

Exhibit No.:	_____
Issue:	Feasibility Study Revenue Requirement and Rate Base
Witness:	David G. Krehbiel
Sponsoring Party:	Big Island Water & Sewer Company, Inc.
Case No.:	Case No. WA-2006-0480

BIG ISLAND WATER & SEWER COMPANY, INC.

Case No. WA-2006-0480

SURREBUTTAL TESTIMONY

OF

DAVID G. KREHBIEL

Camdenton, Missouri
January, 2007

1 and are not connected to developer's plans of development for the area.
2 Furthermore, I am not aware of any phase boundary in the development proposed
3 for Big Island.

4

5 **Q. On page 20 of her rebuttal, Ms. Orlor refers to Amended and Restated**
6 **Declarations of Covenants and Restrictions and seems to believe that they**
7 **affect the rates proposed for water and sewer service in your feasibility**
8 **study. Are these Declarations significant to your analysis?**

9 A. No, they are not significant to the rates and charges Big Island Water & Sewer
10 Company is proposing to charge. The document she refers to may apply to the
11 developer in some way but not the applicant in this case. The rates generated
12 under my feasibility study are quite correct and in this regard, let me point out that
13 they compare most favorably with the Commission Staff's proposed rates for
14 service, although I disagree with some of Mr. Harrison's recommendations in this
15 case.

16

17 **Q. On page 21 of her testimony, Ms. Orlor takes issue with the portion of your**
18 **feasibility study which sets out the projected number of dwelling units that**
19 **will be added in the future on Big Island. Why have you used the figures in**
20 **your feasibility study?**

21 A. First, these projections are based upon the developer's estimates and as I
22 understand, the developer assumes that the disputes over the manner in which
23 water and sewer services are provided on the Island have ended. Those who have

1 been connected with the development realize that the continuation of objections to
2 how water and sewer services will be provided and billed for have diverted
3 attention from sales. More importantly, perhaps, is that if the projections for
4 growth set out in Ms. Orler's testimony are used, the rates I propose in my
5 feasibility study are too low and it is the desire of the applicant in this case that
6 rates and charges be set at a reasonable medium.

7 **Mr. Pugh's Testimony**

8 Q. **On page 4 of Mr. Pugh's rebuttal he refers to the relocated water main and**
9 **its position below a sewer main on an incline. Does the location of the sewer**
10 **main pose a risk of contamination of the water supply?**

11 A. No, there is no risk to public health because of the location of these lines. The
12 relocation of the water main is in full compliance with the regulations of DNR
13 and otherwise in accord with applicable engineering standards. The required
14 separation of the water line and the sewer line has been achieved. To accept what
15 seems to be Mr. Pugh's logic, that no water line should be installed below a sewer
16 line, is simply not practical in the field, --where topography, soil or rock
17 conditions must be considered--and both DNR and professional engineers
18 understand this.

19
20 Q. **On page 5 of his testimony, Mr. Pugh discusses the minimum distance**
21 **between a public water supply and wastewater treatment plants. He claims**
22 **that the Big Island facilities are not in compliance with applicable**

1 **regulations. Were the Big Island well and the wastewater treatment plant**
2 **designed, constructed and separated in accordance with regulation?**

3 A. Yes. Mr. Pugh attached a Missouri Department of Health schedule but it is
4 unclear when that chart was, or is still, effective. Although I was not the engineer
5 when the well was drilled and the first phase of the treatment plant was
6 constructed, at the time of the design, construction, and permitting of the Big
7 Island water and wastewater systems, the applicable DNR regulation 10 CSR 20-
8 8.020 (11) (A) 3 provided:

9 Wastewater treatment facilities shall not be located within one
10 hundred feet (100'), and preferably three hundred feet (300') of
11 any well or water supply structure.
12

13 To the best of my knowledge, this regulation is still in effect. I have attached a
14 copy to my testimony as Krehbiel Surrebuttal Schedule 1. The well and the
15 wastewater treatment system on Big Island are separated by more than 100 feet.
16 In fact, the well structure and the discharge point for the treatment plant effluent
17 are separated by more than 300 feet. As Mr. Pugh admits, the design and the
18 construction of these facilities was approved and accepted by DNR. I know of no
19 citation by any health agency as to the location of the well and wastewater
20 treatment facility. The facilities are in compliance with the DNR Design Guide
21 and again, are otherwise compliant with applicable engineering standards.

