

Exhibit No.: _____
Issue: Response to Staff Rebuttal
Witness: Norville Kenneth
McClain, Jr.
Type of Exhibit: Surrebuttal
Sponsoring Party: Central Jefferson
Case No.: WC-2007-0038
Date Testimony Filed: 3/30/2007

MISSOURI PUBLIC SERVICE COMMISSION

CENTRAL JEFFERSON COUNTY UTILITIES, INC.

CASE NO. WC-2007-0038

SURREBUTTAL TESTIMONY OF
NORVILLE KENNETH MCCLAIN, JR.

Jefferson City, Missouri

1 WITNESS INTRODUCTION

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Norville Kenneth McClain, Jr. and my business address is 1519
5 McNutt Road, Herculaneum, Missouri 63048.

6 **Q. ARE YOU ASSOCIATED WITH CENTRAL JEFFERSON COUNTY**
7 **UTILITIES, INC.?**

8 A. Yes. I am the President of Central Jefferson County Utilities, Inc. (Central
9 Jefferson). I also have an ownership interest in the Company.

10 **Q. WHAT BUSINESS DOES CENTRAL JEFFERSON CONDUCT?**

11 A. Central Jefferson is engaged, generally, in providing water and sewer service in
12 those areas of Missouri certificated to it by the Missouri Public Service
13 Commission.

14 RESPONSE TO STAFF REBUTTAL TESTIMONY

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. The purpose of my testimony is to respond to the Rebuttal Testimony of
18 Commission Staff witness Dale W. Johansen concerning the Office of the Public
19 Counsel's (OPC) Complaint.

20 **Q. WHAT IS THE GENERAL SUBSTANCE OF MR. JOHANSEN'S**
21 **REBUTTAL?**

1 A. Mr. Johansen describes the history of the matter identified by Commission
2 Tracking Number QS-2006-0003 and discusses certain issues associated with that
3 matter.

4 **Q. WHAT IS THE SIGNIFICANCE OF QS-2006-0003?**

5 A. As Mr. Johansen points out, it is Staff's work product associated with QS-2006-
6 0003 that forms the basis for the OPC complaint in this case.

7 **Q. HOW WAS QS-2006-0003 INITIATED?**

8 A. On October 31, 2005, Central Jefferson proposed a sewer connection fee
9 applicable to new customers that would provide funding for a new sewage
10 treatment plant. Central Jefferson proposed that proceeds from the proposed
11 connection fee be held separately from the Company's other funds and be used
12 solely to repay the financing associated with the expansion.

13 **Q. MR. JOHANSEN STATES THAT AS A PART OF ITS REVIEW OF THIS**
14 **CENTRAL JEFFERSON PROPOSAL, STAFF CONDUCTED AN AUDIT**
15 **OF THE COMPANY'S BOOKS AND RECORDS. DID CENTRAL**
16 **JEFFERSON ASSIST WITH THIS AUDIT?**

17 A. Yes. Central Jefferson provided expense and revenue information in response to
18 the requests of the Commission Staff.

19 **Q. TO WHAT TIME PERIOD DID THAT INFORMATION RELATE?**

20 A. As indicated by Mr. Johansen, the Staff used a "test year" of the twelve months
21 ended December 31, 2005. The information provided by Central Jefferson related
22 to that period of time.

1 **Q. HAS CENTRAL JEFFERSON BEEN ASKED BY EITHER THE STAFF**
2 **OR THE OPC TO PROVIDE UPDATED EXPENSE AND REVENUE**
3 **INFORMATION FOR PERIODS AFTER DECEMBER 31, 2005?**

4 A. No.

5 **Q. AT PAGES 6-7 OF HIS REBUTTAL TESTIMONY, MR. JOHANSEN**
6 **FURTHER STATES THAT CENTRAL JEFFERSON NEVER**
7 **FORMALLY RESPONDED TO THE STAFF'S AUDIT FINDINGS. IS**
8 **THAT CORRECT?**

9 A. Yes.

10 **Q. WHY DID CENTRAL JEFFERSON NOT PROVIDE A FORMAL**
11 **RESPONSE?**

12 A. Central Jefferson was attempting to find a solution to its need to construct
13 additional sewage treatment capacity. It was clear from the Staff's initial position
14 as presented to the Company on April 12, 2006, that it was going to be difficult, if
15 not impossible, to reach agreement on a connection charge. Accordingly, Central
16 Jefferson turned its attention to the possibility of gifting the properties to an entity
17 that would be in a position to finance the needed improvements.

18 **Q. WERE THOSE EFFORTS ULTIMATELY SUCCESSFUL?**

19 A. I believe they were. On July 20, 2006, Central Jefferson notified the Commission
20 Staff that an agreement for the transfer of Central Jefferson water and sewer
21 properties had been signed. Proceedings related to Central Jefferson's proposed
22 sewer connection fee were therefore suspended pending resolution of the
23 proposed transfer.

1 **Q. HAS THAT AGREEMENT BEEN PRESENTED TO THE COMMISSION?**

2 A. Yes. On August 15, 2006, Central Jefferson filed an application with the
3 Commission seeking approval to transfer Central Jefferson's water and sewer
4 plant to the Jefferson County Public Sewer District (Sewer District). The
5 Commission issued a Report and Order approving this transfer (with certain
6 conditions) on February 8, 2007, in Case No. SO-2007-0071.

