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**SURREBUTTAL TESTIMONY**

**OF**

**JAMES M. RUSSO**

**GASCONY WATER COMPANY, INC.**

**CASE NO. WR-2017-0343**

**Q. Please state your name and business address.**

A. James M. Russo, 2215 Minnow Branch Road, Stover, Missouri 65078.

**Q. Are you the same James M. Russo who previously filed Direct testimony in this case?**

A. Yes.

**Q. What is the purpose of your surrebuttal testimony?**

A. The purpose of my surrebuttal testimony is to rebut portions of the rebuttal testimony of Missouri Public Service Commission (“Commission” or “PSC”) Staff (“Staff”) Members Matthew R. Young elated to revenue and rate base, Michael Jason Taylor to salaries and rent, Jarrod J. Robertson related to rate design and Mark Keisling related to customer applications and the rebuttal testimony of Office of the Public Counsel (“OPC”) witness Keri Roth related to mileage expense.

**REVENUE REQUIREMENT**

**Q. Have you reviewed the updated customer counts referred to in Mr. Youngs rebuttal testimony?**

A. Yes.

**Q. What are the results of your review of the updated customer counts?**

Surrebuttal Testimony of  
James M. Russo

1           A.     The updated customer list Mr. Young is referring to are the customer  
2 counts as of October 16, 2017. The Company has agreed to use these updated customer  
3 numbers even though the customer list was a snap shot of current customers three and ½  
4 months past the updated test year date used by Staff.

5           **Q.     What is the effect on revenues by this change?**

6           A.     The inclusion of five additional part-time customers will increase the  
7 Company's annualized revenues by \$885. This change is reflected in my updated rate  
8 design schedules SUR-jr1 thru SUR-jr5 attached to my surrebuttal testimony.

9           **Q.     Do you have any changes to the Company's position on the amount of**  
10 **Mr. Hoesch's salary?**

11           A.     Yes. The Company realized that some of Mr. Hoesch's time  
12 related to the oversight of mailing and preparation of customer bills was included twice in  
13 the company's salary proposal for Mr. Hoesch. The total amount of time in question is  
14 18 hours annually. I have reduced Mr. Hoesch's time related to operations of the  
15 Company by these 18 hours. This change results in the proposed salary for Mr. Hoesch's  
16 operational responsibilities to be reduced by \$368 to an annual level of \$9,733 and the  
17 total overall annual salary to \$27,510. This change is reflected in my updated rate design  
18 schedules SUR-jr1 thru SUR-jr5 attached to my surrebuttal testimony.

19 **RATE BASE**

20           **Q.     Do you agree with Mr. Young's rebuttal testimony on page 5 lines 6**  
21 **thru 27 and page 8 lines 1 and 2 that states that all of the Company's plant,**  
22 **including the land, was contributed?**

Surrebuttal Testimony of  
James M. Russo

1           A.     No. First, Mr. Young references some of my testimony filed in the CCN  
2 case that discusses certain plant items that were expensed by the Company's predecessor  
3 and that should not be included in rate base. He ignores the portion of my testimony filed  
4 in the CCN case on page 2, lines 19 thru 23 and on page 3 lines 1 thru 9 that discusses  
5 plant that was disallowed for lack of supporting documentation and for plant that was not  
6 included in service.

7           Second, the testimony Mr. Young does cite refers to all of the identified plant in  
8 service costs. No land was identified in these costs and therefore no land was included in  
9 any of the plant items I reviewed in the CCN case.

10 **SALARY EXPENSE**

11           **Q.     Do you have any comment on Mr. Taylor's comments on page 14 of**  
12 **his rebuttal testimony regarding the number hours worked by Mr. Hoesch?**

13           A.     Mr. Taylor's analysis shows the difference in what the Company believes  
14 Mr. Hoesch works and what Staff believes. Mr. Taylor attempts to use this analysis as the  
15 basis for Staff's artificially low salary level for Mr. Hoesch. Both Mr. Hoesch's and my  
16 surrebuttal testimony point out the flaws with Mr. Taylor's and Staff's analysis of the  
17 number of hours worked by Mr. Hoesch.

