple tasks that provide a sensible, chronological series of expected activities encompassing the required work areas within the established time constraints. The major tasks described below represent the

anticipated approach to the overall scope of work. Interaction with CAD Staff is expected to coincide with all tasks, to provide for substantial input by these persons for the purpose of optimizing project team performance.

1. We will discuss with Staff assigned to the project, the specific approach that the Consumer Advocate Division wishes to follow in this case. This preliminary discussion will cover the areas that are of particular concern to Staff in this case and the time line for all project deadlines. We will coordinate our work with areas being covered by CAD analysts/witnesses to avoid duplication of effort and to assure an integrated and internally consistent final work product.
2. We will perform a detailed review of the Company's filing in the current case and all related testimony and supporting workpapers, as well as any updates and revisions to any of the information filed. We will determine if any new issues are raised by reviewing the Order in the prior case. This will include a thorough analysis, review, and evaluation of all pertinent evidence filed on behalf of all parties in the current case. Based on this analysis, we will advise and recommend an approach to each specific issue that will have an impact on the Company's customers. As we have assisted the CAD and testified on behalf of the CAD in several rate cases, this background will aid us greatly in assisting in this case.
3. We will conduct discovery of WVAWC, sufficient to make a complete analysis of the Company's case. We note that the CAD has already submitted one set of discovery in this case. We will take steps to ensure that our discovery is only supplemental, and not duplicative of, discovery already prepared and submitted by the CAD. We will develop additional Company specific data requests to clarify issues, pinpoint problem areas, obtain follow-up information, and address issues and quantifications unique to this Company and rate case.
4. We will carefully analyze and evaluate the information received in steps 1 through 3, along with responses to discovery already submitted by the CAD in this case. Detailed analyses and evaluations will consider all possible material issues, which affect ratepayers. Based on this evaluation, we will discuss our findings with the Consumer Advocate Division Staff to determine which items should form the basis for proposed adjustments as part of our formal testimony.
5. We will submit drafts of testimony and exhibits in advance of the filing date to provide Staff and Counsel assigned to the project ample time for review.
6. We will thoroughly review, verify, and correct the draft testimony and exhibits to meet the satisfaction of the Consumer Advocate Division in order to have finished copies ready for filing prior to the filing date.
7. We will assist in the drafting of cross-examination questions, as requested by counsel. The primary goal of such cross-examination will be to demonstrate weaknesses

and/or errors in the utility's case, and to elicit agreement from the utility's witnesses concerning appropriate ratemaking theory.

8. We will prepare and present direct oral testimony and stand cross-examination on same. As a result of our extensive experience presenting expert testimony before regulatory boards, we believe that the best preparation for responding to cross-examination by others is to present well conceived, clearly worded and thoroughly verifiable prefiled written testimony at the onset.
9. We will analyze the written and oral testimony of other witnesses, and will prepare oral and/or written rebuttal/surrebuttal as appropriate and as allowed for in the procedural schedule.
10. We will respond to discovery directed to us.
11. We will provide technical assistance subsequent to the hearing in order to assist the CAD in the preparation of post-hearing briefs and the evaluation of issues for possible rehearing, as requested.

#### Substantive Work Plan

This section of our work plan addresses our overall approach to addressing water utility rate case filings. This approach will be modified to address the specifics included in the actual filing of the Company after we begin our detailed review of the filing.

As part of our review, we will review and analyze all of the adjustments being proposed by the Company, with the exception of those specifically being addressed by the CAD. We will also review and analyze areas for which the Company has not proposed specific adjustments in this case.

#### **1. Rate Base**

We would expect to perform the following analysis pertaining to the determination of the rate base:

Analyze the adjustments proposed by the Company to ensure that there is a proper synchronization of rate base with revenue and expense levels. Consideration of West Virginia ratemaking policy will be applied to additions proposed and whether they are known and measurable and/or growth related.

Review the Company's accounting data to assure that the per-book balances included in the rate base are stated appropriately. Also assure that all major balance sheet accounts have, in some way, been accounted for through either the rate base or capital structure ratemaking components.



Review all projections, methodologies, assumptions, budget developments, and any supporting studies or analyses to ensure the reasonableness of the data providing the basis for the test year.

Review all pro forma rate base additions requested by the Company, including post-test year additions reflected in the Company's filing. We will review each of these adjustments and evaluate if the addition of these post-test year additions are appropriate.

