

Exhibit No.: 2  
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

### REBUTTAL TESTIMONY

OF

VERNON STUMP

Four Seasons, Missouri  
February, 2010

Lake  
Region Exhibit No. 2  
Date 3-29-10 Reporter EE  
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 )  
to File Tariffs Increasing Rates for )  
Water and Sewer Provided to )  
Customers in the Company's )  
Missouri Service Area )

Case No. WR-2010-0111

Case No. SR-2010-0110

**AFFADAVIT OF VERNON STUMP**

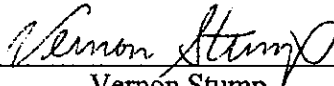
STATE OF TEXAS )  
COUNTY OF BREWSTER ) ss  
)

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

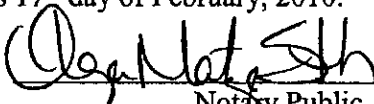
1. My name is Vernon Stump. I reside in Brewster County, Texas, and I am the President of Lake Region Water & Sewer Company, Inc.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Lake Region Water & Sewer Company consisting of \_\_\_ pages, and Schedule \_\_\_, all of which have been prepared in written form for introduction into evidence in the above referenced dockets.

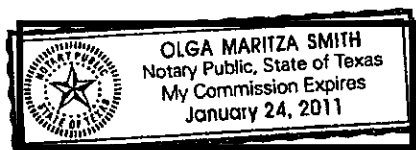
3. I here by swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

  
\_\_\_\_\_  
Vernon Stump

Subscribed and sworn before me this 17<sup>th</sup> day of February, 2010.

  
\_\_\_\_\_  
Notary Public

My commission expires:



1 REBUTTAL TESTIMONY

2 OF

3 VERNON STUMP

4 CASE NOS. 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. Have you previously filed testimony in the two cases referenced above?**

9 A. No.

10 **Q. What is your position with Lake Region Water & Sewer Company?**

11 A. I am President of the company.

12 **Q. Please describe your educational background and work experience.**

13 A. I have a BS in Civil Engineering from the University of Missouri, an MS in Civil  
14 Engineering from the University of California at San Jose and a PhD in Sanitary  
15 Engineering from the University of Missouri. I began my engineering career in 1969  
16 with the US Coast Guard. My primary duties included the operation and maintenance  
17 of water and sewer facilities. I went on to found two Missouri-based companies  
18 dealing with water and wastewater issues. Exhibit 1 is a resume detailing my  
19 experience in the water and sewer industry for over 40 years.

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to address and rebut certain statements and assertions  
22 regarding executive management fees made by Mr. Robertson in his direct testimony  
23 and by certain customers during the public hearing on the above referenced cases.

**EXECUTIVE MANAGEMENT COSTS**

**Q. Are you an employee of the Company?**

A. No. The Company uses a management approach developed over my many years in the industry. The executive management group consists of me, Robert Schwermann and Brian Schwermann (the Group). The Group devotes only as much time as is necessary to meet the needs of the Company. The Group has used this management model successfully for other utility holdings.

**Q. Do you agree with Public Counsel's position regarding the executive management group?**

A. No. On page 19 of Mr. Robertson's Direct Testimony he states that the duties performed by the executive management team are more representative of duties performed by a board of directors. In addition, Public Counsel believes the costs recorded by the Company appear excessive for a utility the size of Lake Region. Company believes the amounts recorded are reasonable and the duties performed by the executive management team are representative of duties performed by top executives in virtually every company in every industry. Board members typically review data prepared by the management team, set policy and provide direction for the management team. Negotiations with banks on financing, meeting with field personnel and consulting engineers to develop solutions and meetings with both vendors and customers are not customary duties for members of the board. Company has reviewed the 2008 Annual Reports for Aqua Missouri, Aqua RU, Inc. and U S Water Company and I have attached Schedule 1 which summarizes the results. The amounts recorded for salary and benefits for top management and/or management

1 fees range from \$31,562 to \$87,200 with the average being \$56,826. The amounts as  
2 a percentage of revenue range from 6% to 12% with the average being 8%. I have  
3 also compared these amounts to the amount of the annual Commission Assessment.  
4 For the fiscal year beginning July 1, 2009 the amount of this assessment was \$56,741,  
5 or approximately 8% of the Company's revenues for 2008. I strongly believe that the  
6 Company's executive management group is deserving of at least the level of  
7 compensation and expense reimbursement of the state agency which provides only an  
8 oversight function.

9 **Q. Public Counsel has proposed including fees for the members of the Board of**  
10 **Directors. Do you agree with Public Counsel's recommendation?**

11 A. The members of the board for Lake Region do not receive fees for attending meetings  
12 and Company has not asked for or included such fees in its filing.

13 **Q. Does this conclude your Rebuttal Testimony?**

14 A. Yes, it does.

Vernon Stump

**Education:**

BS in Civil Engineering, University of Missouri Columbia  
MS in Civil Engineering, University of California San Jose  
PhD in Sanitary Engineering, University of Missouri Columbia

**Professional:**

Professional Engineer, registered in the state of Missouri

**Work Experience:**

1969-1971 - Officer in United States Coast Guard

Served as base Civil Engineer at the Officer Training Center at Yorktown, Virginia. Primary duties included management of water and sewer facilities. Major engineering projects included upgrade of the sewage treatment facility and design and construction of lift stations for new barracks and mess hall.

