

FILED

MAR 30 2018

DIRECT TESTIMONY

Missouri Public
Service Commission

OF

Gascony Exhibit No. 3
Date 3/19/18 Reporter MK
File No. 2017-0343

GEORGE R. HOESCH

GASCONY WATER COMPANY, INC.

CASE NO. WR-2017-0343

Q. Please state your name and address.

A. George R. Hoesch, 4948 Theis Road, Saint Louis, Missouri 63128.

Q. What is your position with Gascony Water Company, Inc. ("Gascony Water Company" or "Company")?

A. I am the president of the Company.

BACKGROUND OF WITNESS

Q. Please describe your educational background and professional experience.

A. I completed three years of college before being drafted into the United States Army. I worked several years in the banking industry after my discharge from military service. The last 40 plus years I have been involved in real estate as a broker and developer. I am the sole shareholder of Gasc-Osage Realty Company, Inc., which is the entity that developed Gascony Village ("Village"), and the water system located in the Village. I continue to manage the daily operations of Gascony Water Company.

GASCONY WATER COMPANY

Q. Please provide a general overview of Gascony Water Company.

A. Gascony Water Company was incorporated in January, 1998, and became a regulated water company under the jurisdiction of the Missouri Public Service

Direct Testimony of
James M. Russo

1 Commission ("Commission") in April of 1999 as a result of Case No. WA-97-510. The
2 Company was developed to provide adequate facilities and maintain continuity of water
3 service to customers in the Village. The Village consists of 755 privately owned lots
4 sitting on approximately 235 acres in rural Gasconade County, Missouri. The Village is
5 governed by a homeowner's association ("Association") and a board of directors that is
6 elected by the property owners.

7 Q. Is the Company currently certificated by the Commission?

8 A. Yes, the Commission authorized the Company to provide regulated water
9 service in April of 1999.

10 Q. How many customers are served by the Company?

11 A. The Company provides service to approximately 180 customers consisting
12 of 26 full-time, 151 part-time and 3 commercial customers.

13 Q. Who are the 3 commercial customers of the Company?

14 A. The 3 commercial customers are the swimming pool including pool house,
15 community kitchen and dump station. These 3 facilities are owned by the Association.

16 Q. Are there other private lot owners who are not customers of the
17 Company?

18 A. Yes, there are approximately 420 private lot owners who are not
19 customers of the Company. However, these private lot owners are members of the
20 Association and have the right to use the Associations facilities.

21 Q. Can you explain why some of the private lot owners are not customers
22 of the Company?

Direct Testimony of
James M. Russo

1 A. Yes. The lots sold at Gascony Village are lots used primarily for camping.
2 Many of the property owners only visit their property on weekends for camping. These
3 property owners may reside in a tent or a self-contained camper and bring their drinking
4 water with them during their visit. It is not necessary for customers to connect to the
5 water system with the availability of restrooms and shower facilities at the swimming
6 pool. In addition, Gascony Village does not require purchasers of lots to connect to the
7 existing water system.

8 Q. Is the Company current on its Commission annual reports and
9 assessments?

10 A. Yes.

11 Q. When were the Company's tariffs last reviewed and revised?

12 A. The Company's tariffs are the original tariffs that became effective April
13 1, 1999.

14 Q. Please briefly describe the Company's water system?

15 A. The water system consists of a well, storage tank, well house and
16 approximately 6 and ½ miles of supply mains. The storage tank holds approximately
17 1,000 gallons of water and the supply mains are primarily 2 inch and 2 ½ inch PVC
18 piping.

19 Q. Please describe the services that you provide to the Company.

20 A. I am solely responsible for all of the operations and management of the
21 Company. These responsibilities include but are not limited to the following items. I am
22 the certified operator for the Company. I visit the well house as required by the Missouri
23 Department of Natural Resources. In addition, I inspect the system for water leaks and

Direct Testimony of
James M. Russo

1 make necessary repairs or arrange for the repairs to be completed. I manage and direct
2 the billing clerk, interact with customers and vendors, prepare reports and interact with
3 government agencies and make policy decisions for the Company.

4 **REVENUE REQUIREMENT**

5 Q. How did the Company arrive at the revenue requirement increase?

6 A. The Company, with the assistance of the Company's consultant, reviewed
7 the Company's financial condition as of December 31, 2016. The revenue request
8 increase needed to continue providing safe and adequate service was based on this
9 review.

10 Q. How much of a revenue increase has the requested?

11 A. The Company requested a revenue increase of \$15,000 in its June 16,
12 2017 request letter to the Commission. This dollar amount represents an annual increase
13 in water operations revenue of approximately of 44.3%.

14 **ISSUES IN DISPUTE**

15 Q. Are all components of the water request increase in dispute?

16 A. No. The Staff of the Commission ("Staff") conducted an audit and
17 investigation of the Company. The results of the audit and investigation were provided to
18 the Company and the Office of the Public Counsel ("OPC"). The Company, Staff, and
19 OPC discussed resolution of this case and Staff and the Company entered into a *Partial*
20 *Disposition Agreement and Request for Evidentiary Hearing* which was filed by Staff on
21 November 17, 2017.

22 Q. What issues are in dispute?

Direct Testimony of
James M. Russo

1 A. The parties were not able to reach agreement on the total water revenue
2 requirement increase, net rate base, depreciation, salary expense, rent expense, and
3 mileage expense.