Analyze sources of non-investor supplied capital. Determine whether all non-investor supplied capital has either been appropriately deducted from the rate base, or included in the capital structure at zero cost. Balances that should be appropriately deducted from rate base include:

- A. Accumulated deferred income taxes (ADIT), reflecting the fact that this represents non-investor supplied capital. We will review ADIT for these items: (1) impact of repairs deductions; (2) impact from bonus tax depreciation; (3) impact from WVAWC and American Water Works federal net operating loss (NOL) carryforwards; and (4) any claims of "uncertain" income tax positions asserted by the utility. American Water Works changed its tax accounting for repairs in 2008. That changed tax accounting method has been approved by the IRS, and has been reflected by AWWC and its subsidiaries in 2008 as a cumulative change. This has resulted in substantial increases to the ADIT balance which offsets rate base. American Water (the parent) has also reported substantial (over \$1 billion) of NOLs on its SEC filed financial statements. As a result, the parent company may have caused some of its water utility operating subsidiaries to not claim beneficial tax deductions, such as bonus depreciation in some years. In the last WVAWC rate case (as well as in other rate cases from affiliates) the utility argued that the full rate base offset from repairs deductions should not be reflected because a portion of the tax benefits taken were "uncertain" and thus proposed to not reduce rate base by the related amount (the "uncertain" amount was the amount identified for financial reporting purposes pursuant to FIN 48, which requires SEC reporting companies to identify the impact of uncertain tax positions). The repairs deduction uncertain issue may have been resolved by now. Issues involving ADIT, bonus tax depreciation and utility and/or parent company NOLs may need to be addressed. Income tax and ADIT issues could be important and material in the current WVAWC rate case.
- B. Determine whether customer advances or contributions in aid of construction are present on the Company's books and propose recommendations accordingly. Review proposed plant additions, and recommend that customer advances that are to be received on proposed plant additions, be deducted from rate base. We will also consider any possible contributions from the state resulting from the State highway improvement projects.
- C. Review the balance sheet for any other types of non-investor supplied capital, which should be deducted from rate base. These would include reserves for items such as injuries and damages, property damage, self-insurance, etc.

Review all Company adjustments to rate base to assure their propriety. Rate base value adjustments are normally made to update items such as plant in service to a specified date, to adjust working capital and depreciation reserve so that they correspond with adjusted expenses, and to also include adjustments to deferred tax offsets to the rate base. Any adjustments must meet the requirements of being known and measurable. We will propose alternative adjustments and explain through testimony, reasons for rejecting Company adjustments, when said adjustments are believed to be inappropriate.

Review the work orders of each pro forma plant-in-service addition to evaluate the expenditures made to date, the need for such expenditures, the cost/benefit of such investment, and determine if such investment was the result of customer growth. Pro forma plant-in-service additions will be cross-referenced with CWIP balances to ensure that there are no items double counted.

Ensure that components of rate base are determined on a consistent basis with components of capital employed (e.g., 13 month averages, beginning and end of year average balances).

If prepaid balances are included, we will ensure that the Company's accounting for these items is proper. We will investigate the interrelationship of prepaid balances with the determination of cash working capital under the lead/lag study approach, to ensure that no double counting is included in the rate base.

We will ensure that any inclusion of deferred debits is appropriate, and deferred credits will be reviewed so that we may determine whether any accounts or individual sub-accounts are proper as offsets to the rate base.

Evaluate the level of M&S inventory included in rate base, and then determine whether the period used to compute the M&S inventory amount represents a normal level of inventory based on a historical review.

Construction Work in Progress/Allowance for Funds Used During Construction. We will review and analyze the Company's rate base and income amounts relating to this issue.

The Company may include Plant Held for Future Use (PHFFU) in rate base. We will analyze the items requested for inclusion by the Company. This entails verifying dollar amounts, as well as the existence of a definite plan of use within a reasonable time frame for each piece of property held for future use included in rate base. We will then determine whether or not each specific item merits inclusion in rate base.

The Company is requesting recovery of Business Transformation costs as part of its capital additions. This issue was discussed in the recent Illinois-American Water Company (Docket No. 11-0767) and Pennsylvania-American Water Company (Docket No. R-2011-2232243) rate cases. Portions of the BT systems are identified as being in service by the end of the test year used by WVAWC. WVAWC anticipates that the final portions of the BT project will be placed into service post-test year. Cost savings related

to the massive BT implementation by American Water and its subsidiaries may need to be examined, as should issues relating the allocation of the cost of BT among the American Water subsidiaries.

## **2. Operating Income and Expense**

In general, we will review operating income and expenses, including going-level and pro forma adjustments. Our review of the operating income statement will include the following areas:

### **A. Revenues and Sales in the Test Year**

Ensure that current revenues reflect the revenues which should be generated based on the rates currently in effect. This will be done by verifying billing determinants to historical experience.

Analyze the Company's filing to determine if test year sales and revenues are representative of normal going-forward conditions, and propose any necessary adjustments.

Operating revenues will be analyzed to ensure that the proper levels of revenue are reflected in these accounts. We will consider adjustments to annualize sales for year-end customer levels and usage, or weather normalization adjustments after review.

We will closely examine the impact of any large industrial or commercial customers closing operations or adding new operations in the Company's service territory. We will evaluate whether or not any such reductions are supported and reasonable. Likewise, we will also review to determine if any other existing or new large customers have substantially increased their usage either during or shortly after the test year in this case to ensure a balanced approach is taken on this issue.