1971-1973 - Superintendent of Water Treatment for Austin, Texas

Mr. Stump served as superintendent of water treatment for the three Austin water treatment plants. Each facility was a lime softening surface water treatment plant. Total capacity was 175 MGD and average treated water supplied to the city ranged from 50 MGD to 120 MGD. He supervised a staff of 36 water operators.

1974-1983 - Mid Missouri Testing Laboratory

Mr. Stump established Mid Missouri Testing Laboratory in 1974 while working on a PhD degree at the University of Missouri in Columbia, Missouri. This laboratory provided water and wastewater testing services for NPDES permits and for research projects. In 1977 the laboratory was expanded to include testing for heavy metals and organics for water systems. The laboratory operations were sold in 1983.

1977-1991 - Mid Missouri Engineers, Inc.

Mr. Stump established Mid Missouri Engineers, Inc (MMEI) in 1977. MMEI is a contract operations firm that provides complete operation, maintenance, and management to private utilities, water and sewer districts, and municipalities.

By 1983 MMEI had become the largest water and wastewater contract operations firm in Missouri. In 1991 Dr. Stump sold his interest in MMEI. MMEI's name was changed to Alliance Water Resources, and it remains a leader in water and wastewater contract operations in Missouri. MMEI had 75 employees at the time Dr. Stump sold his interest in the company. Facilities which MMEI operated and maintained under his direction include the following:

Clinton, Missouri water system	3,500 customers
Osceola, Missouri water system	400 customers
Lake Saint Louis, Missouri wastewater system	1,500 customers
O'Fallon, Missouri water and wastewater system	5,000 customers
Boone County Sewer District	2,300 customers

Binder Basin Sewer Company	300 customers
Saline Sewer Company	3,000 customers
Cape Girardeau water plant	30,000 customers
Holts Summit sewer	500 customers

#### 1977-Present - Regulated Utility Owner

Since 1977, Dr. Stump and his wife have owned a major interest in regulated water and sewer systems in Missouri, Kansas, and Illinois. During this time he has provided engineering and management to each entity. This list includes 13 separate utility companies which provide water service, sewer service, or both to 18 separate cities or geographic areas. In general at any given time Dr. Stump has owned a major interest in and managed approximately four separate utility systems and spent approximately 25% of his time providing services to each facility.

These facilities are listed below by state:

##### Missouri:

Mid Missouri Sanitation	500 customers
Cedar Lake Sewer Company	300 customers
Clearview Sewer Company	250 customers
El Chaparral Sewer Company	400 customers
Prairie Meadows Sewer Company	50 customers
Crestview Sewer Company	400 customers
Saline Sewer Company <sup>2</sup>	3,000 customers
Meadows Water Company <sup>2</sup>	1,200 water customers
	275 sewer customers
Ozark Shores Water Company <sup>1,2</sup>	1,500 customers
Lake Region Water and Sewer Company <sup>1,2</sup>	650 water customers
	750 sewer customers

##### Kansas:

Central Kansas Utility Company serving:	
Great Bend water <sup>2</sup>	5,000 customers
McCracken water <sup>2</sup>	200 customers
Caldwell water <sup>2</sup>	300 customers
Coldwater water <sup>2</sup>	350 customers

##### Illinois:

North Suburban Public Utility <sup>2</sup>	12,000 water customers
	6,000 sewer customers
Tri County Utility serving:	
Tower Lakes water	150 customers
Twin Lakes water	300 customers
Fairhaven water <sup>1,2</sup>	80 customers

<sup>1</sup>Currently own

<sup>2</sup>Common ownership with Schwermann family

In order to illustrate the services provided to utilities under Dr. Stump's direction, a brief summary of four utility operations are included below.

**O'Fallon Municipal Water System**

**Client: City of O'Fallon, Missouri**

**Service Area:** City of O'Fallon, Missouri

**Service Period:** January, 1984 to 2009

**System Description:**

5 deep wells, combined capacity 2.5 mgd

4 elevated storage tanks, 1.9 million gallons

60 miles distribution main

**Customers Served:** 4,500 connections

The complete services agreement provides total system operation and maintenance for potable water facilities serving the City of O'Fallon, Missouri. The City utility serves some 15,000 citizens or approximately 4,500 customer connections.

The complete service package includes responsibility for operation and maintenance of the City's five potable water wells, ion exchange softening treatment facilities, storage reservoirs, and distribution system. The system supplies approximately 1.5 mgd to City residents.

Additionally the contract services provide maintenance of the water distribution system and meters for all residents, new water and sewer tap inspections, and computer billing and collection of customer accounts for both the water and wastewater utilities at O'Fallon.