18           **Q.     Do you agree with Mr. Taylor's statements on page 15, lines 5 thru 11**  
19 **that Mr. Hoesch's hours are after the fact?**

20           A.     I would agree with Mr. Taylor that Mr. Hoesch's hours are after the fact to  
21 the extent that Mr. Hoesch did not maintain his management hours on a time sheet. I do  
22 not agree with Mr. Taylor's implication that this is somehow inappropriate. Mr. Hoesch

Surrebuttal Testimony of  
James M. Russo

1 is the owner of the utility. Mr. Hoesch knows better than anyone on how much time he  
2 spends on the managerial activities of his Company.

3 **Q. Do you agree with Mr. Taylor's statements on page 15, lines 10 and 11**  
4 **that Mr. Hoesch's hours are inflated?**

5 A. No. The management activities listed on Schedule 2 that was attached to  
6 my direct testimony are a reasonable summary of management functions being performed  
7 by Mr. Hoesch. The Company listed what the Company believes is the minimum,  
8 maximum, and average time it takes the manager of the Company to perform these  
9 activities. These times were not picked out of the air. These times are based on Mr.  
10 Hoesch's years of experience performing these activities. Mr. Taylor claims to have  
11 examined each line and has concluded these items are overstated. Let's take a look at  
12 some of these management activities in the four categories that are listed on schedule 2  
13 which was attached to my direct testimony, and. that Mr. Taylor has concluded are  
14 overstated.

15 In the weekly category Mr. Hoesch spends an average of 65 hours a year  
16 interacting with customers. That is one hour and fifteen minutes per week. Interacting  
17 with customers includes such items as billing questions, service questions, customers  
18 pointing out items such as leaks, and just listening to customers concerns such as how  
19 their neighbor is wasting water. A reasonable person would conclude that 75 minutes a  
20 week is a reasonable estimate of time spent interacting with customers. Another item in  
21 the weekly category is the average time of 104 hours per year Mr. Hoesch spends  
22 reviewing correspondence and billing statements. These billing statement are not the  
23 quarterly bills described elsewhere in Mr. Hoesch's management activities, but, are the

Surrebuttal Testimony of  
James M. Russo

1 bills received from various vendors. This management activity averages two hours per  
2 week.

3 In the monthly category Mr. Hoesch spends an average of 60 hours per year  
4 reviewing the Company's vendor proposals, financial records, and bills. That is five  
5 hours per month. Reviewing vendor proposals may be done orally or in written form and  
6 include such items as discussing services required by the Company. The financial records  
7 and bills are the items that Mr. Hoesch provides to and discusses with his CPA and  
8 conversely the items the CPA provides to Mr. Hoesch. For example, just reviewing the  
9 Company's monthly profit and loss statement may take an hour per month. A reasonable  
10 person would conclude that five hours per month is a reasonable estimate of time spent  
11 for the owner of the Company to review vendor proposals, financial records, and bills.

12 In the quarterly category Mr. Hoesch spends an average of 26 hours per year  
13 overseeing the collection of payments from customers. This includes reviewing the  
14 accounts receivables and preparation of delinquent notices for past due accounts. That is  
15 six and one-half hours per quarter. A reasonable person would conclude that six and one-  
16 half hours per quarter is a reasonable estimate of time spent for the owner of the  
17 Company to review collection of payments from customers.

18 In the annual category Mr. Hoesch spends an average of 14 hours on the PSC  
19 annual report ("report" or "annual report"). Mr. Hoesch fills out the annual report by  
20 hand. His time includes gathering the information for the report from the Company's  
21 records and the Company's accountant, transferring of prior year data, updating data, and  
22 submitting the completed report to the Commission. Mr. Hoesch may also spend some

Surrebuttal Testimony of  
James M. Russo

1 time in talking to Staff if he has questions and definitely talking to Staff if the filed report  
2 has any deficiencies that need to be corrected.

3 I can go through each line item on Schedule 2 that was attached to my direct  
4 testimony with the Commission and I believe the Commission would agree that the  
5 management activity and time spent on that management activity are what a reasonable  
6 person would conclude.