The Company acquired three water districts beginning in 2007 (Clendinin Municipal Water Works – 2007; Town of Fayetteville Municipal Water Works – 2008; and Upper Kanawha Valley Public Service District – 2012). The revenues collected from these acquisitions were to be collected in phases until the rates would equal WVAWC's standard rates. This rate case includes adjustments for Clendinin at rates effective October 9, 2012 and October 9, 2013, the second and third revenue increases of Upper Kanawha Valley occurring on March 3 of 2012 and 2013, respectively, and the fourth and final phase in of Fayetteville effective October 1, 2012. We will examine these calculations and verify that the appropriate revenue increases have been reflected.

The components of "other revenues" will be reviewed to ensure that an appropriate level of each type has been reflected in the test year.

WVAWC has filed testimony by witnesses claiming revenue adjustments for declining usage. We are familiar with such Company arguments from other cases. It is our understanding that similar adjustments for declining revenue due to lower projected customer usage were rejected by the Illinois Commerce Commission in the most current Illinois American Water rate case, but may have been accepted in some other jurisdictions.

Uncollectible accounts will be analyzed to ensure that the adjusted test year balance is representative of normal conditions. We will review the correlation of uncollectibles to revenues. Test year uncollectibles will be compared to historical results. Additionally, we will:

1. Examine the historical results experienced by the Company in the past in order to determine whether the proposed uncollectibles rate is reasonable, and whether it will likely reflect future occurrences.
2. Examine the method the Company used to calculate uncollectibles for reasonableness and compliance with Commission policy.
3. Determine an appropriate provision for uncollectibles in conjunction with the calculation of the gross revenue conversion factor.
4. Evaluate the level of uncollectibles by computing uncollectibles-to-sales ratios, comparing to historical experience.

We will review test year late payment charge revenues. This review will be coordinated with an analysis of uncollectibles.

Determine if a weather normalization adjustment is necessary.

#### B. Operation and Maintenance Expenses

Operations and maintenance expense will be examined to ensure that the test year does not include unusual or non-recurring maintenance, which should be amortized over a longer period for rate case purposes. Review O&M expense categories for inflation. We will review the calculations and the data being used to derive the normalized level. We will also evaluate whether or not a three-year average level is reflective of "normal" conditions or whether a longer period, such as five-years, is more appropriate. We will take Commission precedent into consideration in evaluating the time frame to be used.

Review O&M expenses for the impact of new plant additions. We will evaluate each of these proposed cost increases and the supporting documentation and projections. We will also review for any potential offsetting cost savings that may result.

WVAWC has proposed adjustments for chemical and power costs. Evaluate such adjustments for whether they are known and measureable, and appropriately quantified.

We will review WVAWC's defined benefit pension expense in the Company's adjusted case. In the Commission's final order in WVAWC's last rate case, the Commission denied CAD's proposal to convert the calculation of pension expense from the ERISA method to a FAS 87 approach; however the Commission stated that they would have approved the conversion with a more complete record and if all parties had the opportunity to review the same actuary report to develop a FAS 87 adjustment recommendation. In that order, the Commission also encouraged parties to present the conversion in the Company's next rate case based on one actuary report that is final and in the record.

Review the Company's accounting for legal expense to ensure that unusual or inappropriate costs are not charged to retail ratepayers. The test year should reflect a normal level of legal expense. Remove any penalties or unusual settlements from test year expenses, which should reflect normal operations. Consider deferral of large legal expenditures for litigation in progress concerning questionable areas, e.g., lawsuits against officers and directors for alleged imprudence.

Review dues for membership in industry associations. Remove lobbying and institutional advertising portion of such dues. Obtain data concerning benefits of association programs to the Company. Review other membership dues for appropriateness as test year expenses.

Analyze test year advertising and marketing expenses. Determine which programs and activities benefit ratepayers and provide a recommendation based on this determination for recovery of advertising and marketing expenses.

Analyze operating and maintenance accounts by primary and sub-accounts to determine whether any significant increases or decreases in these accounts have occurred. Investigate and document the reasons for any significant changes in operating and maintenance expenses. Recommend adjustments for inappropriate increases and for unexplained or unjustified cost increases.

Review to determine whether there were any unusual or non-recurring write-offs made by the Company during the test year that should be either excluded or amortized for ratemaking purposes.

The American Water Works "Business Transformation" initiative has been ongoing for the past few years. The BT had resulted in increased costs, which are allocated from American Water Works Service Company to the operating utilities, largely on the basis of relative customer counts. One of the basis for approval of BT by the American Water Works board was anticipated cost savings. A review may be needed to ascertain whether cost savings are being realized and to assure that they are being reflected to help offset some of the BT costs. Additionally, allocations of BT costs among regulated and nonregulated subsidiaries has been an issue in a number of other cases, and may need to be examined in the current WVAWC rate case as well.

### C. Taxes Other than Income Taxes

Analyze other taxes by type to determine that the tax expense is related only to the test period under consideration.

Verify tax rates to current state statutes. Evaluate trend in property taxes and tax-assessed valuation over a representative historical period.