7 **Q. HAS THE TRANSFER APPROVED IN CASE NO. SO-2007-0071 BEEN**
8 **CLOSED?**

9 A. No. However, the parties to the subject agreements are working to complete the
10 items necessary to bring about that closing.

11 **Q. ON PAGE 7 OF HIS REBUTTAL TESTIMONY, MR. JOHANSEN**
12 **STATES THAT THE AUDIT FINDINGS UPON WHICH THE OPC**
13 **RELIES SHOULD BE "CONSIDERED PRELIMINARY AND**
14 **'INCOMPLETE'." DO YOU AGREE?**

15 A. Yes. But for the transfer agreement that was presented to the Commission in
16 Case No. SO-2007-0071, additional steps would have been taken in the QS-2006-
17 0003 matter to explore the accuracy of the numbers used by the Staff, determine
18 the areas of disagreement between the Company and Staff and, ultimately, bring
19 those matters in dispute before Commission for decision. The document relied on
20 by the OPC represents a very early stage in this process.

21 **Q. WERE CENTRAL JEFFERSON'S EXPENSES AND REVENUES FOR**
22 **THE YEAR 2006, OR THUS FAR IN 2007, THE SAME AS THEY WERE**
23 **DURING THE TWELVE MONTHS ENDED DECEMBER 31, 2005?**

1 A. No.

2 **Q. HAVE THEY CHANGED IN ANY SIGNIFICANT FASHION?**

3 A. Yes. On August 31, 2006, the Company entered into an Agreement for Operation
4 and Maintenance of Water and Wastewater Treatment Facilities (Interim
5 Agreement) with Environmental Management Corporation (EMC) to take over
6 the day-to-day operations of the Company's water and sewer systems. This also
7 allowed EMC to come on-site and become familiar with the properties in
8 anticipation of the ultimate transfer of these facilities to the Sewer District. This
9 Interim Agreement has previously been submitted to the Commission in the
10 transfer case (Case No. SO-2007-0071). This Interim Agreement provided that
11 EMC would be paid all of the revenues received by the Company, less payments
12 to be made on a long term loan and reserves for certain equipment and supplies.

13 **Q. WERE THE REVENUES RECEIVED BY EMC UNDER THE INTERIM**
14 **AGREEMENT SUFFICIENT TO COVER EMC'S COSTS IN**
15 **OPERATING AND MAINTAINING THE SYSTEM?**

16 A. Apparently not. In December of 2006, EMC notified the Company that revenues
17 were insufficient for them to continue under the Interim Agreement and that they
18 would need additional compensation in order to continue. The Company was not
19 able to increase the compensation to EMC as it was unable to increase rates to
20 customers without Commission approval and the owners were unwilling to put
21 additional capital into the operations with no assurance that those costs would be
22 recovered.

1 **Q. HOW HAS THE COMPANY CONTINUED TO OPERATE AND**
2 **MAINTAIN THE SYSTEM?**

3 A. The Interim Agreement with EMC was terminated on January 19, 2007, and,
4 subsequent to that time, the Company hired two individuals (one of whom had
5 previously been employed by the Company) to operate and maintain the water
6 and sewer systems on an interim basis until the Commission could issue a
7 decision in the transfer case and, if approved, close the subject transaction.

8 **Q. AT THE PRESENT TIME, ARE REVENUES FROM WATER AND**
9 **SEWER RATES SUFFICIENT TO COVER THE OPERATIONS OF THE**
10 **COMPANY?**

11 A. Barely. The Company continues to make payments on its long-term loan and
12 after paying the two individuals that are operating and maintaining the system,
13 there is no money left over for repairs, investments or contingencies. None of the
14 owners or officers draw a salary or receive any dividends from the Company.

15 **SUMMARY**

16 **Q. PLEASE BRIEFLY SUMMARIZE YOUR TESTIMONY.**

17 A. I agree with Mr. Johansen that Staff's audit filings, upon which the OPC relies for
18 purposes of alleging over-earnings, should be considered preliminary and
19 incomplete. Moreover, those findings are no longer relevant given the change in
20 circumstances regarding the operations of the Company and, in particular, the
21 pending transfer of the system to the Water District.

22 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

23 A. Yes.

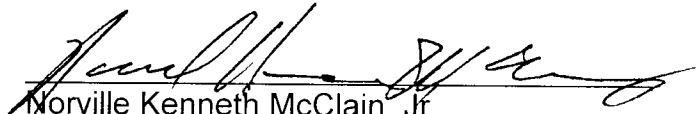
**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

Office of the Public Counsel)	
)	
v.)	Case No. WC-2007-0038
)	
Central Jefferson County Utilities, Inc.)	

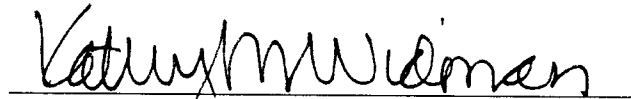
AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF ST. LOUIS)

I, Norville Kenneth McClain, Jr., of lawful age, being first duly sworn upon my oath, state that I am the President of Central Jefferson County Utilities, Inc.; that I am authorized to execute this document on behalf of Central Jefferson County Utilities, Inc.; and that the facts set forth in the foregoing surrebuttal testimony are true to the best of my knowledge, information and belief.


Norville Kenneth McClain, Jr.

Subscribed and sworn to before me this 21st day of March, 2007.


Notary Public

My Commission expires:

9/26/2010

