

*Exhibit No.:*

*Issues: Automated Meter Read Meters,  
Billing Software, Rate Case  
Expense, Certificate Case  
Expense, Land, Rate Base,  
Salaries, Sludge Hauling, Vehicle  
Expense, Testing Expense*

*Witness: Lisa K. Hanneken*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Surrebuttal Testimony*

*Case No.: SR-2013-0321*

*Date Testimony Prepared: October 24, 2013*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**LISA K. HANNEKEN**

**LINCOLN COUNTY SEWER & WATER, LLC.**

**CASE NO. SR-2013-0321**

*Jefferson City, Missouri  
October 2013*

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OF  
LISA K. HANNEKEN  
LINCOLN COUNTY SEWER & WATER, LLC.  
CASE NO. SR-2013-0321**

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Surrebuttal Testimony of  
Lisa K. Hanneken

1           A.     Yes, as part of my duties regarding LCSW Case Nos. WR-2013-0322 and  
2 SR-2013-0321, I performed analysis and developed workpapers for a number of issues, as  
3 well as supervising other auditors assigned to the case.

4           Q.     Did you file rebuttal testimony regarding these issues?

5           A.     No. Unfortunately a health issue prevented my ability to work during the  
6 filing of rebuttal, therefore, Staff witness, Lisa M. Ferguson filed rebuttal on those issues  
7 which I had previously completed work on.

8           Q.     Are you familiar with the positions Ms. Ferguson presented in her rebuttal  
9 testimony on the specific issues you are now resuming responsibility for?

10          A.     Yes. I am familiar with the positions Ms. Ferguson presented in her rebuttal  
11 testimony and intend to sponsor specific issues. Specifically, the issues I will sponsor are  
12 Automated Meter Read (AMR) meters, billing software, insurance costs, rate case expense,  
13 certificate case expense, land, rate base, plant held for future use, salaries, sludge hauling,  
14 vehicle expense, testing expense and income taxes.

15          Q.     What is the purpose of your surrebuttal testimony in this proceeding?

16          A.     My surrebuttal testimony will address statements made in Company witness,  
17 Dennis Kallash's rebuttal testimony, as well as provide rebuttal to certain issues contained  
18 within the Office of the Public Counsel ("OPC") witness, William Addo's rebuttal testimony.  
19 The issues I will address in this testimony are AMR meters, billing software, rate  
20 case expense, certificate case expense, land, rate base, salaries, sludge hauling, vehicle  
21 expense, and testing expense.

22                 In addition, I am sponsoring Staff's revised accounting schedules which will be filed  
23 concurrently with this direct filing.

1 **MR. KALLASH'S TESTIMONY-GENERAL**

2 Q. In his rebuttal testimony, Company witness Dennis Kallash states on page 3  
3 that it should not have been a surprise to Staff that adequate data could not be obtained for  
4 the test year. Is this true?

5 A. No. Staff was surprised that such data did not exist given that Staff was  
6 provided with similar information it requested during the Company's prior certification  
7 cases. Staff does not understand why this data would not be available to Staff after the  
8 passing of only a few months as LCSW was utilizing the same vendors as it had in its  
9 previous cases. After all, LCSW had just undergone an audit of its books and records, and  
10 Staff's data request to LCSW in this case was almost identical to the one given to LCSW in  
11 its last cases. Because of this, Staff is unsure why those records would suddenly not exist  
12 and would not be judged by LCSW as pertinent to keep.

13 Q. Mr. Kallash also states on page 3 of his rebuttal testimony that LCSW was not  
14 operating as a regulated utility for the entire test year. Should this have impaired the  
15 Company's ability to provide the necessary data?

16 A. No, given that these systems have been in operation for several years, and the  
17 fact that similar such data was available and provided to Staff during the Company's recent  
18 certification cases. In addition, there was no ownership or staffing changes related to the  
19 certification which would impede LCSW's current ability to provide such records.  
20 Therefore, Staff is perplexed as to why the requested information could not be provided.

21 Q. Was Staff surprised at Mr. Kallash's statements, on page 6 of his rebuttal  
22 testimony that LCSW had not disposed of any of the requested records?

1           A.     Yes, because several times throughout the audit process Mr. Kallash stated to  
2 Staff that he had, in fact, disposed of the records. Specifically, in a meeting on January 3,  
3 2013 attended by multiple Staff members, the Company indicated that they had thrown all  
4 documentation prior to the certification date of July 20, 2012 away. In addition, on page 35  
5 of OPC witness Mr. William Addo's rebuttal testimony, Mr. Addo states he was also  
6 made aware that "...the Company had disposed of much of its historical records...".  
7 If Mr. Kallash is now stating that he did not dispose of the records, then records such as bank  
8 statements, electric bills and others requested by Staff should have been readily available and  
9 provided to the Staff.

10           Q.     Does Staff have an example of documentation which existed prior to the  
11 certification date, and subsequent to the certification date, but for which there is a gap in the  
12 data Staff was provided?