Analyze the rate used by the Company to determine whether the use of that rate is appropriate for state and municipal taxes.

Examine the tax rates for the major components of state and municipal taxes to ensure that there has been no decrease in state and municipal taxes, which should be reflected in the period being examined.

### D. Below-the-Line Revenues and Expenses

Analyze revenues and expenses in so-called “below-the-line” accounts. Examine these accounts with the intention of determining that these revenues and expenses are properly excluded from the cost of service.

Determine whether the Company has sold any property during the test year or before, and realized a gain on such sales. Determine whether sold property was previously included in rate base to earn a return, or in depreciation expense or property taxes, i.e., included in rates. Consider whether any gain on the sale of such property should accrue to the benefit of the ratepayers.

### E. Income Taxes

Review all tax computations in the rate filing.

Review the Company’s federal tax returns with particular emphasis on Schedule M adjustments.

Review the Company’s deferred income taxes, focusing on any Company proposed normalization treatment deviating from established Commission policy and procedures. Review the development of ADIT accumulated by WVAWC for repairs deductions, consistent with the Commission Order in WVAWC’s last rate case.

Ensure that the income tax expense rates used by the Company are the correct rates.

Ensure that the deduction for domestic production activities is reflected accurately in the Company’s filing if it would be available for the test year. Consider how the DPAD has been derived in affiliate rate cases, including California American.

As appropriate, reflect the impact of consolidated federal income tax savings as a reduction to income tax expense. We are familiar with the calculation of the consolidated tax savings adjustment (CTA) from having recent experience with this in Kentucky American and Pennsylvania American rate cases, as well as the last WVAWC rate case.

#### F. Depreciation and Amortization Expense

Analyze the Company's calculation of test year depreciation expenses to ensure that the depreciation rates used have been approved by the Commission.

Ensure that the depreciable assets used in calculating the depreciation expense agree with the books and records of the Company, or are based on reasonable projections of plant to be in service.

Ensure proper "matching" between depreciation expense reflected in adjusted net operating income and net plant amounts reflected in the rate base, paying particular attention to new additions to rate base. Depreciation Expense can have a major impact on the revenue requirement. We will review the Company's calculation of depreciation rates and related depreciation expense and accumulated depreciation associated with the plant adjustments contained in the case. The cost of removal/negative net salvage component can have a significant impact and be the source of controversy and potential need for adjustment. We will ensure each of these adjustments are calculated correctly and synchronize any recommendations with our recommended treatment of the various plant addition adjustments proposed by the Company.

Review each item being amortized as test year expense. Remove amortizations which will be completed prior to rates set in this proceeding going into effect.

#### G. Administrative and General Expenses

Ascertain the reasonableness of the Company's test year claims for administrative and general expenses. Examine the individual items by account and sub-account detail, to determine whether such amounts properly relate to the provision of water service to ratepayers.

Examine all membership association dues and the related expenses to ascertain the benefit to ratepayers.

Examine all adjustments made by the Company to the test year expenses for reasonableness. Where we find that such adjustments seem unreasonable and do not reflect actual past experience, we will provide alternative amounts to be included as expenses.

Examine all costs associated with Company sponsored programs in order to determine whether such amounts are reasonable, and whether the benefits to ratepayers are commensurate with the cost of the programs.

## H. Affiliated Service Company Expenses

A significant amount of expense is charged to WVAWC from the affiliated service company, American Water Works Service Company (AWWSC). We will address AWWSC charges to WVAWC in detail. We will examine the individual items by account and sub-account detail, to determine whether such amounts properly relate to the provision of water service to ratepayers, and will make appropriate adjustments.

Because of the magnitude of the AWWSC charges to the operating companies, this has been a significant issue of dispute in recent American Water Works utility rate cases in Illinois, Arizona, and Kentucky.<sup>1</sup> We are also aware of some of the recent independent management audit reports that have involved a review of AWWSC charges to utilities, and the concerns raised therein. We are also aware of the non-independent testimony that some of the American Water Works utility subsidiaries have presented in an attempt to justify the overall reasonableness of affiliated charges, including attempted comparisons of AWWSC charges with electric utility data obtained from FERC Form 60 reports.

Review the components of and the allocation of charges to WVAWC from AWWSC, including but not limited to business development, Business Transformation, pension costs, and other AWWSC charges.

## 4. Revenue Requirement

We will review the revenue requirement projected by the Company, and in light of all the recommended adjustments to the Company presentation, independently develop a revenue requirement. The revenue level should be sufficient to enable the utility to recover all of its prudently incurred costs found to be includable in the adjusted test year, plus an adequate return on its capital invested in used and useful assets devoted to the provision of jurisdictional utility service. In other words, total allowed revenues should equal total operating expenses, plus depreciation and an adequate return on investment. This is inclusive of a sufficient level of income taxes to provide the utility an opportunity to earn such return on an after-tax basis.

We will reflect the impact of the recommendations of internal CAD Staff sponsoring adjustments in this case. We will also include the CAD's recommended rate of return in our calculations.

