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|---|---|
| *Exhibit No.:* | |
| *Issues:* | *Automated Meter Read Meters, Billing Software, Building Rent Expense, Electricity Expense, Insurance Expense, Rate Case Expense, Certificate Case Expense, Land, Rate Base, Plant Held for Future Use, Payroll, Sludge Hauling, Vehicle Expense, Testing Expense, Telephone/Internet Expense, Income Taxes, Miscellaneous Revenues (Late Fees), Office Supplies & Non-Billing Postage (CCR)* |
| *Witness:* | *Lisa M. Ferguson* |
| *Sponsoring Party:* | *MoPSC Staff* |
| *Type of Exhibit:* | *Rebuttal Testimony* |
| *Case Nos.:* | *SR-2013-0321 & WR-2013-0322* |
| *Date Testimony Prepared:* | *September 25, 2013* |

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

# REBUTTAL TESTIMONY

**OF**

**LISA M. FERGUSON**

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

**CASE NOS. SR-2013-0321 & WR-2013-0322**

*Jefferson City, Missouri*
*September 2013*

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**OF**

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**LISA M. FERGUSON**

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

**CASE NOS. SR-2013-0321 & WR-2013-0322**

Q. Please state your name and business address.

A. Lisa M. Ferguson, 111 N. 7th Street, Suite 105, St. Louis, MO 63101.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission ("Commission") as a Utility Regulatory Auditor IV in the Auditing Unit of the Utility Services Department, Regulatory Review Division.

## BACKGROUND OF WITNESS

Q. Please describe your educational background, work experience and any cases in which you have previously filed testimony before this Commission.

A. My credentials and listing of cases in which I have filed testimony previously before this Commission are attached to this rebuttal testimony as Schedule LMF-1.

## EXECUTIVE SUMMARY

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

A. My rebuttal testimony will respond to the direct testimony of Company witness Dale W. Johansen in regard to certain issues addressed in that testimony. Those issues include Automated Meter Read (AMR) meters, billing software, building rent expense, electricity expense, insurance costs, rate case expense, certificate case expense, land, rate base, plant held for future use, payroll, sludge hauling, vehicle expense, testing expense, telephone/internet expense, income taxes, miscellaneous revenues (late fees), and office supplies/non-billing postage for the consumer confidence report (CCR).

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

**AUTOMATED METER READ (AMR) METERS**

Q. Please describe this issue.

A. The AMR issue (and related issues) is addressed at pages 3-6 of Mr. Johansen's direct testimony.

Since the time of the last case, the Company installed an automated meter read system (AMR) at both its Bennington and Rockport systems. This automated meter reading system was by far the most expensive capital investment completed by the Company for both its Bennington and Rockport systems. Based on the data provided to Staff, the meter installations at the Bennington system cost $46,142 while the meter installation at Rockport cost $25,516. As part of the stipulation and agreement in the 2012 certification cases, LCSW was required to install a minimum amount of meters each year over an approximate 10-year period until all customers in these systems had received a meter. Rather than installing meters over a few years, the Company chose to install all of them over a few months. This investment in meters is the main reason for LCSW's requested rate increase in this current rate case. In the last case, the metered water rate approved by the Commission was based on estimated amounts for standard meters, installations, and expenses related to hiring a meter reader to read the meters once a month. However, rather than installing the standard meters, the Company chose to buy what is referred to as an "Automated Meter Read" (AMR) system at a significantly greater cost than basic meters requiring manual reading. This system includes meters with radio transponder capability that allow reading from a remote location such as from a vehicle on the street, sometimes referred to as “radio read meters”, a handheld receiver, software and training. The total cost related to this AMR system far exceeds the expected investment costs at the time rates were set in the last case.

Q. What are the potential benefits and detriments of use of AMR technology by water utilities?

A. There are certain operational benefits associated with use of AMR, and some regulated water utilities in Missouri (all significantly larger than LCSW) currently utilize this technology. However, as previously noted, AMR systems are also considerably more expensive to customers than manual meter reading systems. Staff witness James A. Merciel Jr further addresses the operational benefits associated with AMR technology in his Rebuttal testimony.

Q. Is Mr. Johansen correct in his direct testimony that Staff has excluded the costs related to the AMR in the cost of service calculations for Bennington and Rockport?

A. No. Staff has concerns with the economics of use of AMR systems by smaller water utilities such as LCSW, as well as the process by which LCSW’s management chose to install this AMR system. However, due to the overall negative revenue requirement recommendation of Staff for LCSW at this time, Staff is not proposing a disallowance of the AMR costs incurred by LCSW in this proceeding. Staff’s revised accounting schedules, filed concurrently with this testimony, show inclusion of the AMR system costs in Staff’s revenue requirement recommendation.

**BILLING SOFTWARE**

Q. Has the Staff included an amount for billing software in the cost of service?

A. No. Staff has continuing concerns with the cost of the billing software LCSW has implemented in conjunction with its new AMR system. Staff is still reviewing what an appropriate amount would be to include for billing software costs, based on the current needs of this Company, and will further address this issue as a part of surrebuttal testimony.

## BUILDING RENT EXPENSE

Q. What is the amount of LCSW's yearly rent based on the Company's office space lease agreement?

A. In July 2012, LCSW entered into a two-year lease agreement with the option for renewal at the end of the lease term with Rocket LLC and/or ML Real Estate for use of the building property as an office space. According to the lease agreement, rent for the first year would be $11,400, payable in equal monthly installments of $950.

Per the agreement, the Company is responsible for payment of all utilities (i.e. electric, gas, water, sewer, phone, cable/satellite T.V., internet access, refuse disposal) above and beyond the monthly rental charge. LCSW is additionally and wholly responsible for a number of additional items related to the maintenance of the rented property besides the utilities. Such items include the responsibility for repairs and maintenance of the premises, including, but not limited to, the plumbing, electric wiring, HVAC equipment, fixtures, appliances, and interior walls, doorways, and appurtenances connected to the use of the property.