22

23 Q. **On pages 6-8 of Mr. Pugh's rebuttal testimony he states that applicant's**
24 **witness Ms. Brunk did not give an accurate account of the notices of violation**

1 **issued by DNR to Folsom Ridge. He also adds a list of what he believes are**
2 **notices of violation. Have you compared his list with Ms. Brunk's testimony**
3 **and has she set out the enforcement history correctly?**

4 A. Yes, I believe she has. Mr. Pugh appears to raise matters in his testimony which
5 are not notices of violation of DNR regulations. On page 6, the item he identifies
6 as "1." was a violation review and involved the circumstances which led to a
7 notice of violation respecting water and sewer lines sharing the same trench.
8 The item he marks as "3." is a Camden County road and bridge matter unrelated
9 to DNR regulations. The disposal of the roofing material referred to in item "4."
10 on page 7 is a solid waste disposal issue, not a water quality issue. Mr. Pugh
11 claims that the developer violated a section of the Settlement Agreement, which
12 Ms. Brunk has attached to her testimony, but my understanding is that DNR has
13 closed out the Settlement Agreement as having been fully complied with. Under
14 "6." Mr. Pugh reports on an inspection done by DNR none of which involve
15 notices of violations but rather matters observed in the field all of which were
16 rectified to DNR's satisfaction and concern minor issues unrelated to the core
17 operation of the water and sewer systems on the Island. The item marked as "7."
18 involved a mistake on the part of the construction crews. That error is explained
19 in Ms. Brunk's testimony. The matter was resolved. Under the item marked "8."
20 Mr. Pugh raises four purported violations of regulations but these are not "notices
21 of violation" under DNR procedures. Mr. McDuffey in his separate surrebuttal
22 will address three of them. As for the fourth, marked as "d." that is a duplicate of
23 the notice of violation Mr. Pugh identified as "7." and which I just explained.

1 **Martin Hummel's Testimony**

2 **Q. Have you reviewed the list of facility related issues Mr. Hummel sets out on**
3 **pages 4 -6 of his rebuttal testimony?**

4 A. Yes, I have and I agree with many of them.

5

6 The bullet point on page 4 of his testimony is agreeable 100%.

7

8 Regarding the production of "as-built" drawings I would agree that the Company
9 should create "as built" drawings on an "as discovered" basis as Mr. Hummel
10 suggests as part of daily operation or exposure on maintenance excavation. There
11 are partial "as builds" available at this time.

12

13 Leak management will be addressed by Mr. McDuffey but it is my understanding
14 that a procedure is in place. Discharge flow measurement is a matter the
15 company has budgeted for in its feasibility study. Regarding pressure
16 monitoring/recording, it will be considered, but I am unaware of any feasible or
17 effective way to accomplish this.

18

19 Many shut off valves have already been installed and it is agreeable that shut off
20 valves would be installed as they are needed for water and sewer connections
21 discovered during daily operations or on exposure during maintenance
22 excavation.

23

1 The Company agreed to installation of water meters. As far as retrofitting existing
2 customers, Mr. Hummel's recommendation differs from Mr. Harrison's treatment
3 of the budget item. The estimated cost of retrofitting meters to existing customers
4 (@\$43,000) was removed from Mr. Harrison's recommended revenue
5 requirement. The Company will retrofit existing customers for water meters if
6 costs are allowed in rates for the project.

7

8 Water main repair procedures, tapping procedures will be addressed by Mr.
9 McDuffey including procedures for installation and inspection of uniform septic
10 tanks and effluent pumps. Evaluation of water mains for installation of isolation
11 valves, air release valves and flush valves is an on going process.

12

13 Mr. Hummel recommends that the utility be responsible for the hauling of solids
14 hauling and I have concurred with that. In the feasibility study I included the
15 projected costs of sludge removal at \$3,750 and an operation and maintenance
16 expense. I will note now that I disagree with Mr. Harrison's elimination of this
17 expense item in his recommendations.

