

*Exhibit No.:*  
*Issue:* *Rate Design*  
*Witness:* *Curtis B. Gateley*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *WR-2017-0259*  
*Date Testimony Prepared:* *October 13, 2017*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION  
WATER AND SEWER DEPARTMENT**

**DIRECT TESTIMONY**

**OF**

**CURTIS B. GATELEY**

**INDIAN HILLS UTILITY OPERATING COMPANY**

**CASE NO. WR-2017-0259**

*Jefferson City, Missouri*  
*October 2017*



1 Q. Please provide some background on the usage and other characteristics of the  
2 customers of Indian Hills.

3 A. Staff has determined that an annualized customer number of 715 is the  
4 appropriate number of customers. Water sales data was not available from the test year due to  
5 meters which were beyond their useful life and were not providing accurate data. Because the  
6 customers have metered rates, some volume of water sales must be used to calculate rates.  
7 Since an expected water sales volume is necessary in order to update the current metered rate,  
8 Staff was forced to develop an assumed water sales volume. In this case, water sales were  
9 assumed to be 3,000 gallons per month per customer.  $3,000 \text{ gallons per month} \times 12 \text{ months}$   
10  $\text{per year} \times 715 \text{ customers} = 25,740,000 \text{ gallons per year.}$

11 The customer make-up of Indian Hills is approximately 49% part-time customers.  
12 According to the Company and customer comments, the part-time customers are typically  
13 using the properties during some summer weekends and rarely using the properties during the  
14 winter. This means the average usage for those customers will be far below the 4,000-5,000  
15 gallons of usage normally seen with full-time customers. Additionally, some full-time  
16 customers commented that they believe they use less than 4,000 gallons per month. While the  
17 actual average usage may be less than 3,000 gallons per month, this value is a reasonable,  
18 conservative assumption.

19 Q. Is this the only time Staff has been forced to estimate anticipated volume sold?

20 A. No, I am personally aware of at least one other case. For the Branson Cedars  
21 Resort Utility Operating Company in WA-2015-0049, Staff estimated the volume of water  
22 expected to be sold as part of designing rates for this previously unregulated company.

1 Q: What did Staff examine to determine cost allocations in this case?

2 A. Staff examined the various components of revenue requirement; in particular,  
3 what costs are variable depending on water produced and what costs are fixed regardless of  
4 the amount of water produced. This, along with customer types and usage patterns, is used in  
5 determining allocation of costs to recover between customer charge and commodity charge.  
6 There are commercial and residential customers, although their expected use of the system is  
7 similar and therefore there are not separate classes. All meters are reportedly the same size, at  
8 5/8". The resulting rate design is shown in the attached Schedule CBG-d2.

9 Q. Is Staff recommending a change to the rate structure currently in place for  
10 Indian Hill's customers?

11 A. Yes. Staff is proposing to eliminate the 4,000 gallons of water included in the  
12 minimum monthly customer charge. Staff proposes a simple monthly customer charge and a  
13 commodity charge per 1,000 gallons of usage, with only one customer class.

14 Q. Why is this change being proposed?

15 A. As a general practice, a simple rate design is preferred by customers and utility  
16 customers. Complexity should only be added when good cause exists. In this situation, a  
17 minimum of 4,000 gallons of usage is not appropriate for many of the customers connected to  
18 the utility.

19 Q. Did Staff receive comments from the Company or customers about the existing  
20 rate design?

21 A. Yes. Soon after the Company filed the rate-increase request letter, I asked  
22 Josiah Cox, president of the Company, how he felt about the current rate design, which they  
23 had inherited upon purchasing from the previous owners. The Company was receptive to

1 simplifying the rate design. During the public comment period, several customers  
2 commented that they did believe they used less than 4,000 gallons per month, and that being  
3 billed for this volume was unfair. Some customers specifically requested a separate  
4 commodity charge based on the amount of water they used.

5 Q. Is Staff proposing other changes to the rate design?

6 A. Yes, Staff is proposing to eliminate the rate for a “yard hydrant on unimproved  
7 lot”. The occasional use of a yard hydrant for a recreational vehicle or other ephemeral use is  
8 similar to the occasional water use associated with a part-time customer. The same costs exist  
9 to deliver the water to the meter associated with a yard hydrant or a house. The current rate  
10 structure unfairly burdens the other customers by shifting a portion of these costs away from  
11 the yard hydrant customers.

12 Q. Are there currently commercial customers at Indian Hills?

13 A. Yes, but the company reports that these commercial customers have the same  
14 5/8” meters as residential customers.

15 Q. Is Staff proposing a separate customer class for commercial customers?

16 A. No, Staff proposes to continue to have one customer class as is the case in the  
17 current rate design. Staff identified no differences in cost to deliver service to the commercial  
18 customers. Therefore no need exists for a separate commercial customer class.