Q. Are there additional costs related to the leased property that the Company is wholly responsible for other than those listed above?

A. Yes. Among these additional costs are subdivision assessments; annual federal, state, and local property taxes; insurance costs of the leased property; fire/casualty insurance; landscaping and lawn mowing; painting; sign installation; among a host of other repair and maintenance work of the property. It is important to note that all of these costs are in addition to the base rental expense, and utilities and maintenance costs described above.

Q. Please briefly describe the leased property.

A. This leased building is located in Troy, Missouri. The property has approximately 720 square feet, with a main area, 2 adjoining rooms, 1 bathroom, and a kitchen area.

Q. How much area of the rented property is actually being used to conduct utility business?

A. During an onsite visit on January 18, 2013, Staff observed that the only space that was being dedicated to conduct utility activity was the main area, which had a small collapsible table being used as an office desk and a chair, leaving the adjoining rooms vacant. Currently, it appears the two additional rooms of the property are not being used for any purpose dedicated to utility business and, as such, should not be included in the cost of service.

Q. What criteria is normally applied by the Commission in determining the propriety of including specific cost items in a utility's cost of service?

A. The expenditure in question must be reasonable and have been prudently incurred in the provision of service.

Q. Would you consider this level of rental expense to be excessive?

A. Yes. The Company is paying a level of rent higher than the going rate in Troy, Missouri (as will be discussed later) and, in addition, is also being assessed additional costs outside of the rent ($11,400) such as homeowners association fees ($600 yearly), water charges ($180 yearly), electricity (approximately $1,400 yearly), mowing around the office ($1,800 yearly); as well as being wholly responsible for maintenance, such as any heating and cooling repairs. For example, in January 2013, LCSW paid $642.95 to repair the air conditioning unit.

In addition to all of these superfluous expenses, LCSW is paying rent for a substantial amount of square footage it is not utilizing. Therefore, Staff believes this level of expense is excessive for the needs of the Company.

Q. Is it common for small water and sewer companies of the size of LCSW to rent/lease an office of this size to conduct utility operations?

A. No. In most cases, small water and sewer companies of this size have set aside a space in their private homes for the sole purpose of conducting utility business. In such situations, Staff determines an appropriate amount of rent for inclusion in rates based on the allocation of office space devoted to the utility business in the private residence.

Q. Has the Company been able to provide any bids or comparison rental prices for the time period during which the Company looked to open its office?

A. No. When asked for support by the Company as to how the choice was made for office space, the Company did not provide any information other than to say it believes the cost is reasonable. There is no support at all showing that the Company spent any amount of time looking for a more economical avenue to open the office. In fact, results of Staff's research show that the office property is actually managed by Rocket, LLC/ML Real Estate but is in fact owned by the Kallash Revocable Intervivos Trust of which Dennis Kallash is trustee. Rental of this office does not appear to Staff to be an arm's length transaction. With no bid information available to support Mr. Johansen's argument at page three of his direct testimony that rental of the current office space was appropriate at the time the decision was made, Staff is not convinced that this was the best option for the Company or its customers.

Q. What amount did Staff include in its cost of service calculations for office rent expense?

A. Staff determined an annualized amount of $7,200 to be a reasonable amount of rental expense for the actual space utilized to perform utility business to include in Staff's cost of service computations. This level of expense was allocated to the Company's sewer and water system operations in Rockport and Bennington based on customer levels as of March 31, 2013.

Q. Please explain how Staff determined the annualized level of the office rent expense.

A. In order to determine an appropriate amount of rent expense to include in the cost of service, Staff researched comparable office space available in the Company's service area of Troy, Missouri. The search revealed that there were at least three (3) office spaces available for rental at a monthly rate below what the Company was currently paying. Among the available spaces was one that was being offered at a monthly rental of $500, plus $75 for utilities. This office space of approximately 200 sq. ft. was one of four office units that had shared common areas such as a bathroom and reception area. Based on this information and considering the size and operational needs of the Company, this rate was determined to be a reasonable amount.

Q. Should the Company pay for actual utilities expenses associated with the rental property as described in Company witness Dale W. Johansen's testimony on page 3?

A. No. Company witness Johansen does not provide any calculations or support as to how he developed the average amounts for the utilities he describes in his testimony, but he also wants to include an average monthly expense rather than the "actual" utility expense he believes is correct.

Q. Did Staff include an additional amount for utilities in this case?

A. Yes. Staff included an additional amount of $900 for utilities associated with the rental property, and this amount was allocated to the Rockport and Bennington systems based on customer levels.

**<u>ELECTRICITY EXPENSE</u>**

Q. Is the description portrayed by Company witness Dale W. Johansen on page 18 lines 3-5 of Staff's position concerning this issue accurate?

A. Yes. Staff has made adjustments to reflect the Staff's annualized electric expense based on a twelve-month average of test year actual paid amounts from January 2012 through December 2012.

Q. Are both the Rockport and Bennington systems served by the same electric provider?

A. No. Bennington is served by Cuivre River Electric Co-Operative (CREC) and Rockport is served by Ameren Missouri.

Q. Did Staff encounter difficulties in its analysis of electricity expense for LCSW?

A. Yes. Staff was unable to obtain actual invoices for the test year for both the Rockport and Bennington systems. LCSW indicated they disposed of many of their paid invoices, including those for electricity. However, Staff was able to obtain summary billing information from Ameren Missouri and CREC directly. Unfortunately, the summary information provided for Rockport was insufficient to perform a complete analysis for annualization purposes.

Q. Why was the summary billing information from Ameren Missouri not sufficient to complete an annualization of this expense?

A. In order to account for any rate change effects that Ameren Missouri charges its customers, Staff must have access to not only the usage amounts but also the seasonal usage levels. This is because Ameren Missouri has two different rates in its tariff based on seasonal usage.

