Exhibit No. _____
Issue: Maintenance and Repair Expense
and Payroll Component of Corporate
Allocations
Witness: Todd Thomas
Type of Exhibit: Direct Testimony
Sponsoring Party: Indian Hills
Case No.: WR-2017-0259
Date: October 13, 2017

Missouri Public Service Commission

Direct Testimony

of

Todd Thomas

On Behalf of

Indian Hills Utility Operating Company, Inc.

October 13, 2017

AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF St. Charles)

I, Todd Thomas, state that the answers to the questions posed in the attached Direct Testimony are true to the best of my knowledge, information and belief.

Forest T. Thomas

Subscribed and sworn to before me this 13th day of October, 2017.

Brenda Eaves
Notary Public

My Commission Expires: 1/31/2021

BRENDA EAVES
Notary Public, Notary Seal
State of Missouri
St Charles County
Commission # 13443468
My Commission Expires 01-31-2021

TABLE OF CONTENTS

DIRECT TESTIMONY OF
TODD THOMAS
INDIAN HILLS UTILITY OPERATING COMPANY, INC.

WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Todd Thomas. My business address is 500 Northwest Plaza Drive Suite 500. St. Ann MO, 63074

Q. WHAT IS YOUR POSITION WITHIN THE CENTRAL STATES WATER RESOURCES FAMILY OF COMPANIES?

A. I hold the office of Senior Vice President of First Round CSWR, LLC (First Round), the company that is the ultimate parent of Indian Hills Utility Operating Company, Inc. Since First Round is managed by managed by Central States Water Resources, Inc. we internally refer to all corporate operations as Central States Water Resources, CSWR, or Central States.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. My education includes a Bachelor of Science in Civil Engineering from The Missouri University of Science and Technology, and a Masters of Business Administration from Washington University in St. Louis. Before joining CSWR, I was President of Brotcke Well and Pump (the 2nd largest well driller and service provider in the Midwest), Vice President of Operations and Business Development of the Midwest for American Water Contract Operations, and

General Manager of Midwest Operations for Environmental Management Corporation. I currently serve on the Technical Advisory Team for the Public Water Supply District 2 of St. Charles County, MO. Brotcke Well and Pump serves municipal potable, regulated potable, and industrial ground water suppliers in the states of Missouri, Illinois, Kansas, Tennessee, Kentucky, and Arkansas. The total number of clients exceeds 200 and ranges in size from Bloomington, IL with 31,000 water customers to 230 customers in Eminence, MO. Brotcke Well and Pump drills wells, cleans and treats wells, installs pumps, services pumps, rebuilds pumps, tests wells for regulatory compliance, and installs and services well controls. As President at Brotcke Well and Pump I was involved in the design, maintenance, and repair of all of the client's well systems. I have firsthand experience with how much damage can be done by lack of maintenance on a well system and how much money and effort is required to restore a well system after neglect. As Vice President of Operations and Business Development of the Midwest for American Water Contract Operations I was responsible for the water and waste water operations and maintenance contracts for municipal and industrial clients. These clients included St. Charles, MO waste water, Godfrey, IL waste water, Mount Vernon, IL waste water, Quincy, IL waste water, Brighton, IL water and waste water, Litchfield, IL waste water, Lincoln, IL waste water, Pittsfield, IL waste water, Monmouth, IL water and waste water, Elwood, IL waste water, and Foristell, MO water and waste water. At one time I had responsibility for operating water and wastewater systems serving approximately 64,000 residential connections. My

responsibilities included the direction and management of annual budgeting for each plant's operations and maintenance, design and planning of plant upgrades and maintenance projects, regulatory reporting, plant operations, and regulatory compliance of all of these systems. My position as General Manager of Midwest Operations for Environmental Management Corporation (EMC) was similar to that of my position with American Water Contract Operations with regard to the size and scope of the systems managed.

Q. PLEASE DESCRIBE YOUR POSITION.

A. As Senior Vice President, my main responsibilities include utility operations along with the acquisition, development, and rate stabilization of CSWR utilities. These duties include operations, maintenance, capital planning, and regulatory compliance for all CSWR facilities. I am responsible for the management of all operations and maintenance service providers, customer service and billing service providers, and engineering firms.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will first provide the Missouri Public Service Commission (Commission) with a description of the maintenance and repairs at Indian Hills and its operations and outline Indian Hills' position in regard to the treatment of maintenance expense. I will also provide information in regard to the payroll component of corporate allocations.

MAINTENANCE EXPENSE

Q. WHAT DISAGREEMENT DOES INDIAN HILLS HAVE WITH THE COMMISSION STAFF IN REGARD TO MAINTENANCE EXPENSE?

A. Indian Hills disagrees with Staff's proposal to record $67,705 of 2016 and 2017 maintenance costs and then amortize those costs over a 5-year period.

Q. PLEASE DESCRIBE THE MAINTENANCE EXPENSE AT ISSUE.

A. Operating a water system that has not been well maintained for the last 50 years, a distribution system made out of substandard materials, and a water system lacking minimum MDNR pressures for years is necessarily going to require a high amount of on-going repair and maintenance work. The existing water main conveyance system was not mapped at the time of Indian Hills' acquisition. The existing water conveyance piping is made from substandard 50-year-old plastic pipe that's 50% lower thickness than National Science Foundation (NSF) drinking water standards, the water mains are at some places only buried 18-inches deep (MDNR minimum depth is 36-inches), and the main pipping is not properly bedded on gravel or sand sometimes resting directly on bedrock. The water mains vary in circumference, randomly, from 3-inch pipe to 6-inch pipe across the entire 16+ miles of the water distribution system. The random water main size inside the water distribution system piping has created friction loss and hydraulics such that Indian Hills has had to add pressure at two different points in the water system to provide MDNR mandated minimum pressures and water supply for residents. Existing water taps from main lines to the water meters (company owned) and from water meters to houses consists of lawn irrigation

plastic roll piping (a non-NSF approved application for drinking water), and these substandard taps have been glued on to the water mains.