19 Q. What would be the impact to rates if the Commission adopts Staff’s  
20 recommended revenue requirement?

21 A. The impact of the increases in water revenues upon existing rates are reflected  
22 in the tables below:

1

<b>Water Charge</b>	<b>Current Rates</b>	<b>Proposed Rates</b>	<b>Proposed Amount of Rate Change</b>
Monthly Minimum Charge	\$10.81	\$52.04	\$41.23
Usage per 1,000 gallons	\$1.89	\$7.87	\$5.98

2

3

Q. Does this conclude your direct testimony in this proceeding?

4

A. Yes, it does.



**Curtis B. Gateley**

I am a Utility Policy Analyst II in both the Energy Resource Department and the Water & Sewer Department, in the Commission Staff Division of the Missouri Public Service Commission. I have been employed by the Missouri Public Service Commission since July of 2014. In the Water & Sewer Department my primary duties are to act as Case Manager for rate cases and transfer of assets cases, and also draft rate design, and conduct tariff reviews. I also work on regulation development, and liaise with the Department of Natural Resources and the U.S. Environmental Protection Agency on technical issues related to drinking water and sewer regulations. In the Energy Resources Department I assist with review of utility filings associated with the Missouri Energy Efficiency Investment Act, and rate adjustments under fuel adjustment clauses, as well as regulation development.

**Educational Background and Work Experience**

I have a Bachelor of Science degree in Fisheries and Wildlife from the University of Missouri-Columbia. Prior to joining the Public Service Commission I was employed by the Missouri Department of Natural Resources from 2000-2014, as an Environmental Specialist and a Unit Chief. During my time with the agency I worked in compliance and enforcement, industrial and domestic wastewater permits, industrial stormwater permits, and eventually oversaw a staff of eight Permit Writers. I have served as expert witness before the Administrative Hearing Commission in permit appeal cases, as well as expert witness in State and Federal enforcement cases.

**Previous Testimony Before the Public Service Commission**

<b>Case No.</b>	<b>Company</b>	<b>Type of Filing</b>	<b>Issue</b>
SR-2014-0153	Peaceful Valley	Live Testimony in Evidentiary Hearing	Compliance with Dept. of Natural Resources regulations
WR-2015-0301	Missouri American Water Company	Direct and Rebuttal Testimony	Class Cost of Service Report
SR-2016-0202	Raccoon Creek Utility Operating Company	Direct and Rebuttal Testimony	Rate Design and Tariff Review
WO-2017-0236	Ridge Creek Water Company LLC	Live testimony	Petition for Interim Receiver
WR-2017-0110	Terre Du Lac Utilities Corporation	Direct Testimony	Rate Design and Tariff Review



**INDIAN HILLS UTILITY OPERATING COMPANY  
CASE NO. WR-2017-0259**

**Indian Hills Utility Operating Company, Inc.  
Rate Making Income Statement**

**Operating Revenues at Current Rates**

1	Tariffed Rate Revenues *	\$	92,555	
2	Other Operating Revenues *	\$	4,736	
3	<b>Total Operating Revenues</b>	<b>\$</b>	<b>97,291</b>	
4	* See "Revenues - Current Rates" for Details.			

**Cost of Service**

Item	Amount				
5 Misc Source of Supply Expense	\$ 200	0.00	\$ -	\$	200
6 Pumping	\$ 13,681	0.00	\$ -	\$	13,681
7 Chemicals	\$ 5,381	0.00	\$ -	\$	5,381
8 Operation Labor & Expense	\$ 71,104	0.30	\$ 21,331	\$	49,773
9 Operation Supervision & Engineering	\$ 800	0.50	\$ 400	\$	400
10 Contract Water Testing	\$ 630	0.80	\$ 504	\$	126
11 Maintenance of Structure and Improvements	\$ 26,532	0.50	\$ 13,266	\$	13,266
12 Maintenance Pumping	\$ 5,071	0.00	\$ -	\$	5,071
13 Maintenance Supervision and Engineering	\$ 495	0.50	\$ 248	\$	248
14 Maintenance of Transmission & Distribution	\$ 127	0.50	\$ 64	\$	64
15 Billing & Collections	\$ 17,961	0.80	\$ 14,369	\$	3,592
16 Bank Fees	\$ 4,932	0.00	\$ -	\$	4,932
17 Administrative & General Expenses	\$ 124,314	1.00	\$ 124,314	\$	-
18 PSC	\$ 1,025	1.00	\$ 1,025	\$	-
19 Business License	\$ 74	1.00	\$ 74	\$	-
<b>20 Sub-Total Operating Expenses</b>	<b>\$ 272,327</b>		<b>\$ 175,594</b>	<b>\$</b>	<b>96,733</b>
21 SS & Medicare	\$ 4,396	0.80	\$ 3,517	\$	879
22 Unemployment	\$ 1,373	0.80	\$ 1,098	\$	275
23 Property Taxes	\$ 4,956	0.80	\$ 3,965	\$	991
24 Income Taxes	\$ 18,418	0.80	\$ 14,734	\$	3,684
<b>25 Sub-Total Taxes</b>	<b>\$ 29,143</b>		<b>\$ 23,314</b>	<b>\$</b>	<b>5,829</b>
26 Depreciation	\$ 98,735	0.80	\$ 78,988	\$	19,747
27 Amoritzation	\$ 21,011	0.80	\$ 16,809	\$	4,202
28 Interest	\$ 171,090	0.60	\$ 102,654	\$	68,436
<b>29 Sub-Total Depreciation/Interest/Amortization</b>	<b>\$ 290,836</b>		<b>\$ 198,451</b>	<b>\$</b>	<b>92,385</b>
30 Return on Equity	\$ 61,461	0.80	\$ 49,169	\$	12,292
<b>31 Total Cost of Service</b>	<b>\$ 653,767</b>		<b>\$ 446,528</b>	<b>\$</b>	<b>207,239</b>
<b>32 Cost to recover in rates</b>	<b>\$ 649,031</b>		<b>\$ 446,528</b>	<b>\$</b>	<b>202,503</b>
<b>33 Overall Revenue Increase Needed</b>	<b>\$ 556,476</b>		<b>\$ 353,973</b>	<b>\$</b>	<b>202,503</b>