Q. Does Staff believe the actual paid amounts during the test year to be reflective of the ongoing level of electricity expense?

A. Based on the limited information provided, Staff believes the CREC test year amounts related to kilowatt usage to be reasonable. However, Staff has concerns about being unable to annualize the test year level of electricity expense for Ameren Missouri.

Q. Is it possible for Staff to obtain the necessary billing detail for the Ameren Missouri analysis?

A. No, not directly. Due to customer confidentiality restrictions, the full billing records for LCSW are not available to Staff. However, LCSW can request these records at any time. Staff has discussed with LCSW on several occasions the need for such records and the ease with which they can be obtained and provided to Staff. However, to date Staff has not received such records.[1]

Q. Why is it important for Staff to obtain such records?

A. In 2012, Ameren Missouri was granted a rate increase which went into effect during LCSW's test year. Therefore, Staff is aware of the need to annualize the electricity expense for the Rockport system to include this increase.

Q. Is it possible for Staff to accurately calculate an annualized amount with the limited data it currently has?

[1] Staff received several documents around approximately 4pm the day before Rebuttal Testimony was due but has not yet had the opportunity to review those documents or incorporate them into Staff's analysis.

A. No. If Staff were to attempt such a calculation it would be based on assumptions and would likely result in an erroneous level of annualized expense due to the lack of necessary usage information.

**INSURANCE EXPENSE**

Q. Please describe Staff's position on this issue.

A. During this case, LCSW presented Staff with data regarding two insurance policies for which the utility sought recovery. For the policy relating to general liability coverage of the Rockport facilities, Staff was provided with an actual policy as well as an invoice. Based on its review, Staff has included the annual amount of expense for this policy. For the other policy, Staff was initially provided with a summarized invoice, which did not detail items such as what the policy covered, who was insured and other vital information. Therefore, Staff initially only included the policy costs for the first item in its cost of service until such time as additional documentation for the second policy was provided and could be reviewed by Staff for possible inclusion.

Q. Has Staff received additional information regarding the second insurance policy?

A. Yes, very recently a copy of the policy was provided to Staff. This second policy shows that the insured property is the leased building that LCSW has identified as its office location. The policy indicates that it covers the building itself, as well as provides protection to the insured for loss of business. LCSW is not the insured party and does not own the property that is being insured.

Q. If this policy does not name LCSW as the insured and LCSW does not own the property being insured, why has LCSW requested consideration in rates for the cost of the policy?

A. As discussed earlier in the office rent expense section, LCSW has entered into a rental contract for the insured building which provides for the utility to pay for certain superfluous costs, such as insurance on the leased property. In Staff's experience in other water and sewer audits, lessees are generally not directly responsible for payment of such costs through rental agreements.

Q. Does Staff believe the cost of this policy should be included in LCSW's cost of service and placed into rates as suggested by Company witness Dale Johansen in his direct testimony at page 8?

A. No, Staff does not. LCSW and it ratepayers will not benefit from any claim resulting from this policy. It has never been Staff's practice to include in its rate recommendations costs associated with items that will not benefit ratepayers and that are unnecessary in the provision of safe and adequate service. Staff's position regarding rate recovery of the unusual costs contained within the LCSW building lease agreement has already been discussed above.

**<u>RATE CASE EXPENSE</u>**

Q. On page 16, lines 1-2, of Company witness Dale W. Johansen's direct testimony he states, "At this point in time, the Staff's cost-of-service calculations do not include any allowances for rate case expense." Is this a true statement?

A. Yes. Staff first requested documentation from LCSW related to rate case expenditures in December 2012. LCSW has previously indicated to Staff that it was not seeking recovery of rate case expense in this proceeding. However, Staff's original cost of service calculation included estimated costs such as the materials and postage to send customer notices in its cost of service as it recognizes the need for the utility to incur such costs. Staff was recently provided with invoices related to legal services provided by Mr. Dean Cooper and for services provided by the Company's consultant, Mr. Dale Johansen. Staff needs to review these invoices for inclusion in the cost of service. It is likely more expenses will be incurred and further invoices for rate case related services will be received from the Company. Staff will consider any such future expenditures for inclusion in its cost of service should it be provided with proper documentation.[2]

Q. In his direct testimony, Mr. Johansen suggests a three-year amortization of these costs. Does Staff agree with this treatment?

A. Rate case expense is typically normalized over an interval of time which is determined to be representative of the length of time likely to pass until the utility will have a need to file an application for a rate increase. In this case, Staff has normalized rate case expense over a three-year period as suggested by Mr. Johansen. However, it is important to note that no one can predict what factors may cause a utility to apply sooner for a rate increase, or in contrast, what factors may allow them to go longer without a rate increase. Therefore, depending on the timing of the utility's next rate case, the amount recovered in rates may be more than or less than what was actually incurred for rate case expense by the utility.

**<u>CERTIFICATE CASE EXPENSE</u>**

Q. Please describe the certificate case expense and how Staff included these costs in rates.

A. In LCSW's prior certificate cases, Nos. WA-2012-0018 and SA-2012-0019, Staff included the costs incurred by LCSW related to those proceedings, including legal fees, in its cost of service through normalization over five years. Since these costs were part of the

[2] Staff received several documents around approximately 4pm the day before Rebuttal Testimony was due but has not yet had the opportunity to review those documents or incorporate them into Staff's analysis.

unanimous stipulation and agreement in those cases and approved by the Commission to be recognized in rates in the last case, Staff has not made an inclusion in this case for these items.

Q. Does Staff agree with Mr. Johansen's direct testimony, on page 8, which suggests that the costs related to LCSW's prior certificate cases should have been considered as organizational costs and included in plant in service?

A. No. This is not the typical procedure used in certificate cases for this type of cost. LCSW's certificate case resulted from a complaint filed by Staff against Dennis Kallash related to the Bennington systems, which were unlawfully operating as water and sewer entities that should have been under the jurisdiction of the Commission. Therefore, the certificate cases were akin to a rate case in the fact that a full audit was conducted and tariffed rates were set.