13           A.     Yes, an example of this would be the Company's bank records. Staff is in  
14 possession of such records as were provided in the last case, which go through July 2011, and  
15 then also the records that were provided in this case for the time periods of August 2012 –  
16 December 2012 for Bennington and September 2012 – December 2012 for Rockport.  
17 However, what Staff has not been provided in this proceeding is the bank statements for the  
18 time periods of August 2011 – July/August 2012. On several occasions, the Company  
19 indicated they could and would obtain copies of the bank statements from their bank for  
20 those documents it did not have on hand; however the Company has failed to do so.

21           Q.     Did Staff attempt to explain to Mr. Kallash the need for such information?

22           A.     Yes, on several occasions. In fact, in answer to LCSW's written inquiries on  
23 February 6, 2013, Staff's response fully explained to Mr. Kallash the relevance of having all

1 data pertinent to the test year. In his letter Mr. Kallash asked two questions regarding the data

2 Staff requested:

3 1. I do not understand why we need to supply information from 2011  
4 since you already have done an audit on this information.

5  
6 2. Please provide in writing to us, what the 2011 bank statements have  
7 to do with our request for a rate increase.

8 As part of Staff's response to Mr. Kallash's questions, Staff explained that the bank  
9 statements obtained in the prior certificate case audit only went through July 2011, as well as  
10 that other invoices provided in the last case were dated prior to the dates needed for this case.  
11 Therefore those items were still considered necessary in order to complete the audit for this  
12 case. Staff also explained the necessity of having all the various expense and revenue  
13 documentation for the same time period (the test year) and Staff's inability to utilize data  
14 provided in a prior case in most instances, because using that data would violate the  
15 ratemaking matching principle.

16 In regards to why the bank statements were necessary, Staff explained that  
17 given LCSW's lack of invoices and revenue data as well as the fact that the check register  
18 did not contain any record of deposits, bank fees or other such information, the bank  
19 statements would provide a helpful and valuable alternative source of audit information.  
20 This data request and response have been attached in their entirety in Schedule LKH – 3 to  
21 this testimony.

22 Q. In Staff's direct testimony, Staff indicated a request was made for Ameren  
23 Missouri electric invoices from LCSW and that Staff was only provided invoices dated  
24 subsequent to the date of LCSW's certification. Does Staff believe the electric invoices prior  
25 to certification should have been available to LCSW?

Surrebuttal Testimony of  
Lisa K. Hanneken

1           A.     Yes. Staff is confused as to why these invoices, which were provided in the  
2 LCSW's last case and provided for the time period subsequent to the date of LCSW's  
3 certification, are not available to Staff, given it is a certainty they existed at one time.

4           Q.     Did Mr. Kallash attempt to provide information regarding the electric invoices  
5 that the Staff requested?

6           A.     Yes, on April 2, 2013, Mr. Kallash faxed information regarding the  
7 Ameren Missouri electric data. However, this data did not contain all the information needed  
8 to annualize the expense, as Staff had discussed with Mr. Kallash. On several subsequent  
9 occasions, Staff explained in detail to Mr. Kallash, Mr. Dale Johansen and Mr. Dean Cooper  
10 the need to have more detailed data regarding LCSW's electric expense in order to  
11 properly calculate an annualized amount<sup>1</sup>, as discussed in Staff witness Lisa M. Ferguson's  
12 rebuttal testimony.

13          Q.     On page 8 of Mr. Kallash's rebuttal testimony, he indicates that a \$25.00  
14 item related to a drop box was not included by Staff in its recommended cost of service.  
15 Is this correct?

16          A.     Yes. Staff did not include the \$25.00 cancelled check in its plant in service  
17 calculations which Mr. Kallash has indicated was for materials related to LCSW's drop box.

18          Q.     Is it Staff's practice to exclude items from its case that are only supported by  
19 cancelled checks?

20          A.     Yes. In circumstances where the only documentation Staff has is a cancelled  
21 check, unless Staff can confirm all necessary information regarding the transaction, Staff will

---

<sup>1</sup> The Ameren Missouri electric bills originally requested by Staff on December 19, 2012 were provided to Staff on the afternoon of October 24, 2013, which, after a one-day emergency extension, was a few hours prior to the Surrebuttal submission deadline. Therefore, Staff has not yet had the opportunity to review the documents, or incorporate them into Staff's analysis.



1 | likely not include the amount. In this case, there were other cancelled check amounts related  
2 | to the drop box that were also not provided to Staff. These included a check for \$300.00 to  
3 | John Kallash and a check for \$31.99 to Orschelns. Mr. Kallash has stated that the \$300.00  
4 | was paid to John Kallash for labor to weld, paint and install the lock box and the \$31.99  
5 | check was for paint for the drop box. Again, without verification confirming what the checks  
6 | were written for, it is difficult for Staff to classify and place these items in rate base.