**INDIAN HILLS UTILITY OPERATING COMPANY  
CASE NO. WR-2017-0259**

**Indian Hills Utility Operating Company, Inc.**

**Revenue Annualizations at Current Rates-Water**

**Annualized Customer Counts and Customer Charge Revenues**

**Retail Metered Customers**

		<b>Bills per year</b>	<b>Total Bills</b>	<b>Rate *</b>	<b>Annual Revenue**</b>
5/8" Meter	712	12	8,544	\$ 10.81	\$ 92,361
Hydrant only 5/8"	3	12	36	\$ 5.40	\$ 194
					\$ -
<b>Total</b>	<b>715</b>		<b>8,580</b>		<b>\$ 92,555</b>

\*monthly service charge

\*\*Revenue reflects some billing for less than 12 months per year, from the EMS

**Annualized Commodity Sales - Volumes and Revenues**

There were no sales in excess of base gallons included in Customer Charge in the test year

	<b>Total Sales</b>	<b>Rate</b>	<b>Annual Revenue</b>
-	-	\$ 1.89	\$ -
-	-		\$ -
-	-		\$ -

**Net Annualized Commodity Revenues**

**\$ -**

**Other Operating Revenues**

Misc Revenues	\$ 4,690
Primacy Fee	\$ 46
<b>Total Other Revenues</b>	<b>\$ 4,736</b>

**Total Operating Revenues**

Service Charges - Retail Customers	\$ 92,555
Commodity Revenues - Retail Customers	\$ -
<b>Sub-Total Tariffed Rate Revenues</b>	<b>\$ 92,555</b>
<b>Other Operating Revenues</b>	<b>\$ 4,736</b>
<b>Total Operating Revenues</b>	<b>\$ 97,291</b>



**INDIAN HILLS UTILITY OPERATING COMPANY  
CASE NO. WR-2017-0259**

**Indian Hills Utility Operating Company, Inc.**

**Revenue Annualizations at Proposed Rates-Water**

**Annualized Customer Counts and Customer Charge Revenues**

**Retail Metered Customers**

	<b>0</b>	<b>Bills per year</b>	<b>Total Bills</b>	<b>Rate *</b>	<b>Annual Revenue</b>
5/8" Meter	715	12	8580	\$ 52.04	\$ 446,528
<b>Total</b>	<b>715</b>		<b>8,580</b>		<b>\$ 446,528</b>
monthly service charge					

**Annualized Commodity Sales - Volumes and Revenues**

<b>Meter Size</b>		<b>Total Sales</b>	<b>Rate</b>	<b>Annual Revenue</b>
Full Time, 5/8" Meter	25,740,000	25,740,000	\$ 7.87	\$ 202,503
<b>Total</b>	<b>25,740,000.0</b>	<b>25,740,000.0</b>		<b>\$ 202,503</b>
volumes adjusted as needed per net revenue annualization at current rates				

**Other Operating Revenues**

**Total Other Revenues** \$ -

**Total Operating Revenues**

Service Charges - Retail Customers	\$ 446,528
Commodity Revenues - Retail Customers	\$ 202,503
<b>Sub-Total Tariffed Rate Revenues</b>	<b>\$ 649,031</b>
<b>Total Revenues at Proposed Rates</b>	<b>\$ 649,031</b>
Revenue Check - Proposed Rates vs. Current Rates	
Total Revenues at Proposed Rates	\$ 649,031
Tariffed Revenues at Current Rates	\$ 92,555
Increase In Revenues at Proposed Rates	\$ 556,476
Agreed-Upon Increase in Operating Revenues	\$ 556,476