**<u>LAND</u>**

Q. Please describe the background to this issue.

A. As part of the Unanimous Stipulation and Agreement in LCSW's prior certification cases, Nos. WA-2012-0018 and SA-2012-0019, the Company agreed to acquire ownership of certain assets used to serve the utility customers to LCSW as these assets were not previously in the utility's name. These assets included the land utilized by the utility for its sewer treatment facilities and water wells. Since that time, the Company has indicated it has completed the transfer. However, Staff has not received any documentation to verify that assertion or to show the costs related to completing this item. In order for Staff to include any costs either in expense or rate base related to these items, LCSW will need to provide such documentation. Company representatives had indicated they would provide the necessary documentation, but to date, Staff has not received that information from the Company.

Q. Does Staff agree with Mr. Johansen's direct testimony on page 9, where he values the land for Bennington at $20,000 and the land for Rockport at $38,000?

A. No. Staff has no basis with which to determine if these are appropriate valuations. As previously stated LCSW has not yet provided Staff with any of the documentation related to the land. In addition, the Company has provided no support for their valuation of the land as mentioned in Dale W. Johansen's testimony.

Q. Has Staff been able to obtain any documentation related to the land in question?

A. Yes. Due to the fact that the Company either could not or would not provide the land deeds to Staff, Staff had to obtain actual property deeds on file with the Lincoln County Recorder of Deeds office in order to determine ownership. Staff has determined from the documents it was able to gather that, at most, LCSW may own part of the Bennington subdivision, but Staff does not know which part.[3] Therefore, until such time as documentation can be provided to Staff showing ownership of the land by LCSW and the appropriate valuation of the land, Staff is unable to include any amount in plant in service for said land.

**RATE BASE**

Q. Does Staff believe that the Company is correct in its assessment of rate base, as discussed in Mr. Johansen's direct testimony at page 14?

A. No. In its determination of rate base for this case, Staff utilized the ordered rate base values from LCSW's prior certification cases, Nos. WA-2012-0018 and SA-2012-0019, as a starting balance. These amounts were based on all existing documentation provided to Staff at that time, as well as extensive discussions and negotiations between LCSW, the Office of the

[3] Staff has a copy of a Deed of Trust that seems to indicate some part of the Bennington subdivision was transferred to LCSW in 2006. However, without the 2006 document, which Staff does not have in its possession, Staff is unable to determine exactly what, if any, utility-related land is owned by LCSW.

Public Counsel (OPC) and Staff as a part of the certificate cases. These rate base amounts were agreed to by all parties, including the Company, as a part of the Unanimous Stipulation and Agreement from those certificate cases and were subsequently ordered by the Commission. The Company had ample opportunity to present their position on rate base, and if the Company did not believe that this was an appropriate amount for rate base, they should not have agreed to the Unanimous Stipulation and Agreement. Staff has made adjustments to these ordered amounts in this case to account for depreciation accumulated since the cutoff date in the last case, as well as the addition of new plant items. In addition, Staff witness Merciel of the Water and Sewer Unit will address his adjustments to rate base items related to a capacity adjustment he is sponsoring.

**<u>PLANT HELD FOR FUTURE USE</u>**

Q. Please explain the background to this issue.

A. In LCSW's prior certification cases, Nos. WA-2012-0018 and SA-2012-0019, the Commission approved a unanimous stipulation and agreement. This agreement stated that the parties agreed to the rate base as specified in Appendix B to the stipulation and agreement, which established the initial plant account balances to be used going forward. The account balances took into account an excess capacity adjustment determined by Staff witness Merciel in that proceeding. This adjustment was made utilizing methodology previously used by Staff in many other water and sewer rate cases. Staff included the total amount of plant and associated reserve in Staff's Plant in Service Accounting Schedule and then made adjustments to remove the portion of the property that was deemed to be in excess of what was required to serve the utility's existing customers.

However, in the unanimous stipulation and agreement, a footnote was added which stated:

> 2) The Rockport water and sewer rate base numbers contemplate capacity adjustment that result in $153,160 of water plant and $98,410 of sewer plant being recorded as plant held in future use at a customer level of sixty-two (62) residential customers.

Staff believes this footnote erroneously described the treatment that was and should be afforded these items. Staff's accounting schedules, a summary of which was attached to the Unanimous Stipulation and Agreement in the certification cases, did not list these amounts in Plant Held for Future Use. For water utilities, the Code of State Regulations 4 CSR 240-50.030 specifies the use of the Uniform System of Accounts (USOA) issued by the National Association of Regulatory Utility Commissioners (NARUC) in 1973, as revised in 1976. For sewer, 4 CSR 240-61.020 specifies the use of the USOA issued by the NARUC in 1976. A copy of the USOA for treatment of plant held for future use is attached as Schedule LMF-2. Therefore, Staff relied upon the respective USOA for its adjustments, each of which states that amounts associated with excess capacity cannot be placed in a Plant Held for Future Use account. In the Water USOA's description of account 394, Plant Held for Future Use, as well as the Sewer USOA's description of account 105, Plant Held for Future Use, the notes attached to each of these items clearly states that capacity items should not be afforded that treatment:

> *Note: Materials and supplies, meters held in reserve, or normal spare capacity of plant in service shall not be included in this account.*

Therefore, in the certificate cases and in the current case, Staff utilized its existing methodology of adherence to the USOA to account for the capacity adjustment by placing the total amount of plant and associated reserve into Staff's Plant in Service Accounting Schedule and then removing the excess capacity through an adjustment, despite what the footnote to the certificate case stipulation indicates.

Q. Does the USOA describe what treatment should be afforded Plant Held for Future Use?

A. If plant qualifies to be placed in Plant Held for Future Use, the USOA states:

> *The property included in this account shall be classified according to the detailed accounts prescribed for utility plant in service and the account shall be maintained in such detail as though the property were in service.*

Q. Does Staff agree with Mr. Johansen's direct testimony on page 15, which suggests that Staff's approach to plant held for future use is inappropriate?