18

19 Permits in the name of the developer for construction of additional water storage
20 capacity—the standpipe—have been issued by DNR to confirm Mr. Hummel's
21 understanding on this mater.

22

23 I agree fully with Mr. Hummel's last bullet point on page 6.

1

2 **Mr. Harrison's Testimony**

3 Q. Are you in agreement with Mr. Harrison's recommendations on revenue
4 requirement and rate base.

5 A. I have some differences regarding Mr. Harrison's recommendations. Although
6 Mr. Hughes will be addressing many of Mr. Harrison's recommendations, I will
7 point out several differences which pertain to the feasibility study I prepared.

8

9 On page 2, Mr. Harrison has recommended a rate of return of 9%. I differ with
10 him on this percentage and continue to propose a 10% rate of return.

11 On page 3, Mr. Harrison compares attachment B of my feasibility study to the
12 Company's response to Data Request No. 1. Mr. Hughes will testify as to how
13 the documents can reconcile but I think the response to Data Request No. 1 has
14 been misunderstood in some degree by Mr. Harrison.

15

16 On page 4, Mr. Harrison explains that the costs of relocating the water line to
17 comply with DNR's requirements were removed. These costs should be included
18 in rate base since they would have been incurred if the lines had been installed in
19 separate trenches from the beginning. The costs of abandoning the water line
20 were not included in the feasibility study; just the costs of installing the
21 complying water line. Those costs should be allowed in rate base.

22

1 On page 5, Mr. Harrison reports that he has disallowed \$43,000 set aside for
2 water meters for the reason that meter costs are recovered under the Company's
3 proposed connection fee request. The Company's proposed connection fee will
4 cover costs of installing water meters for new connections but not retrofitting
5 existing customers. Retrofitting existing customers with water meters is a
6 recommendation of Mr. Hummel in his rebuttal testimony. This amount should
7 be included.

8
9 I disagree with Mr. Harrison's disallowance of the price of real property involved
10 in the transaction. He has eliminated that cost.

11
12 Regarding Material and Supplies, Mr. Harrison has taken a recurring expense for
13 these systems and converted it into a rate base item. Materials and supplies would
14 include sections of pipe, replacement lids for access to service lines, clamps,
15 replacement valves, replacement pumping parts and filters. These will need to be
16 on hand in inventory and are consumed as part of regular and preventive
17 maintenance. They should not be capitalized.

18
19 On Schedule PRH 1, Mr. Harrison has eliminated interest on debt from the
20 calculation reciting correctly that the Company has no debt. However, upon
21 accepting the assets subject to the asset transfer agreement, the Company
22 anticipates assuming the debt reported in the feasibility study. At this time, the
23 Company has no loans outstanding but once it accepts responsibility for the

1 operations of the systems and its obligations, debt will certainly be part of the
2 ledger.

3

4 I am not certain how Mr. Harrison has calculated depreciation expense and need
5 clarification on the way in which the Commission's annual assessment has been
6 calculated.

7

8 On Schedule PRH 4, Mr. Harrison proposes to reduce income taxes to zero if the
9 Company is a Subchapter S corporation. Even if the Company elects Subchapter
10 S treatment, the fact that it is the shareholders who are subject to tax does not take
11 away the fact that the Company's operations subject the shareholders to a tax
12 obligation, which should be recognized in the rates.

13

14 On Schedule PRH 2-3, Mr. Harrison has deducted amounts from total plant
15 described as Excess Capacity. I want to remind the Commission that the facilities
16 constructed and to be constructed on the Island have been mandated by DNR
17 under its rules and regulations. There has not been a choice about the extent of
18 capacity to build into the systems. Per the requirements of DNR, the capacity
19 installed is proportional already to the needs and demand of the residents and
20 these calculations should be removed from the formula. That said, I will advise
21 the Commission that DNR will expect the drilling of a second well for the area.
22 The costs of that second well have not been included in my feasibility study.

23

- 1 Q. **Does this conclude your surrebuttal testimony?**
- 2 A. Yes.