

Exhibit No. _____
Issues Per Schedule DWJ - 2
Witness Name Dale W. Johansen
Type of Exhibit Direct Testimony
Sponsoring Party Lincoln County Sewer
& Water, LLC
Case Nos. SR-2013-0321
WR-2013-0322
Date of Testimony September 4, 2013

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

**In the Matter of the Application)
of Lincoln County Sewer &)
Water, LLC for Approval of a) Case No. SR-2013-0321
Rate Increase)**

**In the Matter of the Application)
of Lincoln County Sewer &)
Water, LLC for Approval of a) Case No. WR-2013-0322
Rate Increase)**

**Direct Testimony of
Dale W. Johansen**

**Presented on Behalf of
Lincoln County Sewer & Water, LLC**

September 4, 2013

**Johansen Consulting Services, LLC
915 Country Ridge Drive
Jefferson City, MO 65109**

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

**In the Matter of the Application of Lincoln)
County Sewer & Water, LLC for Approval) Case No. SR-2013-0321
of a Rate Increase)**

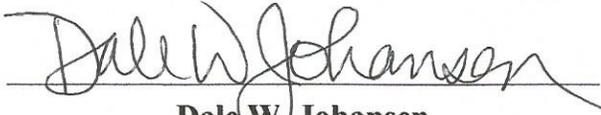
**In the Matter of the Application of Lincoln)
County Sewer & Water, LLC for Approval) Case No. WR-2013-0322
of a Rate Increase)**

AFFIDAVIT OF DALE W. JOHANSEN

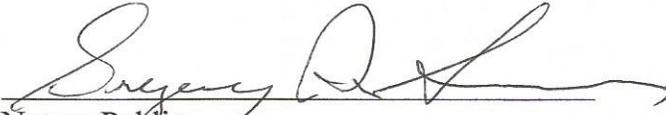
**STATE OF MISSOURI)
) SS
COUNTY OF MORGAN)**

COMES NOW Dale W. Johansen, being of lawful age, and on his oath states:

- (1) That I am the Manager of Johansen Consulting Services, LLC and have been retained to present testimony on behalf of Lincoln County Sewer & Water, LLC in these proceedings.
- (2) That I participated in the preparation of the following Direct Testimony, which consists of the following: (a) a Table of Contents; (b) nineteen pages of questions and answers; and (c) six schedules.
- (3) That I provided the answers given in the testimony and prepared the schedules included with the testimony.
- (4) That I have knowledge of the information presented in the answers and schedules, and that such information is true and correct to the best of my knowledge, information and belief.


Dale W. Johansen

Subscribed and sworn to before me this 4th day of September 2013.


Notary Public

**Gregory R. Sanning
"Notary Public - Notary Seal"
STATE OF MISSOURI
Miller County
Commission # 12463930
Commission expires June 6, 2016**

My Commission Expires: June 6, 2016

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DALE W. JOHANSEN**

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**DIRECT TESTIMONY OF
DALE W. JOHANSEN**

CASE NOS. SR-2013-0321 & WR-2013-0322

1 **INTRODUCTION**

2 **Q. Please state your name and business mailing address.**

3 A. Dale W. Johansen, 915 Country Ridge Drive, Jefferson City, MO 65102.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am the Manager of Johansen Consulting Services, LLC (JCS). For the
6 purposes of these cases, I have been retained by Lincoln County Sewer & Water, LLC
7 (LCSW or Company) to provide assistance to the Company in reaching a resolution in these
8 cases, to include providing testimony on its behalf supporting LSCW's requests for operating
9 revenue increases applicable to its sewer and water utility properties.

10 **Q. Please describe the types of services JCS provides.**

11 A. Since starting JCS upon my retirement from the Missouri Public Service
12 Commission (Commission or PSC) the types of services I have provided include the
13 following: (1) training municipal natural gas system operators in pipeline safety rules
14 compliance for the Security Integrity Foundation of the American Public Gas Association;
15 (2) managing a small PSC-regulated water and sewer company, as the court-appointed
16 receiver; and (3) assisting small PSC-regulated water and sewer companies in matters before
17 the Commission, including the resolution of small company rate cases.

18 **Q. What are your education and work experience backgrounds?**

19 A. Please refer to Schedule DWJ - 1 attached to this testimony for a summary of
20 my education and work experience backgrounds.

1 **Q. Have you previously testified in cases before this Commission?**

2 A. Yes, I have, on numerous occasions.

3 **EXECUTIVE SUMMARY**

4 **Q. What has been the nature of your involvement in these cases?**

5 A. As I mentioned earlier, I have been retained by the Company to assist it in
6 reaching a resolution of the Company's requests for increases in its sewer and water
7 operating revenues. In particular, my work has included reviewing the Commission Staff's
8 proposals for resolving the operating revenue increase requests and other matters identified
9 by the Staff as being at issue, and providing the Company with suggested changes to the
10 Staff's proposals on certain cost of service items. I have also attended various meetings with
11 the Commission Staff and representatives of the Office of the Public Counsel (Public
12 Counsel). I have also had the opportunity to review the Company's operations, expenses and
13 revenues in order to form the basis for my findings found in this testimony.