7 |       Q.     Has Staff explained to Mr. Kallash the need to maintain further audit  
8 | documentation beyond a cancelled check?

9 |       A.     Yes, this was discussed with him in the prior case, as well as this current case.  
10 | In fact it was explained in response to the aforementioned LCSW data request, Schedule  
11 | LKH - 3. In part, Staff stated in its response:

12 |                 ...Staff believes that an invoice or receipt will be necessary for a  
13 |                 majority of the items listed in the check register in order to make a  
14 |                 determination as to the details regarding the expense... Furthermore,  
15 |                 Staff is unable to verify the accuracy of the check registers without the  
16 |                 related bank statements...

17 |       Q.     Does Staff agree with Mr. Kallash's statement on page 7 that keeping separate  
18 | records of each LCSW system is wasteful?

19 |       A.     No. In fact, given that each LCSW system (Bennington Water, Bennington  
20 | Sewer, Rockport Water and Rockport Sewer) have separate and distinct rate structures as  
21 | well as separate and distinct customers in subdivisions located in different areas, it is  
22 | necessary for ratemaking purposes to aggregate each system's costs and revenues on a  
23 | per-system basis. It is important that LCSW maintain such direct costs and allocated costs on  
24 | a per-system basis to prevent the possibility of cross subsidization among the systems.

1 Q. Is Staff advocating that LCSW hire a full time regulatory accountant or  
2 Certified Public Accountant (CPA) as suggested by Mr. Kallash on page 9 of his  
3 rebuttal testimony?

4 A. No, Staff does not believe that action is necessary or prudent. The  
5 Commission regulates many small water and sewer companies, some smaller than  
6 Mr. Kallash's, which are required to adhere to Commission rules regarding maintaining its  
7 books and records and do so without the aid of a fulltime accountant.

8 Q. How do these other companies comply with Commission rules without hiring  
9 full-time accountants?

10 A. The methods vary from company to company. Some hire an accountant once a  
11 year to make sure the records being kept by the office personnel are in compliance. In some  
12 cases, these types of accountants may actually update the entire year's books and records by  
13 being provided adequate documentation of the company's activities for the year. Some  
14 companies keep their own books and records without the aid of an accountant at all. Of these,  
15 some initially have their books set up by an accountant then keep them up-to-date  
16 themselves; while others rely on Staff personnel to aid them in initial set up of their books  
17 and records. In addition, some companies contact Staff when unusual circumstances arise to  
18 ensure they are correctly accounting for a transaction. There are many ways for companies to  
19 comply with the rules, but Staff does not recommend a company of LCSW's size hire a  
20 fulltime staff accountant, because as Mr. Kallash states, it would not make economic sense.

21 **AUTOMATED METER READ (AMR) METERS**

22 Q. Has Staff made any changes to amounts for AMR meters included in its  
23 rebuttal filing?

1           A.     Yes, Staff has made minor changes to the accumulated reserve for AMR plant  
2 in service. These changes were to address differences in installation dates of the meters that  
3 were not captured in the rebuttal filing. In addition, Staff made a correction to remove meter  
4 reader costs that were inadvertently left in the cost of service calculation, but would not be  
5 necessary with the inclusion of AMR meters. Also, Staff made an inclusion for the billing  
6 software utilized as part of the AMR system; this is discussed more fully in the billing  
7 software section of this testimony.

8           Q.     Does Staff agree with OPC witness Mr. Addo's rebuttal testimony regarding  
9 the AMR meter system?

10          A.     Staff agrees that the AMR system exceeds the expected investment costs at  
11 the time rates were set in the last case. In addition, as stated in Staff witness Lisa M.  
12 Ferguson's rebuttal testimony, Staff believes the cost of the system is significantly greater  
13 than basic meters requiring manual reads and, therefore, Staff also has similar concerns to  
14 Mr. Addo regarding the economics of the use of the AMR system in small water systems.  
15 However, Staff's rebuttal position also takes into account intangible benefits associated with  
16 use of AMRs which Mr. Addo does not address in his rebuttal testimony. These intangible  
17 benefits were discussed in Staff witness James A. Merciel Jr.'s rebuttal testimony.

18          Q.     Has Staff recently been provided with additional data regarding costs  
19 associated with the AMR system?

20          A.     Yes. Staff was provided additional documentation on October 18, 2013 by  
21 LCSW. Therefore, I have not had sufficient time to review or perform any substantive  
22 analysis regarding this new data.

23          Q.     What new data was provided regarding the AMR system?

1           A.     It appears the data is an invoice from Schulte Supply Inc. for an annual  
2 “Neptune Maintenance Contract” related to LCSW’s AMR handheld device and software.  
3 However, Staff was unaware of any such contract prior to receipt of this invoice within  
4 the last couple of days. LCSW has not provided any contracts to Staff related to AMR  
5 system maintenance.