A. No. Staff is clearly following the guidance of the USOA and has not included this excess capacity as plant held for future use. Even if this plant was accounted for as plant held for future use, the plant would still be treated as plant in service and depreciated as normal per the guidance already discussed.

Q. Does Company witness Johansen offer any authoritative guidance for the Company's position to remove the plant held for future use from plant in service prior to calculating the depreciation reserve?

A. No. Company witness Johansen does not provide any support for the Company's treatment of plant held for future use.

Q. Does Staff believe that the methodology it utilized to account for capacity adjustments is appropriate?

A. Yes, Staff has consistently applied this methodology in many informal water and sewer cases and believes it is the appropriate treatment.

**ADMINISTRATION & GENERAL SALARY/MANAGEMENT FEES**

Q. Please describe Staff's position on this issue.

A. As in LCSW's last case, the Company has indicated there are no paid employees of the Company. Given this, LCSW pays certain individuals for services provided at a flat rate as contractors but does not incur payroll taxes on those amounts. Currently, LCSW has indicated to Staff that Mr. and Mrs. Dennis Kallash spend time on LCSW activities on an ongoing basis.

LCSW indicated, through responses to Staff's data requests in this case, that no job descriptions were available for Mr. and Mrs. Kallash. Therefore, Staff relied upon discussions with the company, visual inspections and other documentation to determine Mr. and Mrs. Kallash's duties. Staff determined from these interactions that Mr. Kallash's duties include meter reading, monitoring the systems, customer service, repairs and maintenance, sampling and new connection activities. LCSW has contracted with an outside vendor for operator services for the sewer facilities; therefore, those activities are not contemplated as part of Mr. Kallash's duties. Mrs. Kallash's duties include accounts receivable, customer service, and accounts payable, as well as other general office duties.

Staff encouraged the utility in the last case to start keeping detailed timesheets in order to provide an accurate representation of all time spent dealing with utility related matters. This documentation would assist with the determination of payroll expenses as part of future rate cases. To this end, as a result of the unanimous stipulation and agreement approved by the Commission in LCSW's certificate cases, LCSW agreed to keep timesheets for all individuals who spent time on LCSW matters. In this case, Mrs. Kallash provided a few months' worth of timesheets, which were useable to determine the time she spent on LCSW activities; however, the data provided by Mr. Kallash was not usable for this purpose.

Staff used the limited data available to it to annualize the amount of Mr. and Mrs. Kallash's annual salary level for inclusion in Staff's cost of service. Given that Mrs. Kallash's time records were at least usable by Staff, her salary was determined using the data provided. Given the variance in the hours spent by Mrs. Kallash each month for LCSW activities, Staff utilized an averaging approach to determine an overall monthly average and then annualized the hours by multiplying the monthly average by 12 months. Staff then applied an hourly rate to the annualized number of hours to arrive at the overall annualized salary amount for Mrs. Kallash.

Q. On page 10, lines 15-18, Company witness Johansen states that "the Company believes Mr. Kallash should be paid based upon the time he spends working for the utility company…" Did the Staff have the ability to annualize Mr. Kallash's salary based on time records?

A. No. Some of the data provided by Mr. Kallash listed dates and types of activities but did not include times in/out or amount of time spent on the activity. Therefore, Staff had no way of determining the amount of time Mr. Kallash spent on LCSW's activities from this timesheet data. In September of 2011, EMSU Staff provided Mr. Kallash a sample timesheet for LCSW's possible use; however, LCSW employees have not been utilizing any form of standardized or detailed timesheets. Since there were no adequate time records provided for Mr. Kallash, Staff annualized Mr. Kallash's time based on previously determined amounts in the prior certificate cases, which were completed in July 2012, as well as consideration that Mr. Kallash now performs water testing for the water systems.

Q. Does Staff agree that LCSW should include a factor up for payroll taxes for both Mr. and Ms. Kallash in the cost of service, as the Company would be paying this if they were paid as direct employees?

A. No. It is the members' choice as owners of the LLC to determine if the Company will be paying taxes or if the taxes will flow through to the individual members. Likewise the Company also has a choice as to whether the employees will be direct employees or considered as paid contractors. These are management decisions by the Company that are solely made by the Company. As such, LCSW is not currently paying payroll taxes for Dennis and Toni Kallash, so no such cost should be included in the cost of service in this case.

**SLUDGE HAULING**

Q. Please describe Staff's position on this issue and why a three year average was more appropriate to annualize this expense.

A. LCSW currently uses an affiliated company – DK Deer Farm – to haul its sludge. DK Deer Farm is owned by Mr. Kallash. No invoices were provided regarding the Company's sludge hauling activities within the test year and update period. LCSW asserts that it currently pays $0.14 cents per gallon hauled but has no detail as to how many gallons were hauled. By doing a simple formula to divide the check amount by the per gallon amount, Staff has determined that there are amounts charged to LCSW by DK Deer Farm in addition to the per gallon charge. These additional amounts are not consistently applied, are not a consistent amount, and it is unclear what services are provided for these charges. Based on the limited data provided, Staff was able to determine a three-year average of sludge based on the gallons listed and applied this to the per gallon rate.

Q. If Staff were provided with additional documentation on this issue by LCSW, would it be considered?

A. Yes. Staff would review all relevant documentation regarding sludge hauling to determine if any changes to its cost of service should be considered.

Q. Does Staff intend on changing its position based upon Company witness Johansen's claim that the Company has plans to change its sludge hauling practices?