7 **Q. Do you agree with Mr. Taylor's statements that it is likely that Mr.**  
8 **Hoesch did not record all of his activities in his time reporting?**

9 A. Yes. The Company has provided additional evidence of Mr. Hoesch's  
10 time spent on performing management activities of the Company. The Company also  
11 realizes that this additional information is still lacking. For instance, as operator Mr.  
12 Hoesch collects monthly water samples, prepares the paperwork for each sample, and  
13 drops the samples off for testing. As manager, he reviews the results of the water  
14 samples provided by the Missouri Department of Natural Resources ("DNR"). He also  
15 does the same task an additional two times a year for the water samples that are required  
16 by DNR for the annual water quality report. The difference is these two samples are  
17 dropped off in Saint Louis for testing. The annual water quality report is reviewed by  
18 Mr. Hoesch as manager and he as the manager oversees the distribution of the report to  
19 the Company's customers. These tasks probably take on an annual basis, 15 to 20 hours  
20 of Mr. Hoesch's time.

21 **Q. Is the Company asking for this additional task to be included in Mr.**  
22 **Hoesch's salary?**

Surrebuttal Testimony of  
James M. Russo

1           A.     No. The Company is not asking for any additional salary compensation  
2 even though the Company believes the operational duties above are clearly above what  
3 Mr. Hoesch included in his time sheets. However, the Company believes these types of  
4 oversights are may be recovered by the Company since the Company is requesting the  
5 Commission use the average hours for management activities as shown on my schedule  
6 2. The average hours may understate some management activities of the Company while  
7 possibly overstating other activities, but are designed to fairly compensate Mr. Hoesch.

8           The Company also believes as Mr. Hoesch continues to improve his time record  
9 keeping that the amount of time reportedly worked by Mr. Hoesch on the operational and  
10 management activities of the Company will be greater than what the Company is  
11 requesting in this case.

12           **Q.     Do you agree with Mr. Taylor's analysis of Mr. Hoesch's management**  
13 **hours as shown on Mr. Tylor's schedule MJT-r6?**

14           A.     No. It is obvious when reviewing this schedule that Mr. Taylor is  
15 attempting to justify Staff's salary position after the fact. For example, Mr. Taylor thinks  
16 Mr. Hoesch only talks to customers, reviews correspondence and billing statements on  
17 average fifteen minutes a week. He also seems to think that an average amount of time  
18 two hours and fifteen minutes a month is sufficient to for Mr. Hoesch to review vendor  
19 proposals, all of the Company's financial records and any interaction with his CPA. One  
20 last example is the four hours Mr. Taylor seems to think it take to complete the PSC  
21 annual report by hand. It is obvious to the Company that Mr. Taylor has never done an  
22 annual report by hand. The Commission should dismiss Mr. Taylor's analysis as it is

Surrebuttal Testimony of  
James M. Russo

1 obvious to the Company the average times listed by Mr. Taylor were manipulated to  
2 justify Staff's position on salary after the fact.

3 **Q. Do you agree with Mr. Taylor's statements on page 16, lines 4 and 6**  
4 **that since Staff included expenses for a CPA that Mr. Hoesch's time spent on**  
5 **financial aspects of the Company would be reduced?**

6 A. I believe that the five hours per month Mr. Hoesch spends reviewing the  
7 financial records, vendor proposals, and bills of the Company is this low because the  
8 Company has an accountant that maintains the Company's financial records. The  
9 Company simply does not understand how Mr. Taylor and the Staff believe Mr. Hoesch  
10 spending an average of one hour nine minutes and approximately 23 seconds per week  
11 reviewing the financial records, vendor proposals, and bills of the Company is  
12 unreasonable.

13 **Q. Do you agree with Mr. Taylor's compensation calculations at the**  
14 **bottom of page 17 and the top of page 18 of his rebuttal testimony?**

15 A. No, his calculations are flawed and the Commission should ignore his  
16 comparison. Mr. Taylor is dividing the proposed salary expenditures for the Company  
17 and Staff by the current annual revenues to arrive at significantly inflated percentages for  
18 his salary to revenue ratio. Mr. Taylor should have divided the proposed salaries by the  
19 proposed cost of service for the Company and Staff.

20 **Q. Does the Company believe there is any significance to this salary to**  
21 **revenue ratio used by Mr. Taylor?**

22 A. No. Using a salary to revenue ratio to determine whether a certain level of  
23 salary is appropriate is wrong. Salaries is one component of a company's cost of service.