6           Q.     What cost impact does this invoice have on LCSW customers?

7           A.     The amount of the invoice is \$2,261, related to an annual expense.

8           Q.     Does LCSW have to incur this type of cost in order to operate and maintain an  
9 AMR meter system?

10          A.     Staff does not know at this time. If the answer to that question is “yes,” then  
11 knowledge of this contract and the significant annual costs associated with the contract  
12 would have greatly impacted Staff’s review of the economic feasibility and 10-year cost  
13 benefit analysis of the AMR system as a whole.

14          Q.     Does Staff intend to obtain additional documentation regarding this cost?

15          A.     Staff normally would issue a follow-up data request, however, this data was  
16 not provided until the last possible date of discovery allowed per the Procedural Schedule in  
17 this case and did not allow Staff time to submit a data request. Therefore, Staff will not be  
18 afforded the opportunity to obtain further information or data regarding this cost.

19          Q.     What is Staff’s recommendation regarding cost recovery of the AMR  
20 maintenance contract costs?

21          A.     Due to LCSW’s failure to provide any support for its last minute request  
22 for rate recovery of these material costs, Staff cannot recommend they be included in rates at  
23 this time.

1 **BILLING SOFTWARE**

2 Q. In Staff witness Ferguson's rebuttal testimony; Staff indicated that it was still  
3 reviewing the issue of billing software. Has Staff made a determination regarding this issue?

4 A. Yes, given that Staff has included in its rebuttal costs related to the AMR  
5 meters, Staff has now included the costs associated with the software required to convert the  
6 AMR data into billing data and process the customer's bills.

7 Q. Has Staff recently been provided with additional data regarding the billing  
8 system?

9 A. Yes. Staff was provided additional documentation on October 18, 2013 by  
10 LCSW. Therefore, I have not had sufficient time to review or perform any analysis regarding  
11 this new data.

12 Q. What new data was provided regarding the billing system?

13 A. It appears the data is an invoice from Continental Utility Solutions Inc.  
14 (CUSI) for "Annual Maintenance and Technical Support" related to LCSW's billing  
15 software. However, Staff does not know what services are being provided for this  
16 expense item. Staff was not aware of this cost until receipt of the CUSI invoice in the last  
17 couple of days.

18 Q. What cost impact does this invoice have on LCSW customers?

19 A. The amount of the invoice is \$895, related to an annual expense.

20 Q. Does LCSW have to incur this type of cost in order to operate and maintain a  
21 customer billing system?

1           A.     Staff does not know at this time. If the answer to that question is “yes,” then  
2 knowledge of this cost would have impacted Staff’s review of the economic feasibility and  
3 10-year cost benefit analysis of the AMR system as a whole.

4           Q.     Does Staff intend to obtain additional documentation regarding this cost?

5           A.     Staff normally would issue a follow-up data request, however, this data was  
6 not provided until the last possible date of discovery allowed per the Procedural Schedule in  
7 this case and did not allow Staff time to submit a data request. Therefore, Staff will not be  
8 afforded the opportunity to obtain further information or data regarding this cost.

9           Q.     What is Staff’s recommendation regarding rate recovery of the costs  
10 associated with the CUSI invoice for software support for LCSW?

11          A.     Due to LCSW’s failure to provide any support for its last minute request  
12 for recovery of this material cost, Staff cannot recommend that they be allowed in rates at  
13 this time.

14           **RATE CASE EXPENSE**

15          Q.     In his rebuttal testimony regarding this issue, Mr. Addo on page 32 indicates  
16 his inclusion of \$2,028 for rate case expense as part of OPC’s cost of service  
17 recommendation. Does Staff agree with this amount?

18          A.     Not at the present time. In Staff witness Ferguson’s rebuttal testimony, in  
19 regards to this issue on page 12, she indicated that Staff was still reviewing certain  
20 documentation and had not had an opportunity to review other documents received  
21 immediately before filing. Therefore, no inclusion was made for rate case expense in Staff’s  
22 case at that time. However, Staff has since had an opportunity to review the documents

1 provided by LCSW. As a result of this review, Staff has determined that at the present time  
2 an inclusion of \$3,917 (\$11,751 spread over a 3-year period) is appropriate.

3 Q. You use the term “at the present time;” will this amount be subject to change  
4 in the future?

5 A. It is expected that this case will go to hearing and, therefore, additional legal  
6 and consulting fees, as well as possible other costs may be incurred by LCSW. Should Staff  
7 be presented with additional documentation, Staff will consider such future expenditures for  
8 inclusion in its rate recommendation.<sup>2</sup>

9 **CERTIFICATE CASE EXPENSE**

10 Q. Mr. Addo points out on page 18 of his rebuttal testimony that the certificate  
11 case expense included in rates in the last case was \$2,275. Is this correct?

12 A. Yes. Staff has also reviewed information from the Company’s previous  
13 certificate cases and agrees the certificate case costs included in rates at that time were  
14 \$2,275, not the \$4,810 shown in Dale Johansen’s workpapers. Mr. Johansen’s estimate  
15 reflects costs not agreed to by all parties nor approved by the Commission in the  
16 certificate cases.