4 Q. Please describe the Company's position regarding revenue
5 requirement increase?

6 A. The Company's position on the revenue requirement increase results from
7 the monetary differences between the Company's position and the other parties position
8 as it relates to the disputed items listed above.

9 Q. Please describe the Company's position regarding net rate base?

10 A. The Company's believes the land ("Lot 27") the well is situated upon, the
11 land the storage building is built upon, the trencher and the utility task vehicle ("UTV")
12 should be allowed in plant at the price paid by the Company. The Company also believes
13 the correct date to be used is when these items were purchased and placed in service by
14 the Company.

15 Q. Please describe why the Company believes it is appropriate to include
16 Lot 27 in plant?

17 A. The Company believes it is appropriate for the Company to own all the
18 land that Company structures are built upon. The Company has never owned Lot 27. In
19 1989, Gasc-Osage Realty Company, Inc. ("Realty Company"), the predecessor to the
20 regulated water Company deeded the land to the children of Mr. Hoesch. This event
21 occurred approximately ten years before the existence of the regulated Company that
22 resulted from the certificate case. Lines 52 thru 54 of my Direct testimony in the

Direct Testimony of
James M. Russo

1 certificate case states the Company will own the land. The Company is now remedying
2 that situation.

3 **Q. Please describe why the Company believes it is appropriate to include**
4 **the storage building sits on in plant?**

5 A. As stated above, the Company believes it is appropriate for the Company
6 to own all the land that Company structures are built upon. The storage building was
7 constructed on a small lot adjacent to Lot 27. The storage building is actually more of a
8 garage type structure instead of a storage building. The construction of the 20 foot by 24
9 foot structure includes 6" studded walls attached to a cement floor with footings. There
10 is a steel entry door and a 9 foot by 16 foot insulated steel garage door with an electric
11 garage door opener that is connected to a numeric keypad for entry. The Company has a
12 work bench installed in the work area of one corner of the building. The Company stores
13 the trencher, gator and miscellaneous tools and spare parts in the building. There is not
14 any nonutility usage or any nonutility items stored in the storage building. In addition,
15 the backup generator for the well is installed in the storage building.

16 **Q. Please describe why the Company believes it is appropriate to include**
17 **the trencher in plant?**

18 A. The trencher was originally purchased by the Realty Company in 1999 to
19 be used by the Realty Company for trenching activities. These trenching activities
20 included work related to the nonregulated water operations. The Realty Company
21 determined in 2015 that it was at that time solely being used by the regulated water
22 utility. The Realty Company had to decide between renting the trencher to the Company
23 on an hourly basis or selling the trencher to another party. Selling the trencher to another

Direct Testimony of
James M. Russo

1 party other than the Company would result in the Company having to either purchase a
2 trencher for itself or contracting all trenching work to another party not located in the
3 Village. The decision was made to sell the trencher to the Company.

4 Q. Please describe why the Company believes it is appropriate to include
5 the UTV in plant?

6 A. The Company has approximately 6 and ½ miles of water mains in the
7 Company's water distribution system. The UTV allows the Company to easily inspect
8 the system for leaks and to carry supplies and equipment that are used to make minor
9 repairs. The UTV is also used for other activities such as meeting with customers at their
10 property in the Villages.

11 Q. Does the Company use the UTV for non-regulated activities?

12 A. No. The president has another UTV available for his personal and other
13 business activities.

14 Q. Please describe the Company's position regarding depreciation?

15 A. The Company agrees with Staff's position on this issue.

16 Q. Please describe the Company's position regarding salary expense?

17 A. The Company believes the employees of the Company should be
18 compensated for their time spent working for the Company. The Company agrees with
19 the level of compensation being allowed for the billing clerk that is employed by the
20 Company. The Company does not believe the president is being compensated correctly
21 for his activities related to the operations and management of the Company.

22 Q. Please describe the Company's position regarding rent expense?

Direct Testimony of
James M. Russo

1 A. The Company believes it is not being properly compensated in 2017
2 dollars for the office in Gascony Village. The Company also believes it is proper to
3 receive compensation for the office located in the home of the president. The Villages is
4 unique in its usage by property owners, remote location, and the small number of
5 permanent residences. The office at the Villages allows the part-time customers to have
6 access to Company personnel when they visit their property. The home office allows the
7 president to conduct Company business without having to travel back and forth to the
8 Villages. The home office also lowers the rent expense for the office located in the
9 Villages by reducing the needed space that would be required by adding a desk, filing
10 cabinets and additional storage required for Company records. The home office allows
11 salary savings by not having additional personnel performing these functions in the
12 Villages office.

13 Q. Please describe the Company's position regarding mileage expense?

14 A. The Company agrees with Staff's position on this issue.

15 Q. What are the dollar amounts associated with the disputed issues?

16 A. The dollar amounts associated with the disputed issues are discussed in the

17 Direct Testimony of Company Witness James M. Russo.

18 Q. Does this conclude your direct testimony?

19 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application)
of a Rate-Increase for Gascony Water) Case No. WR-2017-0343
Company Inc.)

AFFIDAVIT OF GEORGE R. HOESCH

STATE OF MISSOURI)

) ss

COUNTY OF MORGAN)

George R Hoesch, of lawful age and being first duly sworn, deposes and states:

1. My name is George R. Hoesch. I am the president of Gascony Water Company, Inc.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

George R. Hoesch
George R. Hoesch
President

29th Dec
Subscribed and sworn to me this 30th day of December 2017.

Melisa Jakubovic
Notary Public

My Commission expires 08-01-2020