Surrebuttal Testimony of  
James M. Russo

1 For instance, investment in plant can significantly impact this ratio. A company with a  
2 relatively low rate base such as Gascony Water would see this ratio decreased  
3 significantly if all other cost components in the cost of service are the same and rate base  
4 is increased because of a new well, well house and storage. In addition, the amount of  
5 time required to manage and operate a Company impacts the level of salary and thus  
6 impacts this ratio. Another impact on this type of ratio is the actual hourly rate of  
7 compensation.

8 **Q. Do you agree with Mr. Taylor's statements on page 19, lines 17 thru**  
9 **22 relating relying on memories for tasks performed in the past?**

10 A. No. Mr. Taylor may be correct in his statement if he was referring to a  
11 one-time task. Mr. Taylor implies these management activities occurred a long time ago  
12 and only occur occasionally. The majority of the management activities developed by the  
13 Company are activities that are continually occurring. Mr. Hoesch has been performing  
14 these management activities on a continuous basis for close to 40 years. Mr. Hoesch  
15 knows how much time he spends even on the annual tasks such as the PSC annual report  
16 and federal and state income tax filings. Most people know how long it takes to do  
17 certain activities even if they only do that activity once a year. This is especially true for  
18 activities we do not enjoy doing.

19 **Q. Do you agree with Mr. Taylor's annual cost of compensation plus**  
20 **travel per customer comparisons on page 23 of his rebuttal testimony?**

21 A. No. Mr. Taylor has simply gathered information. His comparison refers  
22 to ten most recent cases but does not say anything about what companies are involved in  
23 these rate cases. Is he talking about electric utilities, companies with hundreds or even

Surrebuttal Testimony of  
James M. Russo

1 thousands of customers, or even a small company with fifty customers within a quarter  
2 mile of a well with no storage. Mr. Taylor is doing an apple and pumpkin comparison.  
3 His comparison does not use any regulated water utility that is comparable to Gascony  
4 Water.

5 **Q. Why do you state above that Mr. Taylor's annual cost of**  
6 **compensation plus travel per customer comparison fails to use a regulated water**  
7 **utility that is comparable to Gascony Water?**

8 A. I say that because Gascony Water is unique. There are regulated water  
9 utilities that share one or two of Gascony Waters characteristics, but any similarity stops  
10 well short of all of Gascony Water's characteristics. There are companies with a similar  
11 number of customers, other companies may have part-time and full-time customers, other  
12 companies may have a six-and-a-half-mile distribution system, some may have a  
13 swimming pool and a community building with a kitchen, and you may find one  
14 company that has camper lots, but you will not find any regulated water utility in the  
15 State of Missouri that has all of these characteristics.

16 **Q. Does Gascony Water have any other unique characteristics?**

17 A. Yes. As Mr. Hoesch stated in his direct testimony, Gascony Village has  
18 approximately 420 camper lot owners that are not water customers of Gascony Water.  
19 These non-water customer lot owners have Company maintained facilities adjacent to  
20 their property.

21 **Q. Do you agree with Mr. Taylor's statement on page 23, lines 16 and 17**  
22 **of his rebuttal testimony that these time sheets have been fabricated?**

Surrebuttal Testimony of  
James M. Russo

1           A.     No. I believe Mr. Hoesch and I have clearly shown that even though Mr.  
2 Hoesch failed to document his management activities on his time sheets that our analysis  
3 is reasonable. Furthermore, because of the conservative nature of our analysis it is likely  
4 that Mr. Hoesch's actual time spent on management activities is greater than what the  
5 Company is recommending to recover in this case.

6           **RENT EXPENSE**

7           **Q.     Do you agree with Mr. Taylor's statement on page 25, line 24 that**  
8 **Staff has never had to go to Mr. Hoesch's house in St. Louis for any purpose?**

9           A.     No, that statement is simply wrong. For instance, I performed the CCN  
10 auditing review at Mr. Hoesch's Saint Louis office.