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<sup>1</sup> In four recent Pennsylvania American rate cases, which addressed rate increases for four wastewater utility areas in that state, PAWC had not included AWWSC charges, but had included such charges in its most recent water utility rate case in Pennsylvania.



### Work Products

Upon completion of the major work elements described above, Larkin & Associates, PLLC will submit the following work products:

1. The Consumer Advocate Division's desired number of copies of written direct and surrebuttal testimony prior to the time and date that it must be filed. In addition, we will provide copies of draft testimony prior to the filing date.
2. Oral testimony and technical support at the hearings.
3. Copies of all data requests.

### III. QUALIFICATIONS

Larkin & Associates, PLLC meets the requirements specified in the RFQ and the proposed project team is highly qualified to perform this engagement for the West Virginia Consumer Advocate Division. Larkin & Associates has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings regarding a variety of issues involving numerous water and sewer, electric, gas, and telephone utilities. Senior members of Larkin & Associates regularly provide written and oral testimony in regulatory proceedings.

Larkin & Associates' proposed project team is highly qualified to perform this engagement for the West Virginia Consumer Advocate Division. Members of the Larkin & Associates project team have extensive experience providing consulting expertise in public utility regulation to regulatory agencies. Our team includes expert consultants and CPAs who are thoroughly familiar with all aspects of utility regulation.

Larkin & Associates has also represented the CAD in previous rate case proceedings, making us familiar with West Virginia ratemaking policies and principles, along with CAD preferences.

Appendix II presents a summary of recent water utility regulatory engagements in which Larkin & Associates has performed work similar to that required in this project. Each case summary conveniently lists the name of the client, a summary of the scope of work performed, and indicates the professional personnel who participated in the engagement.

#### Conflict Statement

Larkin & Associates, PLLC is not engaging in any cases that would be in conflict with this case. None of Larkin & Associates, PLLC's past cases would be in conflict with this case.

#### IV. PERSONNEL

Larkin & Associates, PLLC's professional staff assigned to this project would bring to this engagement over 100 years cumulative business, public accounting and utility related experience. Larkin & Associates has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings, including numerous water and sewer, electric, gas, and telephone utilities. Thus, in performing our work for the Commission on this project, we will draw on knowledge gained through comparable studies performed in other utility cases. In order to present well-supported recommendations, we will utilize to the fullest extent possible our accumulated expertise in accounting, auditing, taxation and utility regulation.

Each of our senior project team members, as well as our proposed case manager and expert witness in this case, are CPAs and have over ten years experience testifying as expert witnesses on rate making and regulatory matters, consistent with the RFQ requirements.

As senior partner of Larkin & Associates, Hugh Larkin, Jr., CPA, will assume ultimate responsibility for the completion of each phase of the project and the quality of the resulting work product. Mr. Larkin has worked in the regulatory field for over 41 years and has testified in over 300 regulatory proceedings. Mr. Larkin's regulatory experience includes rate cases, management audits, and litigation assistance. On this project, Mr. Larkin will function in an advisory role. He has been included in the project team in case any issues arise where his advice on regulatory policy will be beneficial.

Helmuth W. Schultz, CPA, is a senior consultant and has over 33 years of experience with regulatory issues. Mr. Schultz has supervised many projects and presented testimony on numerous occasions. He will assist in this project on an as-needed basis.

Ralph Smith, CPA, is a senior consultant and has over 33 years of experience as a regulatory consultant. Mr. Smith is also a certified financial planner and an attorney. Mr. Smith has been a key member and presented testimony in numerous regulatory engagements involving water and sewer, electric, and gas utilities, including testifying in a number of recent rate cases involving utility affiliates of WVAWC operating in other states.

We propose that Mr. Smith serve as project manager and lead consultant on the case. He has well over ten years of experience testifying on revenue requirement issues involving regulated utilities, thus meeting the requirement specified in the Request for Qualifications. The project manager coordinates the work efforts of all professional staff, monitors the progress of the project and ensures that all deadlines are met. The project manager will also serve as the expert witness in the case.

Mark Dady, CPA, Jill Zhao, CPA, John Defever and Tina Miller are regulatory analysts. They have prepared calculations, performed analyses and prepared schedules, exhibits, and reports on several Larkin & Associates' engagements. Mr. Dady has also filed testimony in several recent regulatory engagements and has experience assisting in West

Virginia cases on behalf of the CAD. It is anticipated that Mr. Dady and Ms. Zhao will perform analytical work, prepare data requests and exhibits, draft and edit written reports, and verify data.

Dawn Bisdorf is a research analyst with Larkin & Associates. Ms. Bisdorf assists with the review and analysis of regulatory filings by preparing computer spreadsheets and models, and performing accounting and regulatory research. Ms. Bisdorf will provide technical assistance on this project.

Resumes detailing the education and experience are being provided for each of our project team members as Appendix I, attached to this proposal.