17 Q. Do you agree with Mr. Addo’s statement in his rebuttal testimony on page 17  
18 that “Costs incurred by LCSW to transition from an unregulated utility to a regulated utility,  
19 do not constitute an organization cost as Mr. Johansen asserts”?

20 A. Yes, Staff agrees the certificate case costs are not an “organization cost” as  
21 defined by the Uniform System of Accounts (USOA).

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<sup>2</sup> Staff received documents the day before Surrebuttal Testimony was due but has not yet had the opportunity to review those documents or incorporate them into Staff’s analysis.

1 **LAND**

2 Q. What is the issue regarding LCSW's valuation of land used in providing  
3 utility service?

4 A. As addressed in Staff's witness Ferguson's rebuttal testimony, as part of  
5 the Unanimous Stipulation and Agreement in LCSW's prior certification cases, Nos.  
6 WA-2012-0018 and SA-2012-0019, the Company agreed to acquire ownership of certain  
7 assets used to serve utility customers.

8 Q. Has Staff been provided with documentation regarding the ownership of the  
9 land utilized for utility service?

10 A. Yes, in response to its Data Request No. 15 submitted to the Company on  
11 October 1, 2013, Staff was finally provided with deeds and other documents that had been  
12 requested by Staff since the beginning of the rate case.

13 Q. What has Staff learned from these documents?

14 A. While these documents are still under review by Staff, it appears that the  
15 Bennington and Rockport Homeowners' Associations executed a quit claim deed for their  
16 sewer treatment plants and lots. It is noted by Staff that at the time these documents were  
17 executed, [Mr.] Dennis Kallash and [Mrs.] Toni Kallash were trustees of both the Bennington  
18 and Rockport Homeowners' Associations. Therefore, these transactions should not be  
19 considered arm's length transactions. At the present time, Staff is still evaluating the  
20 transactions taking place within these documents, in conjunction with the documents Staff  
21 obtained on its own, in order to piece together all of the land transactions that have taken  
22 place regarding the utility property.



1 Q. Did Staff also request and receive all calculations and support for the value for  
2 each item of land referenced on page 9 of Mr. Johansen's direct testimony?

3 A. Yes, Staff requested this information on October 1, 2013 as part of Data  
4 Request No. 15. However, LCSW's response was "The referenced value of the lots is based  
5 on the price the lots were selling for in the normal course of business for the developments".

6 Q. Does the response Staff received for this item allow Staff to accept these  
7 values?

8 A. No, it does not. Staff has not been provided with any supporting documents,  
9 calculations or verification as to the origin of these values, the time frame involved, or any  
10 other type of information which would allow Staff to make a determination as to the  
11 accuracy and reasonableness of these values. In addition, it is still unclear from  
12 Mr. Johansen's direct testimony and this response as to whether the noted values are for both  
13 the water and sewer utilities of each system and, if so, what the individual valuations are. In  
14 order for Staff to make any inclusion for this item, first it must be able to verify the values  
15 and review for reasonableness given this transaction is not an arm's length transaction.  
16 Secondly, the land must be valued for each system (i.e. Bennington Water, Bennington  
17 Sewer, Rockport Water, Rockport Sewer).

18 **RATE BASE**

19 Q. What is the issue regarding LCSW's rate base in this case?

20 A. As discussed in Staff witness Ferguson's rebuttal testimony, LCSW has  
21 asserted that the beginning balances of rate base utilized by Staff in this case  
22 are inappropriate.

1 Q. In regards to the beginning balances for rate base, in his rebuttal testimony  
2 Mr. Addo indicates on page 30 that he is unable to state the value of the rate base items  
3 Mr. Johansen wants to restate. Is Staff able to value these items?

4 A. No, like The Office of the Public Counsel, Staff has not been provided with  
5 any support for the Company's position on this issue. As Mr. Addo points out,  
6 Mr. Johansen's workpaper states he is still working on this documentation. To date, Staff has  
7 not received any further information from the Company as to their position on this issue.

8 Q. Does Staff's revised accounting schedules being filed concurrently with this  
9 Surrebuttal testimony include any further adjustments not previously addressed regarding  
10 rate base items?

11 A. Yes, Staff witness Arthur W. Rice of the Engineering and Management  
12 Services Unit has recommended adjustments regarding cost of removal in the Rockport  
13 Water system's accounting schedules and a depreciation rate change for both the Bennington  
14 and Rockport water systems. Mr. Rice discusses these adjustments more fully in his  
15 Surrebuttal testimony.

16 **ADMINISTRATIVE AND GENERAL SALARY**

17 Q. On page 23 of OPC witness William Addo's rebuttal testimony, Mr. Addo has  
18 two specific examples of where he believes Staff reflected hours for Mrs. Kallash in its  
19 payroll annualization which were not actually related to utility business. Is Mr. Addo correct  
20 in this assumption?