11          **Q.     Do you agree with Staff's methodology in calculating rent expense for**  
12 **the Gascony Village office?**

13          A.     No. Staff ignores why the Company keeps an office in Mr. Hoesch's  
14 home located at Gascony Village. Simply, commercial space is not available for rent in  
15 the area. With the assistance of my supervisor, I developed the original rent expense of  
16 \$1,500 per year in the CCN case. At that point in time we determined what we thought it  
17 would cost the Company for similar commercial space. Current Staff ignores what it  
18 would actually cost to rent commercial space and develops a methodology that arbitrarily  
19 reduces the Company's rent expense. The Company takes the rent expense from the  
20 CCN case which was include in the rates approved by the Commission as just and  
21 reasonable and factors the rent expense up to today's dollars.

22          **RATE CASE EXPENSE**

1           **Q. Do you agree with Mr. Taylors statement on page 29 line 7 that states**  
2 **the Company is asking for a tracking mechanism for rate case expense?**

3           A. The Company is simply requesting that it be allowed the opportunity to  
4 recover any uncollected rate case expense by the Company in the event the Company has  
5 to file another rate case sooner than six years.

6           **Q. Do you agree with Mr. Taylors statement on page 29, lines 16 and 17?**

7           A. His percentage has no meaning as it is once again comparing apples to  
8 pumpkins. If Mr. Taylor wants to present this type of information to the Commission it  
9 would be appropriate to present the proposed normalized yearly rate case expense of  
10 \$3,000 as a percentage to the proposed annual revenues of \$57,661 which results in a  
11 number of 5.2 percent.

12           **Q. Do you agree with Mr. Taylors statement on page 30 related to the**  
13 **level of rate case expense?**

14           A. The Company agrees that rate case expense increases significantly any  
15 time a regulated utility has to take disputed issues to hearing before the Commission.

16           **Q. Do you agree with Mr. Taylor's percentage calculations on page 30 of**  
17 **his rebuttal testimony?**

18           A. No, as I stated earlier these are just apple to pumpkin comparisons. If the  
19 Commission desired this information the correct way to present it to the Commission is  
20 the Company's proposed annual rate case expense (\$3,000) divided by the Company's  
21 proposed level of revenue (\$57,671) which results in a percentage of 5.2 percent.

22           **Q. Do you agree with Mr. Taylors statement on page 31 to normalize rate**  
23 **case expense over a ten-year period?**

Surrebuttal Testimony of  
James M. Russo

1           A.     No. The Company reluctantly offered as an alternative to normalize rate  
2 case expense over an eight-year period. Ten years is setting a dangerous precedent and  
3 likely disallows a portion of a legitimate expense if a rate case is filed in this time period.  
4 The Company agrees with OPC that six years is the appropriate time period to normalize  
5 this expense.

6           **Q.     Do you agree with Mr. Taylors statement on page 31 that the**  
7 **Commission could disallow 50 percent of rate case expense incurred in this case?**

8           A.     Yes, to the extent that the Commission has the authority to allow this type  
9 of disallowance. However, this disallowance would in effect punish the Company for  
10 attempting to recover what the Company believes are just and reasonable expenses  
11 related to the operation of Gascony Water.

12 **RATE DESIGN**

13           **Q.     Do you agree with Mr. Robertson's statement that part-time**  
14 **customers visiting more frequently is a customer classification issue?**

15           A.     No. The Company does not see any evidence of the part-time customers  
16 meeting the definition of full-time customers.

17           **Q.     Do you agree with Mr. Robertson's statement that part-time**  
18 **customers visiting more frequently with more guests is not justification to increase**  
19 **the part-time customer equivalent factor?**

20           A.     No. Mr. Robertson ignored my sentence following my sentence describing  
21 the frequency of part-time customer visits and a greater number of guests that reads:

22                                 These longer visits and greater number of guests translate  
23                                 into higher water consumption for the part-time customers.  
24

25           **Q.     Why is that second sentence so important?**

Surrebuttal Testimony of  
James M. Russo

1           A.     The second sentence gets to the heart of the problem. The part-time rates  
2 were developed with the assumption that part-time customers consumed 1,650 gallons of  
3 water per quarter, or 530 gallons per month. Please see the development of flat rates used  
4 in the CCN case which is schedule SUR-jr6 attached to my surrebuttal testimony. The  
5 Staff did not realize at the time of the CCN case that the part-time customers would be  
6 greater in number using a greater amount of water. It is reasonable to increase the  
7 customer equivalent factor from .35 to .5 when considering this added water  
8 consumption. Another factor not considered by Mr. Robertson is the added portion of all  
9 system related costs required by the part-time customers scattered along the Company's  
10 distribution system verse the full-time customers located near the well.