Attached as **Schedule TT-1** are pictures of some of those lines showing some of the service connections that have been dug up for repair by Indian Hills have been clamped over a dozen times by the prior owner, a glued service line tap, and a main break exposing only 18-inches of cover. The conditions depicted in these pictures are not unusual in Indian Hills.

Q. WHAT IS THE SOURCE OF THIS CONDITION?

A.. The poor integrity of the water mains and service connections is due to the systems age, due to the substandard materials used, and due to the improper construction installation when the system was originally built. Using water service connection pipe that is low pressure plastic pipe typically utilized in lawn irrigation systems is a prime example. As you can see from the pictures, the system had difficulties with leaks prior to Indian Hills' ownership. Some water taps we have exposed have contained as many as 15 wire clamps. Now that Indian Hills has completed the system upgrades to bring the pressure of the system up to regulatory drinking water safety standards, the connection pipe is further stressed. The extra water pressure is also moving mains without proper bedding, sometimes on bedrock, causing leaks. When Indian Hills began work on water system upgrades to address MDNR regulatory requirements for minimum pressure, water availability, and service stability more repair issues immediately began to arise. These larger ongoing maintenance and repair

issues are the direct result of aging infrastructure, made out of substandard materials, originally installed without basic best practices, lacking rudimentary water hydraulic design uniformity, being forced to convey higher volumes of water at higher pressures.

Q. WHAT HAS BEEN INDIAN HILLS' EXPERIENCE WITH THE REPAIRS IT HAS MADE TO THE WATER MAINS AND SERVICE CONNECTIONS?

A. Since Indian Hills purchased the water assets of I.H. Utilities approximately 300 leaks have been repaired both on water taps and main lines. In addition, 48 of the Company-owned individual water service lines have been replaced. The pace of repairs has increased due to the pressure added to the system by the MDNR mandated drinking water system improvements. The test year expenses Staff has proposed to amortize are underweighted compared to our projected actual on-going repair and maintenance costs. This difference is due to the fact that the booster stations built by Indian Hills to meet MDNR requirements which brought higher pressure and higher water volumes to bear on an aging, inadequately built and designed system, were not fully operational until November of 2016. The test year is March 2016 to March of 2017. This means a more accurate measurement of ongoing repair and maintenance costs would capture the current rate of repairs which is higher than the test year.

Q. HOW LONG DO YOU EXPECT THIS LEVEL OF REPAIRS TO CONTINUE?

A. Given that there are over 700 customers receiving service from the Indian Hills water system, and that over 200 of the approximately 300 repairs have taken place since the new booster station came on line, it is expected that the leaks will continue for many years until all the water service connections are replaced and the water mains begin being replaced. This level of ongoing repair cost is symptomatic of a water system that was poorly constructed and has been neglected for decades.

Q. HOW WOULD YOU DESCRIBE THE AMORTIZATION APPROACH TAKEN BY STAFF?

A. Staff's approach might be appropriate if the repairs were a one-time phenomenon. Unfortunately, we believe these repairs will continue, year after year, for many years.

Q. WHAT IS THE APPROPRIATE TREATMENT OF THIS ISSUE?

A. The Commission should order that the total $99,303, of maintenance and repair costs be included in the revenue requirement.

PAYROLL COMPONENT OF CORPORATION ALLOCATIONS

Q. WHAT DISAGREEMENT DOES INDIAN HILLS HAVE WITH THE COMMISSION STAFF IN REGARD TO THE SALARY LEVELS UTILIZED BY THE PSC STAFF?

A. Staff has assigned a median level of experience.

Q. IS THERE A DEMAND FOR WATER AND WASTEWATER EMPLOYEES?

A. Yes. The water and wastewater utility operations and maintenance industry is a highly competitive market. Demographics show that the number of experienced professionals in the industry is declining. As seen by the increasingly growing number of Missouri's water and wastewater systems that are out of compliance for not meeting water quality standards, not meeting regulatory reporting requirements, and not meeting customer service requirements, many systems are not being appropriately cared for.

Q. HOW IS INDIAN HILLS STAFFED?

A. The management of Indian Hills is provided by CSWR. CSWR has a staff size of 6 that has responsibility over an increasingly large number of water and waste water systems. Collectively, CSWR's staff must be and are (including myself) industry experts in process design, construction, process maintenance, process operations, customer service, quality, finance, and accounting to adequately manage its utilities and meet regulatory requirements.

Q. ARE THERE SPECIFIC CHALLENGES ASSOCIATED WITH THE MANAGEMENT, OPERATION AND MAINTENANCE OF SMALL SYSTEMS?

A. Yes. Having had extensive experience with the management, operation, and maintenance of both large and small systems, I can say that smaller systems present more of a challenge. With smaller systems, budgets are tighter since

there is less revenue and ability to cover equipment failures and breakdowns. It is more difficult to schedule personnel since small systems don't have multiple full-time staff dedicated to them that can cover one another in the event of illness, etc. It is more difficult to manage the processes since the smaller systems don't have size to absorb a chemical dump from a residence or a washout from high inflow and infiltration. Therefore, it takes an even greater level of competence to manage, operate and maintain a group of smaller systems, particularly systems that have long histories of being neglected and undermaintained.

Q. WHAT IS THE APPROPRIATE TREATMENT OF THIS ISSUE?

A. The Commission should order salaries based on job descriptions and an Experienced level for salaries that have been proposed by Indian Hills.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.