## V. PRICE PROPOSAL

Larkin & Associates, PLLC proposes to complete the revenue requirement project for a price not to exceed \$30,000. This includes all professional fees and expenses. The hourly rate of the project manager/expert witness on this case is \$150. Consistent with the RFQ, the hourly rate includes all expenses, including travel.

For billing purposes, we will use the following hourly rates for each of our professional Staff. We will not bill separately for expenses or secretarial costs, as expenses have been factored into the hourly rates presented below.

Our proposed prices are as follows:

<b>Professional</b>	<b>Title</b>	<b>Hours</b>	<b>Hourly Rate</b>	<b>Total</b>
Larkin/Smith*/Schultz	Senior/Principal/Expert Witness	128	\$150	\$ 19,200
Dady*/Miller/Zhao*/Defever	Regulatory Analysts	80	\$85	\$ 6,800
Bisdorf*	Research Associates	80	\$50	\$ 4,000
<b>Total Rate Case Project Bid</b>		<b>288</b>		<b>\$ 30,000</b>

\*Anticipated to work on the case; others may participate on an as-available, as-needed basis

In Appendix III, attached to this proposal, we have included the "Consulting Bid Form" that was provided with the RFQ, containing the above pricing information.



State of West Virginia  
 Department of Administration  
 Purchasing Division  
 2019 Washington Street East  
 Post Office Box 50130  
 Charleston, WV 25305-0130

# Solicitation

NUMBER
PSC13534

PAGE
1

ADDRESS CORRESPONDENCE TO ATTENTION OF
GUY NISBET 304-558-8802

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\*709025511      734-522-3420  
 LARKIN & ASSOCIATES PLLC  
 15728 FARMINGTON RD  
  
 LIVONIA MI 48154-2858

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PUBLIC SERVICE COMMISSION  
 CONSUMER ADVOCATE DIVISION  
 700 UNION BUILDING  
 723 KANAWHA BOULEVARD EAST  
 CHARLESTON, WV  
 25301      304-558-0526

DATE PRINTED
01/16/2013

BID OPENING DATE: 02/14/2013      BID OPENING TIME 1:30PM

LINE	QUANTITY	UOP	CAT NO	ITEM NUMBER	UNIT PRICE	AMOUNT
0001	1	LS		964-63-00-001	\$150/hr Sr. Consultants \$85/hr Reg Analysts \$50/hr Research Assoc.	\$ 30,000
CONSULTING SERVICES FOR PSC  REQUEST FOR SOLICITATION (RFQ)  THE WEST VIRGINIA PURCHASING DIVISION FOR THE AGENCY, THE WEST VIRGINIA PUBLIC SERVICE COMMISSION'S CONSUMER ADVOCATE DIVISION, IS SOLICITING BIDS FROM QUALIFIED VENDORS FOR A CONTRACT TO PROVIDE CONSULTING SERVICES PER THE ATTACHED SPECIFICATIONS.  ***** THIS IS THE END OF RFQ      PSC13534      ***** TOTAL: <u>\$ 30,000</u>						

SIGNATURE <i>Hugh Larkin, Jr</i>		TELEPHONE 734-522-3420	DATE 2/13/13
TITLE Senior Partner	FEIN 38-2431293	ADDRESS CHANGES TO BE NOTED ABOVE	

WHEN RESPONDING TO SOLICITATION, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

PSC13534 - Consulting Bid Form			
Employee/Title	Not to Exceed Number of Hours*	Hourly Rate	Extended Price
Senior Consultants (Larkin, Smith, Schultz)	128	\$ 150	\$ 19,200
Regulatory Analysts (Dady, Miller, Zhao, DeFever)	80	\$ 85	\$ 6,800
Research Associate (Bisdorf)	80	\$ 50	\$ 4,000
		\$	\$
		\$	\$
		\$	\$
<b>Total</b>			<b>\$ 30,000</b>

Bidder / Vendor Information:

Name: Larkin & Associates, PLLC

Address: 15728 Farmington Road  
Livonia, MI 48154

Phone #: (734) 522-3420

Email Address: HLarkinJr@aol.com

Contact Coordinator Information:

Name: Hugh Larkin, Jr.

Address: Larkin & Associates, PLLC  
15728 Farmington Road  
Livonia, MI 48154

Phone #: (734) 522-3420

Email Address: HLarkinJr@aol.com

The Consultant will not be reimbursed for hours that exceed the total hours for each Employee/Title

State of West Virginia

VENDOR PREFERENCE CERTIFICATE

Certification and application\* is hereby made for Preference in accordance with West Virginia Code, §5A-3-37. (Does not apply to construction contracts). West Virginia Code, §5A-3-37, provides an opportunity for qualifying vendors to request (at the time of bid) preference for their residency status. Such preference is an evaluation method only and will be applied only to the cost bid in accordance with the West Virginia Code. This certificate for application is to be used to request such preference. The Purchasing Division will make the determination of the Resident Vendor Preference, if applicable.