A. No. Staff does not have enough information to include any changes in costs for sludge hauling in the cost of service. In fact, this is the first time Staff has heard of the intention of the Company to change any sludge hauling practices. LCSW has been using the same operator as it used prior to certification with the Commission, there has been minimal customer growth and the Rockport subdivision still maintains excess capacity. In response to Staff's original data requests, the Company stated they were not aware of any major impending changes to their expense levels, and they have not updated that position to Staff at any point in this proceeding. Staff has also never been provided with any correspondence between the Company and the operator stating these changes are needed and what they may cost.

**<u>VEHICLE EXPENSE</u>**

Q. Please describe Staff's position on this issue.

A. Typically, small water and sewer companies do not own the vehicles they use to perform utility business, as it is not economical for the utility to purchase and maintain its own vehicle. In order to properly reimburse the vehicle owners for utility-related travel, mileage logs need to be maintained by Company personnel in this circumstance. LCSW utilizes a vehicle for trips to its facilities, to conduct business at the bank, pick up offices supplies and for other normal business needs. Given that each utility differs in regards to the number of miles necessary to travel and the amount of travel needed, it is essential for the utility to keep mileage logs in order for an appropriate level of mileage reimbursement to be included in its cost of service. In LCSW's prior certificate cases Nos. WA-2012-0018 and SA-2012-0019, it was noted by Staff that LCSW had previously not kept such records. As part of the Commission approved unanimous stipulation and agreement in those cases, LCSW agreed to keep adequate vehicle/mileage logs in order to document transportation associated with LCSW business.

Q. In the current rate cases, Case Nos. WR-2013-0322 and SR-2013-0321, was the Staff able to utilize the previously ordered vehicle logs?

A. No. LCSW has failed to keep such records, which would quantify and document its usage of personal vehicles. Given that no documentation exists as to the amount of travel being conducted by LCSW, Staff included what it believes is a reasonable amount of reimbursement based on the limited data provided by LCSW.

Q. In the absence of vehicle logs, what methodology did Staff utilize to calculate an annualized amount of vehicle expense to be included in its cost of service?

A. Given the lack of adequate mileage logs, Staff calculated an annualized vehicle expense using other data and known mileage for certain activities and the current Internal Revenue Service federal reimbursement rate. Staff currently has included a total of $1,514 for vehicle expense in its cost of service calculation. This consists of $315 for Bennington's sewer system and $309 for Bennington's water system as well as $445 for Rockport sewer and water, respectively. Based on potential receipt of additional information, Staff may be willing to add in additional mileage costs to its cost of service.

**TESTING EXPENSE**

Q. Please describe this issue.

A. As part of the adherence to the Missouri Department of Natural Resources (DNR) rules regarding water testing for Missouri water utilities, LCSW is required to pay an annual fee to DNR to cover water testing expenses for each of its water systems. Staff has included in its cost of service calculations the DNR annual fee amount of $200 for each of LCSW's water systems.

Q. Does Staff agree with the additional water testing costs that Company witness Johansen describes in his direct testimony on page 17, lines 13-18?

A. Not completely. Staff agrees that there may be some supplies cost necessary for the Company to perform this testing but Staff has been provided no receipts, invoices, or documentation of water testing supplies ever being purchased by the Company, so Staff has no information on what supplies are needed, how much they cost or how often the supplies need replaced. Staff doesn't believe this request for supplies is unreasonable but is unable to quantify appropriate costs because of the lack of information. The costs listed for labor and vehicle expense for water testing is included in Staff's cost of service.

**<u>TELEPHONE/INTERNET EXPENSE</u>**

Q. Please explain Staff's position on telephone and internet expenses.

A. Staff's position on annualized telephone (landline and cell phone) and internet expense is based on the Company's service providers' small business basic phone service plans with provision for other limited features. The total amount was then allocated to each of the Company's systems based on customer levels.

Q. Does Staff believe that the Company's actual monthly cost for telephone and internet that is being billed to LCSW is correct to include in the cost of service?

A. No. Currently, LCSW receives telecommunication services from two (2) service providers, namely CenturyLink and U.S. Cellular. CenturyLink provides basic landline phone service and business unlimited primary line bundle services such as unlimited long distance, 3-way calling, caller ID, etc. CenturyLink also provides the Company its internet service. Cell phone service which has nation-wide access is provided by U.S. Cellular, and charges are billed to LCSW through Toni Kallash, LCSW's administrative assistant. Staff's adjustment removes the extra charges for other services beyond the basic service.

Q. Does Staff plan to reevaluate its adjustment related to this issue?

A. Yes. Staff understands that U.S. Cellular, the company that provides LCSW's cell phone service, has sold a portion of its service territories to another telecommunication company. Staff is not aware whether or not LCSW plans to receive service from this new telecommunication company in the future. Staff will continue to review this development and revise its position if necessary to accommodate any changes that may occur as a result of this change in providers.

**INCOME TAXES**

Q. Please explain what type of business entity LCSW is.

A. LCSW has indicated to Staff that the Company is registered as a Limited Liability Corporation (LLC). As an LLC, LCSW has elected to be treated in the manner of an "S-Corp" for income tax purposes. This means that LCSW itself has no direct tax liability as it does not file an income tax return. Instead, any profit or loss of the Company is recorded on the owner's (Mr. Kallash's) personal tax return and will be offset by the tax results for any other businesses owned by Mr. Kallash that may also be recorded on the personal tax return. Therefore, any payment to or refund from Federal or State taxing authorities are Mr. Kallash's responsibility.

Q. How does this tax treatment impact Staff's calculation of the cost of service?

A. Since LCSW is not required to file a tax return and is afforded no tax liabilities or benefits, Staff made no inclusion related to income taxes in its cost of service calculation. This is consistent with methodology Staff utilizes for other regulated S-Corp companies.

Q. Does Staff agree with Company's position that income tax liabilities that the Company flows through to the membership owners should be included in the cost of service?

A. No. It is the Company's managerial decision to design LCSW into whatever business entity it sees fit. The Company has decided to treat it as an S-corp, and as such any tax costs flow through to the members.

