Exhibit No.:

Issues: Construction Costs Witness: James A. Merciel, Jr.

Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: SR-2008-0080

Date Testimony Prepared: December 21, 2007

MISSOURI PUBLIC SERVICE COMMISSION UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

JAMES A. MERCIEL, JR.

TIMBER CREEK SEWER COMPANY

CASE NO. SR-2008-0080

Jefferson City, Missouri December 2007

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

| In the Matter of Timber Creek ! Inc.'s Tariff Designed to Increase Service. | - • |)) Ca) | se No. SR-200 | 8-0080 |
|---|-------------------|----------------|---------------|--|
| A | FFIDAVIT OF JAMES | A. ME | ERCIEL, JR. | |
| STATE OF MISSOURI COUNTY OF COLE |)) ss) | | | |
| James A. Merciel, Jr., of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony, in question and answer form, consisting of \checkmark pages, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him, that he has knowledge of the matters set forth in such answers; and that such answers are true to the best of his knowledge and belief. James A. Merciel, Jr. | | | | |
| Subscribed and sworn to before me this 19 th day of December 2007. | | | | |
| Musan M. Sunderm Notary Public | syll_ | | NOTARY SEAL S | SUSAN L. SUNDERMEYER My Commission Expires September 21, 2010 Callaway County Commission #06942086 |

| 1 | DIRECT TESTIMONY |
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| 2 | \mathbf{OF} |
| 3 | JAMES A. MERCIEL, JR. |
| 4 | TIMBER CREEK SEWER COMPANY |
| 5 | CASE NO. SR-2008-0080 |
| 6 | INTRODUCTION |
| 7 | EXECUTIVE SUMMARY |
| 8 | PROPOSED ESTIMATED COST OF TREATMENT FACILITIES |
| 9 | CONCLUSION2 |

| 1 | | DIRECT TESTIMONY | | |
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| 2 | | OF | | |
| 3 | | JAMES A. MERCIEL, JR. | | |
| 4 | | TIMBER CREEK SEWER COMPANY | | |
| 5 | | CASE NO. SR-2008-0080 | | |
| 6 | INTRODUCTION | | | |
| 7 | Q. Pleas | se state your name and business address. | | |
| 8 | A. Jame | s A. Merciel, Jr., P. O. Box 360, Jefferson City, Missouri, 65102. | | |
| 9 | Q. By w | hom are you employed and in what capacity? | | |
| 10 | A. I am | employed by the Missouri Public Service Commission ("Commission") | | |
| 11 | as a Utility Regulatory Engineering Supervisor, in the Water and Sewer Department ("W/S | | | |
| 12 | Department"). | | | |
| 13 | Q. Pleas | se describe your education and work experience. | | |
| 14 | A. I gra | duated from the University of Missouri at Rolla in 1976 with a Bachelon | | |
| 15 | of Science degree in | n Civil Engineering. I am a Registered Professional Engineer in the State | | |
| 16 | of Missouri. I worl | ked for a construction company in 1976 as an engineer and surveyor, and | | |
| 17 | have worked for the | Commission in the W/S Department since 1977. | | |
| 18 | EXECUTIVE SUN | AMA DV | | |
| 19 | | t is the purpose of your Direct testimony? | | |
| 20 | | present support for the information that was used in the calculation of | | |
| 21 | | er Company's (Company's) proposed Contribution-in-aid-of-Construction | | |

(CIAC) charge, which is paid by a developer, a builder, or a new customer at the time a new connection is made to the Company's sewer system.

PROPOSED ESTIMATED COST OF TREATMENT FACILITIES

Q. What information are you discussing, and why?

A. The information I am explaining is the proposed estimated cost of a new sewage treatment facility, because the cost of the facility directly impacts both the rates, and the CIAC charge, which is a capital contribution, that customers pay when making a connection. The Company, similar to some other utilities, uses a combination of its capital resources and funds provided by developers or new customers, to support plant capital cost. As explained in the Direct Testimony of James M. Russo of the W/S Department, an increase in the CIAC charge was negotiated in this case which is based on an increased cost of constructing sewage treatment plants, and also with the idea of reducing the Company's investment on a per customer basis. As such, an estimated amount of \$8.00 per gallon of treatment capacity was used for the calculation of the increased CIAC charge.

- Q. Do you believe that the \$8.00 per gallon estimate is a figure that is appropriate to use?
- A. Yes, from the standpoint of a customer or other party paying the CIAC charge, I believe that \$8.00 per gallon is appropriate, because it is within the range of the costs of other treatment plants that I have observed.
 - Q. On what do you base this opinion?
- A. My opinion is based on the observation of eight other projects and estimates that we have seen recently. These projects involve a regulated company that recently finished a rate case and whose work included the construction of three (3) new sewage treatment

facilities (Missouri-American Water Co.), a new company that received approval to commence business as a water and sewer utility (Southtown Utilities Co., Inc.), a regulated company that built a plant a couple of years ago (Mill Creek Sewers, Inc.), a pending case involving a new sewer utility (EMC of St. Charles County, LLC), a pending case involving a regulated sewer utility that is proposing to sell its assets to a public district that is planning a major upgrade of the existing sewage treatment facility, with estimated costs of various options (Lincoln County Utilities Company), and a company that filed to become a regulated utility, but withdrew its application, but had an estimated cost of a plant that was under construction (Big Island Water & Sewer Co., Inc.). All but one of these projects incurred a cost or estimated a cost in excess of \$8.00 per gallon, specifically in the range of just under \$5.00 to approximately \$18.00 per gallon of capacity. It appears that, for many of them, the purchase of plant components is approximately \$4.00 per gallon, and construction costs are approximately \$12.00 per gallon.

- Q. Why would the Company's construction cost be less than most of these other projects?
- A. The cost, to a great extent, depends on the type and size of treatment facility. Larger plants could tend to cost less per gallon. Also, plants that are technologically more advanced and capable of a better quality effluent to meet ever-increasing discharge requirements are now available, and these plants have more parts and are more complex than older type extended aeration plants. Finally, expansion of an existing plant constructed with a modular format could cost less.

Direct Testimony of James A. Merciel, Jr.

CONCLUSION

Q. Do you believe that \$8.00 per gallon is an appropriate estimate to use for the Company's situation?

A. Yes.

Q. Does this conclude your Direct Testimony?

A. Yes.