

Exhibit No.: 3  
Issue: Executive Management Costs  
Witness: Vernon Stump  
Sponsoring Party: Lake Region Water & Sewer Company  
Case Nos.: SR-2010-0110 and WR-2010-0111

## LAKE REGION WATER & SEWER COMPANY

Case Nos. SR-2010-0110 and WR-2010-0111

### SURREBUTTAL TESTIMONY

OF

VERNON STUMP

Four Seasons, Missouri  
March, 2010

Lake  
Region  
Exhibit No. 3  
Date 3-29-01 Reporter XF  
File No SR-2010-0110 /  
WR-2010-0111

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water )	
& Sewer Company for Authority )	Case No. WR-2010-0111
to File Tariffs Increasing Rates for )	Case No. SR-2010-0110
Water and Sewer Provided to )	
Customers in the Company's )	
Missouri Service Area )	

**AFFADAVIT OF VERNON STUMP**

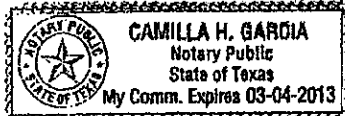
**STATE OF TEXAS** )  
 ) ss  
**COUNTY OF BREWSTER** )

Vernon Stump, being first sworn on his oath, states:

1. My name is Vernon Stump. I reside in Brewster County, Texas, and I am the President of Lake Region Water & Sewer Company, Inc.
2. Attached hereto and made a part hereof for all purposes is my Sur Rebuttal Testimony on behalf of Lake Region Water & Sewer Company consisting of 4 pages all of which have been prepared in written form for introduction into evidence in the above referenced dockets.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

*Vernon Stump*  
Vernon Stump

Subscribed and sworn before me this 9<sup>th</sup> day of March, 2010.



*Camilla H. Garcia*  
Notary Public

My commission expires:

1 SURREBUTTAL TESTIMONY

2 OF

3 VERNON STUMP

4 CASE NCS. SR-2010-0110 AND WR-2010-0111

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

6 A. My name is Vernon Stump. My business address is 62 Bittersweet Road, Four  
7 Seasons, MO 65049.

8 **Q. Are you the same Vernon Stump who previously filed rebuttal testimony in the**  
9 **two cases referenced above?**

10 A. Yes.

11 **Q. What is the purpose of your Surrebuttal Testimony?**

12 A. The purpose of my surrebuttal testimony is to address certain statements and  
13 assertions regarding executive management fees made by Mr. Robertson in his  
14 rebuttal testimony.

15 **EXECUTIVE MANAGEMENT COSTS**

16 **Q Has Mr. Robertson revised his position from his direct testimony filed in these**  
17 **cases?**

18 A. No. Mr. Robertson's position appears to be the same, i.e., he does not agree that the  
19 Company or the Staff number is appropriate.

20 **Q. What level of executive management fees does Mr. Robertson believe to be**  
21 **appropriate?**

1 A. Mr. Robertson does not state what level of expense he believes to be appropriate. He  
2 merely states that he does not believe either the Company or the Staff amount is  
3 appropriate.

4 **Q. Why does Mr. Robertson believe that neither the Staff nor the Company**  
5 **number is appropriate?**

6 A. I cannot determine this from Mr. Robertson's testimony as he does not provide any  
7 support for his position. In my rebuttal testimony I provided comparisons to other  
8 Missouri utilities and both the Company and the Staff have provided detailed  
9 calculations in support of our numbers.

10 **Q. Has Mr. Robertson met with the Group or Mr. Summers to determine the duties**  
11 **performed?**

12 A. No. I assume Mr. Robertson has reviewed the material supplied in response to both  
13 his and the Staff's data requests but he has not asked to meet with either the members  
14 of the Group or Mr. Summers to determine whether the Group performs the executive  
15 management function. Based on my review of Mr. Robertson's testimony and my  
16 more than 40 years in the water/sewer industry it appears that Mr. Robertson either  
17 does not understand the function of executive management or he truly does not  
18 believe a utility requires these functions.

19 **Q. Please explain further.**

20 A. On Page 5 of Mr. Robertson's rebuttal testimony he states that Mr. Summers and the  
21 District have the responsibility and duty to operate the utility. While we are satisfied  
22 with the performance of Mr. Summers and the District in performing the day to day  
23 operating functions we have not delegated "the responsibility and duty" for operating

1 the utility. This responsibility falls to the Group as explained in my rebuttal  
2 testimony.

3 **Q. On page 6 of Mr. Robertson's testimony he states that the Company can be**  
4 **managed without ever visiting it. Do you agree?**

5 A. No I do not. According to Mr. Robertson, the Group should be able to visit with Mr.  
6 Summers via telephone and email to manage the Company. I assure you there is no  
7 quicker road to ruin for a company in any industry than for executive management to  
8 try to run a business from an "ivory tower." In my experience, if executive  
9 management does not visit the site of company operations at least monthly they  
10 quickly lose touch with how the business is operating and the operation begins to  
11 deteriorate.

12 **Q. Do you agree with Staff's treatment of executive management costs?**

13 A. While I do not agree with the level of costs included by Mr. Harris I do appreciate the  
14 effort Staff expended in calculating their number. I believe the work done by the  
15 Staff, and Mr. Harris particularly, at least provides a framework and support for their  
16 number unlike Mr. Robertson, who simply states he thinks the numbers provided by  
17 both Company and Staff are unreasonable with no supporting documentation or  
18 calculation.

19 **Q. What level of costs do you believe is appropriate?**

20 A. While I obviously believe we have provided adequate support for our adjusted  
21 number of \$99,695, I recognize that there is a reasonable middle ground based on the  
22 Commission's own methodology.

23 **Q. Where is that "middle ground" you refer to?**

1       A.    As stated in my rebuttal testimony on page 3, I strongly believe that the executive  
2           management team responsible for the performance and survival of the Company  
3           should be entitled to at least the same level of compensation and expense  
4           reimbursement as the state agency, in this case the Commission, responsible for  
5           regulating the Company. In fiscal year 2009 the Commission assessed the Company  
6           \$1,441.17, or 0.8% of water revenues, and \$55,300.26, or 11.2% of sewer revenues,  
7           totaling \$56,741.43, or 8.5% of total revenues. Both the total dollar amount and  
8           percentage approximate the average of the Missouri utilities analyzed in my rebuttal  
9           testimony which belies Mr. Robertson's claims that the numbers proposed by both  
10          Company and Staff are unreasonable for a utility this size.

11       **Q.    Does this conclude your Surrebuttal Testimony?**

12       **A.    Yes, it does.**