21 A. No. For instance, Mr. Addo has incorrectly cited the March 25, 2013  
22 "funeral day" description. The actual description listed on Staff's copy of the March 25, 2013  
23 calendar day states "funeral morning" with work hours of "1:30 – 4:30" listed for

1 Mrs. Kallash. It is clear to Staff from this day's notations that Mrs. Kallash attended a  
2 funeral in the morning and then worked in the afternoon. Therefore, Staff included the three  
3 hours of afternoon work for Mrs. Kallash in its calculations.

4 As to the December 2012 item Mr. Addo refers to, Staff agrees with Mr. Addo's  
5 statements in his rebuttal testimony on pages 22-23 that LCSW agreed, as part of the  
6 stipulation and agreement in the last case, to keep adequate timesheets for all employees, and  
7 that Mrs. Kallash is utilizing a calendar template with personal items for this purpose which  
8 makes it difficult to review. However, Staff was able to sufficiently determine the difference  
9 between personal and business items. On the few occasions when Staff was unable to discern  
10 a particular item, Mrs. Kallash provided Staff with clarification.

11 Q. Given Staff's ability to determine hours worked by Mrs. Kallash, does Staff  
12 believe Mrs. Kallash should continue to use the calendar template?

13 A. No. As stated in Staff witness Ferguson's rebuttal testimony, Staff believes  
14 that Mrs. Kallash's timesheets were usable; however, they are not detailed enough to fully  
15 determine what tasks Mrs. Kallash performs and for which systems. Therefore, in this case,  
16 Staff spoke with Mrs. Kallash to determine the usual duties she performs and allocated her  
17 hours based on an overall customer allocation, since no other information was available.  
18 However, in Staff witness Tammy Vieth's rebuttal testimony, she recommends more detailed  
19 timesheets be kept by LCSW in order for Staff to make these determinations in future cases.

20 Q. Do you agree with the concerns Mr. Addo states in his rebuttal testimony on  
21 page 23-24 regarding the disparity between the hours recorded for normal duties by  
22 Mrs. Kallash prior to the rate case being filed and those records after, and his belief that  
23 Staff's calculation is unreasonable due to that disparity?

1           A.     No. Staff's methodology of averaging several months of available data was  
2 chosen in an effort to ensure any variances in hours were taken into account. In addition,  
3 Staff spoke with Mrs. Kallash in regards to this variance and was told it was due to new  
4 duties being performed relating to billing and additional customer service occurrences.  
5 Therefore, Staff believes its methodology takes into account the fluctuations in  
6 Mrs. Kallash's hours, reliant upon the documentation it was provided and the prior  
7 discussions with LCSW.

8           **MANAGEMENT SALARY**

9           Q.     Do you agree with Mr. Addo's methodology on page 27 of his rebuttal  
10 testimony regarding the calculation of Mr. Kallash's salary?

11          A.     No. Mr. Addo's methodology does not account for the additional duties  
12 performed by Mr. Kallash which were provided by a third-party at the time of the  
13 certificate cases.

14          Q.     Does Staff's methodology take into account that Mr. Kallash has now  
15 assumed the performance of water testing duties?

16          A.     Yes, Staff has given consideration to this fact. In its calculation, Staff, to the  
17 best of its ability given the lack of data, included Mr. Kallash's current testing activities in its  
18 salary level. Staff believes the total salary of \$7,860 is a reasonable amount of compensation  
19 related to Mr. Kallash's LCSW duties.

20           **SLUDGE HAULING**

21          Q.     Has Staff been provided with additional information regarding this issue?

1           A.     In response to Staff’s Data Request No. 21, which requested further  
2 information related to Mr. Johansen’s direct testimony regarding sludge hauling Staff  
3 received information regarding recommendations by the contract operator for future changes  
4 to sludge hauling.

5           Q.     What did this information reveal?

6           A.     LCSW stated in its response that the Company is still currently hauling sludge  
7 on an “as needed” basis, but that its contract operator recommended quarterly hauling of  
8 sludge in both November 2012 and August 2013.

9           Q.     Based on this new information, has Staff revised its calculations related to  
10 sludge hauling?

11          A.     No, Staff has not. Given that LCSW was provided with this recommendation  
12 almost a year ago and to date has not yet begun such a sludge hauling program, it is uncertain  
13 as to when or if LCSW will begin this new schedule of hauling. In addition, the response  
14 indicated that the Company has received no Notice of Violations from the Missouri  
15 Department of Natural Resources regarding problems related to its sludge hauling schedule.  
16 Staff’s proposed three-year average is based on actual historical hauling costs incurred and  
17 not on the possibility that the frequency of hauling will be different in the future. Staff  
18 believes the amount included in its cost of service is reasonable and based on known and  
19 measurable information.

20           **VEHICLE EXPENSE**

21          Q.     Does Staff agree with Mr. Addo’s statement on page 34 of his rebuttal  
22 testimony that “LCSW failed to keep adequate vehicle logs to determine the number of miles  
23 used in the performance of Company activities”?