- 1. Application is made for 2.5% resident vendor preference for the reason checked: Bidder is an individual resident vendor and has resided continuously in West Virginia for four (4) years immediately preceding the date of this certification; or, Bidder is a partnership, association or corporation resident vendor and has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or 80% of the ownership interest of Bidder is held by another individual, partnership, association or corporation resident vendor who has maintained its headquarters or principal place of business continuously in West Virginia for four (4) years immediately preceding the date of this certification; or, Bidder is a nonresident vendor which has an affiliate or subsidiary which employs a minimum of one hundred state residents and which has maintained its headquarters or principal place of business within West Virginia continuously for the four (4) years immediately preceding the date of this certification; or,
2. Application is made for 2.5% resident vendor preference for the reason checked: Bidder is a resident vendor who certifies that, during the life of the contract, on average at least 75% of the employees working on the project being bid are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,
3. Application is made for 2.5% resident vendor preference for the reason checked: Bidder is a nonresident vendor employing a minimum of one hundred state residents or is a nonresident vendor with an affiliate or subsidiary which maintains its headquarters or principal place of business within West Virginia employing a minimum of one hundred state residents who certifies that, during the life of the contract, on average at least 75% of the employees or Bidder's affiliate's or subsidiary's employees are residents of West Virginia who have resided in the state continuously for the two years immediately preceding submission of this bid; or,
4. Application is made for 5% resident vendor preference for the reason checked: Bidder meets either the requirement of both subdivisions (1) and (2) or subdivision (1) and (3) as stated above; or,
5. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked: Bidder is an individual resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard and has resided in West Virginia continuously for the four years immediately preceding the date on which the bid is submitted; or,
6. Application is made for 3.5% resident vendor preference who is a veteran for the reason checked: Bidder is a resident vendor who is a veteran of the United States armed forces, the reserves or the National Guard, if, for purposes of producing or distributing the commodities or completing the project which is the subject of the vendor's bid and continuously over the entire term of the project, on average at least seventy-five percent of the vendor's employees are residents of West Virginia who have resided in the state continuously for the two immediately preceding years.
7. Application is made for preference as a non-resident small, women- and minority-owned business, in accordance with West Virginia Code §5A-3-59 and West Virginia Code of State Rules. Bidder has been or expects to be approved prior to contract award by the Purchasing Division as a certified small, women- and minority-owned business.

Bidder understands if the Secretary of Revenue determines that a Bidder receiving preference has failed to continue to meet the requirements for such preference, the Secretary may order the Director of Purchasing to: (a) reject the bid; or (b) assess a penalty against such Bidder in an amount not to exceed 5% of the bid amount and that such penalty will be paid to the contracting agency or deducted from any unpaid balance on the contract or purchase order.

By submission of this certificate, Bidder agrees to disclose any reasonably requested information to the Purchasing Division and authorizes the Department of Revenue to disclose to the Director of Purchasing appropriate information verifying that Bidder has paid the required business taxes, provided that such information does not contain the amounts of taxes paid nor any other information deemed by the Tax Commissioner to be confidential.

Under penalty of law for false swearing (West Virginia Code, §61-5-3), Bidder hereby certifies that this certificate is true and accurate in all respects; and that if a contract is issued to Bidder and if anything contained within this certificate changes during the term of the contract, Bidder will notify the Purchasing Division in writing immediately.

Bidder: Larkin Associates, LLC
Date: 2/13/13

Signed: [Signature]
Title: Senior Partner



STATE OF WEST VIRGINIA  
Purchasing Division

**PURCHASING AFFIDAVIT**

**West Virginia Code §5A-3-10a states:** No contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and the debt owed is an amount greater than one thousand dollars in the aggregate.

**DEFINITIONS:**

"Debt" means any assessment, premium, penalty, fine, tax or other amount of money owed to the state or any of its political subdivisions because of a judgment, fine, permit violation, license assessment, defaulted workers' compensation premium, penalty or other assessment presently delinquent or due and required to be paid to the state or any of its political subdivisions, including any interest or additional penalties accrued thereon.

"Debtor" means any individual, corporation, partnership, association, limited liability company or any other form or business association owing a debt to the state or any of its political subdivisions. "Political subdivision" means any county commission; municipality; county board of education; any instrumentality established by a county or municipality; any separate corporation or instrumentality established by one or more counties or municipalities, as permitted by law; or any public body charged by law with the performance of a government function or whose jurisdiction is coextensive with one or more counties or municipalities. "Related party" means a party, whether an individual, corporation, partnership, association, limited liability company or any other form or business association or other entity whatsoever, related to any vendor by blood, marriage, ownership or contract through which the party has a relationship of ownership or other interest with the vendor so that the party will actually or by effect receive or control a portion of the benefit, profit or other consideration from performance of a vendor contract with the party receiving an amount that meets or exceeds five percent of the total contract amount.

**EXCEPTION:** The prohibition of this section does not apply where a vendor has contested any tax administered pursuant to chapter eleven of this code, workers' compensation premium, permit fee or environmental fee or assessment and the matter has not become final or where the vendor has entered into a payment plan or agreement and the vendor is not in default of any of the provisions of such plan or agreement.