**MISCELLANEOUS REVENUE (LATE FEES)**

Q. Please explain how Staff annualized late fees as part of this rate proceeding.

A. Staff reviewed the Company's billing register and determined how many times late fees had been incurred by customers for both the Rockport and Bennington systems. Staff was provided with only five months of data pertaining to late fees for the *test year*. The Company's tariff states that when customers are late in paying their bills, the Company can assess the greater of $5 or 3% of the overdue bill in late fees to the customers. Staff counted the number of occurrences of late fees within the five months of data that was provided by the Company and then divided that amount by five in order to determine the average number of late fee occurrences by month. That result was then multiplied by twelve to determine the number of occurrences for a full year; finally, this number was then multiplied by $5 in order to annualize these late fee revenues. Staff utilized the same methodology for each of Rockport and Bennington's water and sewer systems, which yielded annualized late fee revenues of $252 for water and $252 for sewer for Rockport and $816 for water and $816 for sewer for Bennington.

Q. Does Staff believe that Company witness Johansen's argument for overstated late fees has merit?

A. No. Company witness Johansen states that there have been recent and known upcoming customer changes which would cause late fees to be less than Staff's annualized amount. This statement is ambiguous at best. First, Company witness Johansen has not provided any information to Staff beyond January 2013, though the Company should be able to update this information through March 2013, and he does not discuss what the upcoming customer changes consist of. Company witness Johansen provided no workpapers, calculations or support to Staff further explaining this portion of his direct testimony. Company witness Johansen does not explain what these alleged customer changes are, how far in the future these changes occur, or how they are known and measureable. Second, Staff does not understand how any upcoming customer changes necessarily determine that the late fees should be less than the amount Staff has annualized. Staff does not believe that the Company can know that a change in customers or new customers' payment habits will yield fewer future late fee revenues. The Company's recommendation is an unsupported projection of the amount of future late fees, not based on historical information, thus violating the test year standard. Staff will be issuing to the Company a data request for further clarification of Company Witness Johansen's direct testimony on this issue but, at this point, Staff believes that the above calculated annualization of late fees is appropriate.

Q. Did Staff analyze any late fee revenue data past the test year end, December 31, 2012?

A. Yes. Staff was only provided revenue data through January 2013. However, if you perform the same calculation above and use 6 months rather than 5 months, the late fee revenues will increase from what Staff calculated above by approximately $184 in total for both systems. When looking at all data that Staff has available to it, Staff maintains that it has already included a conservative amount of late fees per the data provided.

**OFFICE SUPPLIES AND NON-BILLING POSTAGE (MAILING OF ANNUAL CONSUMER CONFIDENCE REPORT)**

Q. What is the consumer confidence report, and how often is it necessary to relay this information to the customer?

A. Water utilities are mandated to inform their customers of water quality in the form of an annual Consumer Confidence Report ("CCR"). The water utilities are required by Missouri Department of Natural Resources ("MoDNR") to notify their customers of the availability of the report and how customers can access the information. It is required for both the Bennington and Rockport subdivisions water system once a year. This Company chooses to meet this requirement by mailing a copy of the Consumer Confidence Report to each customer.

Q. Does Staff agree with Company's position in relation to office supplies and non-billing postage regarding the mailing of the consumer confidence report?

A. Partially. Staff has analyzed the needs of each subdivision in regards to the consumer confidence report and believes that in addition to the office supplies already included in the cost of service, the Company should be able to recover the cost of paper and ink in production of the report. Each subdivision's CCR is three pages in length, and each customer is due to be notified in July of each year. However, there is no need for the Company to incur costs for oversize envelopes and additional postage for special mailing of this document when this report can be mailed with the monthly bill in July. Each monthly bill for service is one single sheet of paper mailed to the customer. If the additional pages for the CCR are added to this, there would be 4 regular size pages. This does not require additional postage because the addition of the CCR report does not make the envelope overweight. Given this, Staff maintains that the Consumer Confidence Report should be mailed along with monthly customer billing so as not to incur extra postage costs. Therefore, Staff will include additional funds for paper and ink in addition to the amount already in office supplies to cover the necessary expense for mailing the Consumer Confidence Report. This provides for a total of $192 in total office supplies.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the Matter of the Application of Lincoln County Sewer and Water, LLC for Approval Of a Rate Increase | ) ) ) ) | Case No. SR-2013-0321 |
| In the Matter of the Application of Lincoln County Sewer and Water, LLC for Approval Of a Rate Increase | ) ) ) | Case No WR-2013-0322 |

AFFIDAVIT OF LISA M. FERGUSON

| | | |
|---|---|---|
| STATE OF MISSOURI | ) | |
| | ) | ss. |
| COUNTY OF COLE | ) | |

Lisa M. Ferguson, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 28 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Lisa M. Ferguson

Lisa M. Ferguson

Subscribed and sworn to before me this 25th day of September, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D. Suzie Mankin

Notary Public

# Lisa M. Ferguson

**Present Position:**

I am a Utility Regulatory Auditor IV, Auditing Unit, Utility Services Department, Regulatory Review Division of the Missouri Public Service Commission. As a Utility Regulatory Auditor, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions that are supported by workpapers and written testimony.

**Educational Credentials and Work Experience:**

I have an Associate of Science degree from Moberly Area Community College, a Bachelor's of Science degree in Accounting from Truman State University, and a Master's degree in Accounting from Truman State University. I have been employed by the Missouri Public Service Commission since June 2008. Prior to joining the Commission, I worked in several departments, primarily Customer Service and as an accounting assistant, for Hy-Vee Food and Drug from July 1998 to May 2002. I was also employed by Kelly L. Lovekamp as a legal office assistant during 2001. From June 2002 to May 2008, I was employed as a support staff for Chariton Valley Association. My duties included support of daily living activities for people with disabilities.