1           A.     Yes, Staff agrees that LCSW is not maintaining adequate mileage logs  
2 despite agreement to do so in the stipulation and agreement in the Company's recent  
3 certificate cases.

4           Q.     Has Staff requested documentation regarding the mileage incurred for  
5 miscellaneous trips to the systems?

6           A.     Yes, in Data Request No. 25, Staff asked for a listing of such miscellaneous  
7 trips. In the Company's response on October 8, 2013, it indicated that ""The Company does  
8 not currently maintain its records in a manner that specifically identifies the miscellaneous  
9 trips to the systems "by purpose"". Instead, the response referred Staff to Mr. Johansen's  
10 workpaper which listed estimated trips with no actual data or information regarding such  
11 trips being provided to Staff.

12          Q.     Did Staff request documentation as to the water testing schedule LCSW is  
13 required to follow?

14          A.     Yes, in its Data Request No. 26, Staff requested documentation supporting the  
15 claim by Mr. Johansen that 20 testing trips per year are required to be completed by LCSW  
16 as well as other pertinent information. However, LCSW failed to provide a response  
17 regarding the specific requirements which necessitate 20 trips, as well as other requested  
18 information regarding testing supplies, which is discussed more fully in that section of  
19 this testimony.

20          Q.     Despite not receiving the information requested in its data requests, has Staff  
21 reviewed its previous calculations regarding vehicle expense?

22          A.     Yes, Staff reviewed its calculations and determined that while documentation  
23 does not exist for the actual mileage incurred, it is reasonable to believe that LCSW would

1 incur mileage for certain utility activities. Therefore, to the best of its ability, Staff has  
2 revised its calculations to take into account Mr. Johansen's concerns regarding miscellaneous  
3 trips to the systems. Staff is recommending a total vehicle expense of \$1,931. This amount  
4 equates to \$1,778 for Mr. Kallash's mileage and \$153 for Mrs. Kallash's mileage. This  
5 change represents an increase in Staff's original overall position of \$416. Staff's revision is  
6 based on an average number of trips made by Mrs. Kallash, and a reasonably estimated  
7 number of trips for Mr. Kallash. This total amount of miles utilizes the office location Staff  
8 has included in its cost of rent expense. For Mr. Kallash, Staff included one additional  
9 monthly trip to each system for miscellaneous repairs, customer service issues or other utility  
10 related business.

11 **TESTING EXPENSE**

12 Q. Does Staff agree with Mr. Addo's rebuttal testimony on page 34 regarding  
13 water testing expense?

14 A. Yes, LCSW has not provided adequate documentation to support the  
15 additional costs LCSW is proposing to include in its cost of service. Despite requesting such  
16 data from LCSW in a data request on October 1, 2013, the response provided to Staff did not  
17 contain sufficient documentation requested in order for Staff to make any calculations  
18 regarding this expense.

19 Q. If LCSW performed such testing for at least part of the test year, would Staff  
20 expect to see invoices for items such as testing supplies as part of its audit?

21 A. Yes. Staff would have expected that, for any expense LCSW incurs, there  
22 would be documentation such as an invoice.

23 Q. Has LCSW provided an explanation as to why no invoices were provided?

Surrebuttal Testimony of  
Lisa K. Hanneken

1           A.     No. Staff's Data Request No. 27 requested all such invoices; however,  
2 LCSW's response was to refer to the response to Staff's Data Request No. 26 which does not  
3 provide any invoices, but simply provides the statement that "Mr. Kallash normally  
4 purchases these supplies with his personal cash".

5           Q.     Regardless of whether Mr. Kallash used his personal cash to purchase such  
6 supplies, would Staff expect the Mr. Kallash would have a receipt for such purchases?

7           A.     Yes, Staff would expect that all receipts and invoices for utility related  
8 purchases would be maintained in order to properly document such expenditures. In addition,  
9 if this situation arises, LCSW should then reimburse Mr. Kallash and enter such transactions  
10 in its books and records. By not maintaining such documentation, it is difficult for a proper  
11 audit to be performed and an accurate cost of service to be developed.

12          Q.     Does this conclude your surrebuttal testimony?

13          A.     Yes, it does.





**LISA K. HANNEKEN**

UTILITY REGULATORY AUDITOR V  
UTILITY SERVICES DEPARTMENT  
AUDITING UNIT

Beginning in 2001, I have been employed by the Missouri Public Service Commission for 12 years. In that time, the scale of my duties have ranged from the direct examinations of accounting books, spreadsheets, records, and general operations up to full audit engagement directing and scheduling for utility companies operating within the State of Missouri. I have also conducted numerous audits of small water and sewer companies as defined under the Commission's informal rate case proceedings. Prior to working at the Commission, between 1989 and 2001, I held other positions that magnified my accounting and auditing experience: an auditing internship with the Internal Revenue Service, accounting manager for Bucklick Creek, Inc., and bookkeeper at Rinderer's Union Drug.