**O'Fallon Municipal wastewater system**

**Client: City of O'Fallon, Missouri**

**Service Area:** Regional Treatment Plant serving O'Fallon, Lake Saint Louis and unincorporated area

**Service Period:** 1983 to 2009

**System Description:**

5.5 mgd ABF treatment plant

11 sewage pumping stations

65 miles of sewer line

**Customers Served:** 8,000 connections (including wholesale customers)

Total population served by the treatment plant is approximately 22,000.

The service agreement with O'Fallon, Missouri, provides complete system operation and maintenance for sewer facilities serving the City and a substantial unincorporated area in the Belleau Creek watershed. MMEI, a partner in PeopleService, has furnished complete management services for the overall O'Fallon system since July, 1, 1983.

At the initiation of the contract, responsibilities included operation and maintenance of the City's three secondary treatment plants, eight waste stabilization ponds, eleven pumping stations, and the entire sewer collection system. In the spring of 1984, our company initiated start-up and operation of a new 5.5 mgd activated biofilter treatment facility which replaced all existing treatment facilities. The ABF facility represents state-of-the-art primary and secondary treatment technology. The facility currently treats a daily average flow of about 3.5 mgd from 8,000 customer connections.

Beyond operation and maintenance of facilities, contract services include computer billing and customer collection for the wastewater utility as well as the potable water utility.

The complete services contract provided for development and implementation of an extensive industrial pretreatment program for regulation of connected industrial facilities including a large micro-chip manufacturer. Staff responsibilities include development of pretreatment permits and discharge criteria, plant surveys and inspections, and routine monitoring and data evaluation.

**Saline Sewer Company**

**Client: Saline Sewer Company**

**Service Area:** Jefferson County, Missouri

**Service Period:** December, 1985 to 1987

**System Description:**

5 treatment plants, 1.2 mgd capacity

12 pumping stations

65 miles of sewer collection system

**Customers Served:** 4,600 connections

Saline Sewer Company is a publicly regulated private sewer company authorized to furnish sewer service in a 20-square-mile, unincorporated residential area south of St. Louis. Saline Sewer Company serves approximately 4,500 customer connections and operates 5 treatment facilities with a combined capacity in excess of 1.2 mgd.

We were called upon, in 1982, to perform a complete evaluation of the management, physical facilities, operability, design loadings, staffing, operating procedures and I/I investigations, including smoke testing, flow monitoring, and internal inspection. These efforts produced complete and comprehensive manuals for every aspect of utility management and operation specific to Saline's facilities.

In 1985, the Saline Sewer Company contracted with our firm to provide complete O & M services for the treatment plants, pumping stations, and collection systems, as well as computerized billing and collection and inspection of new construction and connections. In July of 1987, the responsibilities were expanded to include procurement of engineering services and project coordination on construction of a new plant and a 1.0 mgd expansion at an existing facility.

Prior to our involvement, this sewer company was the defendant in a 6-year lawsuit filed by the federal EPA and the State of Missouri, resulting in a \$1,000,000 fine and numerous compliance articles to continue operation. The contract management and operations services resulted in permit compliance, customer satisfaction, reliable performance of mechanical equipment, and adherence to State construction standards. As a result, an amended consent decree was signed in 1986 acknowledging the contract management effectiveness, reducing the penalty to \$100,000 for earlier violations, and allowing the utility to expand its facilities.

**Henry County Water Company**

**Client: Henry County Water Company**

**Service Area: City of Clinton, Missouri**

**Service Period: November, 1983 to present**

**System Description:**

1.4 mgd treatment plant

1.25 million gallons storage

**Customers Served: 4,000 connections**

The Henry County Water Company is a not-for-profit corporation formed to provide potable water service for the citizens of Clinton, Missouri. The management of the company is vested in a board of directors consisting of five members approved by the City of Clinton.

Management services include operation and maintenance of a 1.5 mgd water treatment plant consisting of flash mixing, flocculation, gravity filtration, and post chlorination. The staff is also responsible for operation, maintenance, and repair of the water distribution system as well as billing and collection for the 4,000+ customers.

A full-service agreement furnishes the entire administrative, operations, and maintenance staff for the water utility. Engineering and technical services provided as part of the full-service package include coordination and assisting the design consultant in design of major improvements, negotiating easements and land acquisition, evaluation and permitting a sludge disposal site, and preparation of contract documents for elevated storage painting.

Comparative Management Salaries/Fees  
Information From 2008 Annual Reports to  
Missouri Public Service Commission

Vernon Stump  
Rebuttal Testimony  
Schedule 1  
Cases SR-2010-0110 & WR-2010-0111

	Aqua Missouri	Aqua RU	us water	Average
Total Revenues	\$ 912,199.46	\$ 399,066.00	\$ 745,430.00	\$ 685,565.15
Management				
Paid	\$ 51,716.83	\$ 23,509.00	\$ 87,200.00	\$ 54,141.94
Benefits	\$ -	\$ 8,052.94	\$ -	\$ 2,684.31
Total	\$ 51,716.83	\$ 31,561.94	\$ 87,200.00	\$ 56,826.26
Management salary as % of revenues	6%	8%	12%	8%