11           **Q.     Do you agree with Mr. Robertson's statement that if the Commission**  
12 **accepts the Company's position on the part-time customers equivalent factor that**  
13 **the customer equivalent factor for the dump station also would need to be**  
14 **increased?**

15           A.     Yes. I have increased the customer equivalent factor for the dump station  
16 to 2.5 from the current customer equivalent factor of 1.65.

17           **Q.     What are the results design for the water operations of Gascony**  
18 **Village?**

19           A.     The results of my proposed rate design for the water operations of  
20 Gascony Village are in the box below:

Quarterly Customer Charge Comparison Current Rates to Proposed Rates:

Customer Type	Current Rate	Proposed Rate
Full time	\$103.33	\$125.10
Part time	\$ 36.88	\$ 62.55
Swimming Pool	\$368.16	\$750.62
Dump Station	\$170.74	\$312.76
Kitchen	\$ 58.39	\$250.21

1

2 **CUSTOMER APPLICATIONS**

3 **Q. What do you disagree with in Mr. Keisling's rebuttal testimony?**

4 A. Mr. Keisling states on page 3, lines 2 thru 4 of his rebuttal testimony:

5 As Staff understands the Company's testimony, the  
6 Company seems to be implying that Staff is  
7 requiring the Company to acquire new customers  
8 within 30 days of the Report and Order. Staff is not  
9 making that recommendation.

10

11 The Company is amazed that Staff jumped to this conclusion. The Company is  
12 fully aware that the Commission's Staff does not have the authority to mandate the  
13 Company to acquire new customers. The Company's disagreement is simply with Staff's  
14 wording in this recommendation. Staff's proposed recommendation states:

15 Ensure all new customers complete an application  
16 for service per the Company's tariff. This  
17 requirement should be completed within thirty (30)  
18 days of the effective date of the Commission order  
19 that resolves Case No. WR-2017-0343.  
20

Surrebuttal Testimony of  
James M. Russo

1 Again, the Company's disagreement is that under the proposed wording of this  
2 recommendation the Company would be in violation if no new customers apply for  
3 service within thirty days.

4 **Q. Does the Company believe this disagreement can be resolved?**

5 A. Yes, this disagreement can easily be resolved by changing the way the  
6 recommendation is worded.

7 **Q. Does the Company have any suggestions?**

8 A. Yes, the Company concerns would be met if Staff would change their  
9 recommendation to incorporate Mr. Keisling's wording on page 3, lines 4 thru 6 of his  
10 rebuttal testimony. The recommendation would now read:

11 The Company utilizes its existing customer  
12 application or any future new customers that want  
13 to take service from the Company. This requirement  
14 should be completed within thirty (30) days of the  
15 effective date of the Commission order that resolves  
16 Case No. WR-2017-0343.

17  
18 **MILEAGE EXPENSE**

19 **Q. Do you agree with OPC's recommendation that the State of**  
20 **Missouri's mileage rate be utilized instead of the federal mileage rate as stated in**  
21 **Ms. Roth's rebuttal testimony on page 3, lines 6 thru 8?**

22 A. No.

23 **Q. Does Ms. Roth offer any support for OPC's recommendation?**

24 A. No.

25 **Q. What does the Company believe the Commission should approve as**  
26 **the mileage reimbursement rate for the Company?**



Surrebuttal Testimony of  
James M. Russo

1           A.     The Company believes the Commission should continue the practice  
2 allowing the Company to recover mileage reimbursement at the federal mileage rate.

3           **Q.     Why does the Company believe the Commission should approve the**  
4 **federal mileage reimbursement rate for the Company?**

5           A.     The federal mileage reimbursement rate allows the Company to recover all  
6 of the costs associated with owning and operating a vehicle. The state of Missouri  
7 mileage reimbursement rate is based on the state of Missouri's cost to operate the state  
8 fleet.

9           **Q.     Does this conclude your surrebuttal testimony?**

10          A.     Yes, it does.