In July 2001, I earned a Bachelor of Science degree in Accounting, graduating with Honors, from Webster University. I also earned a Masters in Business Administration with an emphasis in Accounting from Maryville University in December of 2006.

# LCSW

202 Sunswapt Dr.  
Troy, Mo. 63379  
636-528-5245 – Office  
636-528-3900 - Fax

February 6, 2013

Public Service Commission  
111 North 7<sup>th</sup> Street  
Room 105  
St. Louis, MO 63101

Dear Erin:

I previously had a phone conversation with you letting you know that we do not have all the receipts you were requesting. You indicated to me that you would speak with Lisa Hanneken and her supervisor and find out which checks you will accept without a receipt to be used in our rate increase. To date I have not received a response regarding this issue.

I do not understand why we need to supply information from 2011 since you already have done an audit on this information.

Please provide in writing to us, what the 2011 bank statements have to do with our request for a rate increase. Can you also provide how you set up our rate structure before and what you allowed and did not allow? I have asked for this information and it has not been provided to our company.

Sincerely,

Dennis Kallash

## Staff DR Response

### Paragraph 1 - Which checks would be accepted without a receipt:

To date, the Company has not provided to Staff all the data requested by Staff in its Data Request submitted to the Company on December 19, 2012, which was to be provided by January 8, 2013. The missing information includes multiple invoices and receipts to support payments made by the Utility, which are listed in the Company's checking accounts. On January 30, 2013, the Auditing Staff had a meeting with Mr. Kallash to discuss many missing items from the Data Request; this included a discussion regarding invoices. It was agreed that a listing of all missing invoices needed by Staff would be sent to Mr. Kallash later that day. The following day, on January 31, 2013, Mr. Kallash called Staff regarding the list that was faxed to him. During this discussion it was reiterated that Staff would need an invoice or other documentation regarding each expense incurred by the Utility. However, for some checks invoices are not necessary. For example, if the payment listed was for an item that would typically not have an invoice, such as a rent payment, we would not require an invoice; provided Staff is given other supporting documentation such as a rental contract which lists the monthly amount to be paid and all other relevant information. That being said, Staff believes that an invoice or receipt will be necessary for a majority of the items listed in the check register in order to make a determination as to the details regarding the expense.

Staff's approach in rate proceedings is to review the documentary support for all elements of a utility's cost of service before recommending inclusion of their associated costs in customer rates. If the Company is unable to provide proper documentation of its expenses, Staff will be unable to include such items in its cost of service calculation in this rate case due to the lack of documentation.

### Paragraph 2 and 3 – Requiring 2011 information and bank statements

Staff has requested that Mr. Kallash supply invoices and bank statements from 2011 because most of these items fall within the test year (October 2011-September 2012) for this current case, or just prior to that time frame. This data will be used to make a test year determination as well as supplementing the data provided in the last case in order to perform historical analysis. All of the requests made by Staff are consistent with its practices for all companies as well as the practices utilized in the Company's recent certificate case which took place in late 2011 and early 2012. For example, while Staff was provided with bank statements in the Company's last case, they were only provided through July 2011 (prior to the beginning of the test year in this case). As well, many invoices provided in the last case were dated prior to the test year in this case.

The test year data is essential in order to accurately include the test year amounts and ongoing expense levels in Staff's cost of service schedules. In addition, Staff analyzes historical data in order to determine the normal level of expense to include. At this point in time, Staff is unable to determine or verify the amount of revenues and expenses experienced by the Company during the test year.

For example, while Staff has been provided all check registers for the test year period, the Company has failed to include in its check register any deposits, loans to the Company or items such as bank fees.

Therefore, Staff is unable to determine the amount of these items during the test year. Furthermore, Staff is unable to verify the accuracy of the check registers without the related bank statements. In addition, Staff is unable to adhere to the matching principle to provide consistent treatment to a company's revenues, expenses and rate base when determining the Company's revenue requirement as it does not have all the data necessary to do so.

It is essential that prior years' data be kept by the Company for future reference and provided during a rate case as needed. However, the Company has indicated it has disposed of all of its data prior to July 20, 2012. In addition the Company has not adequately maintained records since that time. This can be problematic in determining the revenue requirement in this case. Given that the Company keeps no books or records or standard financial statements (e.g. income statement, balance sheet, general ledger, plant accounting, etc.) Staff must rely on invoices and contracts to determine a cost of service. For example, in order to determine the Company's rate base, Staff will need all invoices for plant additions and other capital items since the cut-off date established in the last case. During its last case, the Company agreed in the Stipulation and Agreement to keep plant records according to the Uniform System of Accounts (USOA) standards applied to all regulated utilities in Missouri. The USOA states that records regarding Utility Plant should be kept permanently and gives specific guidelines on other record retention requirements, which ranges from three to seven years.