**Past Case Proceedings:**

| Company | Docket No. | Issue - Filings |
|---|---|---|
| Laclede Gas Co. | GR-2013-0171 | Revenue, Energy Wise and Insulation Revenues and Ratebase, Gas Costs, Gross Receipts Tax, ISRS Revenue, OSS and Capacity Release, Postage Expense, Unbilled Revenues, Uncollectibles |
| Gladlo Water and Sewer Co. | SR-2013-0258<br>WR-2013-0259 | Informal Rate Case – All Issues |
| Missouri American | SO-2013-0260 | Asset Purchased Case; Missouri American Acquisition of Meramec Sewer Co; Rate Base Determination |
| Ameren Missouri | EO-2013-0044 | Asset Sale Case |
| Meramec Sewer Co | SR-2012-0309 | Rate Base, Revenues, Uncollectibles |
| Ameren Missouri (ELEC) | ER-2012-0166 | Advertising, AMS Allocations, Capitalized O&M Depreciation, Distribution Training, Employee Benefits other than Pensions, Environmental Expense, Incentive Compensation, Legal Expense, Name Change/Branding Expense, Payroll, Payroll Taxes, Production Training Expense, Severance, Underground Training Expense, VSE/ISP Amortization<br>EMS Accounting Schedules<br>Filed Direct and Surrebuttal Testimony<br>Deposed on Severance and Advertising<br>Testified on Severance |

| Company | Docket No. | Issue - Filings |
|---|---|---|
| Missouri American | SO-2012-0091 | Asset Purchased Case; Missouri American Acquisition of Meramec Sewer Co; Rate Base Determination |
| House Springs Sewer Co. | SR-2011-0274 | Revenues, Billing Supplies Expense, Bank Fees, Dues & Donations, Outside Services, Miscellaneous Expense, Rent Expense, Postage Expense, PSC Assessment, Rate Case Expense, Secretary of State Fees, EMS Accounting Schedules |
| Missouri American Water Co. | WO-2011-0106 | ISRS Filing; Extending data to Effective Date; Retirements; Deferred Taxes; Accumulated Depreciation |
| Ameren Missouri (ELEC) | ER-2011-0028 | EMS Runs, Capitalized O&M Depreciation, Dues & Donations, 900 Account analysis, Property Taxes, Other Rate Base Items, Corporate Franchise Taxes, CWC, Plant and Reserve, PSC Assessment, Rate Case Expense, Advertising, Interest on Customer Deposits, Outside Contractors/Services, Allocations Reconciliation<br>Filed Direct and Surrebuttal Testimony<br>Deposed on Advertising<br>Testified on Property Tax |
| AmerenUE (GAS) | GR-2010-0363 | EMS Runs, Capitalized O&M Depreciation, Dues & Donations, 900 Account analysis, Property Taxes, Other Rate Base Items, Corporate Franchise Taxes, CWC, Plant and Reserve, PSC Assessment, Rate Case Expense, Advertising, Interest on Customer Deposits, Outside Contractors/Services<br>Reconciliation<br>Filed Direct Testimony |

| Company | Docket No. | Issue - Filings |
|---|---|---|
| KMB Utility Corporation | WR-2010-0345 & SR-2010-0346 | Revenues, Late Fees, Electric Bills, Lost Water Adjustment, Uncollectibles, Master meter reads<br>Filed Staff Recommendation |
| Ameren UE (ELEC) | ER-2010-0036 | Advertising, Capitalized O&M Depreciation, Dues & Donations, 900 Account Analysis, Property Taxes, Other Rate Base Items, Corp. Franchise Taxes, Leases, CWC, Plant, Depreciation/ Reserve, PSC Assessment, Rate Case Expense, Interest on Customer Deposits, Insurance Expenses, Accounting Runs, Injuries and Damages<br>Reconciliation<br>Filed Direct and Surrebuttal Testimony |
| Peaceful Valley | SR-2009-0146<br>WR-2009-0145 | Informal Small Water and Sewer Request for Rate Increase |
| Cannon Home Association | SR-2009-0144 | Informal Small Water Request for Rate Increase |
| Atmos Energy | GO-2009-0046 | Assisted on ISRS Filing; Extending data to Effective Date; Retirements; Deferred Taxes; Accumulated Depreciation; Removal of Meters |
| Ameren UE (GAS) | GT-2009-0038 | Assisted on ISRS Filing; Extending data to Effective Date; Additions/Retirements; Deferred Taxes; Accumulated Depreciation |
| Laclede Gas Company | GO-2009-0029 | Assisted on Abandonment Case – Recommendation Submission |
| Mill Creek | SR-2005-0116 | Quarterly Reviews; Procedural Schedule; A/P Billing Calendar; Conference Calls; Discussion Notes; Revenues |

105. Property Held for Future Use

A. This account shall include the original cost of property owned and held for future use in utility service under a definite plan for such use. There shall be included herein property acquired but never used by the utility in utility service, but held for such service in the future under a definite plan, and property previously used by the utility in utility service, but retired from such service and held pending its reuse in the future, under a definite plan, in utility service.

B. In the event that property recorded in this account shall no longer be needed or appropriate for future utility operations, the company shall notify the Commission of such condition and request approval of journal entries to remove such property from this account.

C. Gains or losses from the sale of land and land rights or other disposition of such property previously recorded in this account and not placed in utility service shall, unless otherwise authorized or required by the Commission, be recorded directly in account 422, Gains (Losses) from Disposition of Property. However, when determined to be significant by the Commission the gain or loss shall be transferred to account 253, Other Deferred Credits, or account 183, Other Deferred Debits. Such deferred amounts shall then be amortized to account 422, Gains (Losses) from Disposition of Property, unless otherwise authorized or required by the Commission.

D. The property included in this account shall be classified according to the detailed accounts prescribed for utility plant in service and the account shall be maintained in such detail as though the property were in service. Separate subaccounts shall be maintained hereunder for each utility department for which plant is held for future use.

Note.-- Materials and supplies, meters held in reserve, or normal spare capacity of plant in service shall not be included in this account.