Under penalty of law for false swearing (*West Virginia Code §61-5-3*), it is hereby certified that the vendor affirms and acknowledges the information in this affidavit and is in compliance with the requirements as stated.

**WITNESS THE FOLLOWING SIGNATURE**

Vendor's Name: Larkin Associates PLLC

Authorized Signature: [Signature] Date: 2/13/13

State of Michigan

County of Wayne, to-wit:

Taken, subscribed, and sworn to before me this 13<sup>th</sup> day of February, 2013

My Commission expires \_\_\_\_\_, 20\_\_\_\_.

KATHLEEN K. NIEMEC  
NOTARY PUBLIC, STATE OF MI  
COUNTY OF WAYNE  
MY COMMISSION EXPIRES Jul 31, 2015  
ACTING IN COUNTY OF Wayne

AFFIX SEAL HERE

NOTARY PUBLIC Kathleen K Niemec

CERTIFICATION AND SIGNATURE PAGE

By signing below, I certify that I have reviewed this Solicitation in its entirety; understand the requirements, terms and conditions, and other information contained herein; that I am submitting this bid or proposal for review and consideration; that I am authorized by the bidder to execute this bid or any documents related thereto on bidder's behalf; that I am authorized to bind the bidder in a contractual relationship; and that to the best of my knowledge, the bidder has properly registered with any State agency that may require registration.

Larkine Associates, PLLC  
(Company)

  
(Authorized Signature)

HUGH LARKIN JR PARTNER  
(Representative Name, Title)

(734) 522-3400  
(Phone Number)

(734) 522-1410  
(Fax Number)

2/13/13  
(Date)



State of West Virginia  
 Department of Administration  
 Purchasing Division  
 2019 Washington Street East  
 Post Office Box 50130  
 Charleston, WV 25305-0130

**Solicitation**

NUMBER
PSC13534

PAGE
1

ADDRESS CORRESPONDENCE TO ATTENTION OF:
GUY NISBET 304-558-8802

VENDOR

\*709025511      734-522-3420  
 LARKIN & ASSOCIATES PLLC  
 15728 FARMINGTON RD  
 LIVONIA MI 48154-2858

SHIP TO

PUBLIC SERVICE COMMISSION  
 CONSUMER ADVOCATE DIVISION  
 700 UNION BUILDING  
 723 KANAWHA BOULEVARD EAST  
 CHARLESTON, WV  
 25301      304-558-0526

DATE PRINTED
02/01/2013

BID OPENING DATE: 02/14/2013      BID OPENING TIME 1:30PM

LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
				ADDENDUM NO. 1		
				ADDENDUM FOR THE WEST VIRGINIA PUBLIC SERVICE COMMISSION ISSUED TO DISTRIBUTE THE FOLLOWING QUESTION SUBMITTED DURING THE VENDOR QUESTION PERIOD.		
				NO OTHER CHANGES.		
0001	1	LS		964-63-00-001		
				CONSULTING SERVICES FOR PSC		
***** THIS IS THE END OF RFQ PSC13534 ***** TOTAL:						<u>\$30,000</u>

SIGNATURE <i>Nugh Parkin Jr</i>	TELEPHONE 734-522-3420	DATE 2/12/13
TITLE Senior Partner	FEIN 38-2437293	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO SOLICITATION, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

**ADDENDUM ACKNOWLEDGEMENT FORM**  
**SOLICITATION NO.:** PSC13534

**Instructions:** Please acknowledge receipt of all addenda issued with this solicitation by completing this addendum acknowledgment form. Check the box next to each addendum received and sign below. Failure to acknowledge addenda may result in bid disqualification.

**Acknowledgment:** I hereby acknowledge receipt of the following addenda and have made the necessary revisions to my proposal, plans and/or specification, etc.

**Addendum Numbers Received:**

(Check the box next to each addendum received)

<input checked="" type="checkbox"/>	Addendum No. 1	<input type="checkbox"/>	Addendum No. 6
<input type="checkbox"/>	Addendum No. 2	<input type="checkbox"/>	Addendum No. 7
<input type="checkbox"/>	Addendum No. 3	<input type="checkbox"/>	Addendum No. 8
<input type="checkbox"/>	Addendum No. 4	<input type="checkbox"/>	Addendum No. 9
<input type="checkbox"/>	Addendum No. 5	<input type="checkbox"/>	Addendum No. 10

I understand that failure to confirm the receipt of addenda may be cause for rejection of this bid. I further understand that any verbal representation made or assumed to be made during any oral discussion held between Vendor's representatives and any state personnel is not binding. Only the information issued in writing and added to the specifications by an official addendum is binding.

Larkin & Associates, PLLC  
 Company

Hugh Larkin, Jr.  
 Authorized Signature

2/13/13  
 Date

NOTE: This addendum acknowledgement should be submitted with the bid to expedite document processing.  
 Revised 6/8/2012