14 **Q. Please summarize the Direct Testimony you are presenting.**

15 A. I am presenting testimony regarding the issues set out in Schedule DWJ - 2,
16 which are the issues on which the Company does not agree with the most recently identified
17 Staff positions. For reference purposes, I am also including as schedules to this testimony
18 (Schedules DWJ - 3 through DWJ - 6) the Staff's cost-of-service summary sheets (denoted as
19 the "rate design schedule") for each of the Company's systems, which the Staff provided to
20 me on August 26, 2013.

21

1 **OFFICE RENT & OFFICE UTILITIES**

2 **Q. Please describe this issue and the Company's position.**

3 A. After LCSW's certificate cases were completed in mid-2012, the Company
4 rented dedicated office space in order to separate its utility operations from other businesses.
5 The issue at hand is whether the space the Company rented and the related costs are
6 appropriate and reasonable.

7 **Q. Why should the Commission find the Company's office rent and utility**
8 **expenses to be appropriate and reasonable?**

9 A. Based upon the office space available at the time LCSW was looking to open
10 its office, the Company believes its current office space is appropriate and that the
11 \$950/month rent is reasonable. As a result, the Company believes its actual rent expense
12 should be used in determining its cost of service. In contrast, the Staff has used a
13 hypothetical amount of \$600/month.

14 As with the rent, the Company believes the actual utility expenses – an
15 average of \$85/month for electric and \$65/month for water – should be used in determining
16 its cost of service. In contrast, the Staff has used a hypothetical total amount of \$75/month.

17 **METERS/METER INSTALLATIONS**

18 **Q. Please describe this issue and the Company's position.**

19 A. As a result of LCSW's certificate cases that were completed in mid-2012, the
20 Company agreed to install meters in its two water systems over a period of time. In lieu of a
21 multi-year approach that would have resulted in some customers being metered and others
22 not being metered, the Company decided to install meters in both systems as a single project.

1 The issue at hand is whether the actual costs of the meters and meter installations should be
2 used to establish the Company's cost of service.

3 **Q. What are the actual costs of the meters and the meter installations?**

4 A. Based on the Company's information, the actual costs are as follows:

5 Meters	\$32,867
6 Parts & Installations	\$32,698

7 **Q. What is the Staff's proposal with regard to this matter?**

8 A. In lieu of the actual costs for installing the remote-read meters the Company
9 chose to install, the Staff has used the estimated costs of \$500/installation in the Bennington
10 system (a total of \$25,000) and \$150/installation in the Rockport system (a total of \$10,800)
11 that were used to develop the initial, estimated cost of service in the Company's certificate
12 cases. In essence, the Staff's use of these estimated costs – a total of \$35,800, which barely
13 covers the parts and installations – raises the issue of whether the Company should have
14 installed the remote-read meters it chose or should have installed a "traditional" manual read
15 meter.

16 **Q. Are there advantages to the remote-read meters that the Company chose**
17 **to install?**

18 A. Yes there are, and some of those include: the ability to determine whether
19 there is unusual customer usage (either continuous or intermittent) such as might be caused
20 by a leak on customer facilities; the ability to identify backflow through the meter; the ability
21 to produce a 96-day record of customer usage; and the ability to identify days during which a
22 customer had zero usage. As should be obvious, all of these features can be advantageous to

1 the customers and have in fact resulted in savings to the customers by identifying leaks on
2 customer facilities.

3 **Q. Why is it appropriate to utilize the actual costs in establishing the**
4 **company's cost of service?**

5 A. If the actual costs are not used, the Company will clearly not have a
6 reasonable opportunity to earn a return on its investment in the systems. Additionally, the
7 estimated costs for the Rockport system do not reflect problems that the Company
8 encountered during the installation process, which consisted of the need to rebuild many of
9 the meter pits that had previously been installed by builders. I also believe the use of the
10 estimated costs begs the question of whether the Staff, and ultimately the Commission,
11 would be encroaching upon the Company's ability to manage its affairs in the manner it
12 believes to be appropriate.

13 **METER READING DEVICE/METER READING EXPENSES**

14 **Q. Please describe this issue and the Company's position.**

15 A. As a part of installing the remote-read meters it chose to install, the Company
16 needed to purchase a remote meter reading device. The Company believes the actual cost of
17 its remote meter reading device is reasonable and necessary and should be included in plant
18 in service and used in determining its cost of service. The Staff has not included the device
19 in plant in service, apparently because it disagrees with the type of meters the Company
20 chose to install.

21

1 **Q. What is the cost of the meter reading device?**

2 A. The meter reading device cost \$9,438 and training regarding the use of the
3 device cost \$1,500.

4 **Q. Did the Staff make any adjustments to recognize that without remote
5 meter reading it would be necessary to physically read the meters?**

6 A. Yes, but this adjustment is not appropriate. Since the Staff did not include the
7 meter reading device in plant in service, it included estimated meter reading expenses of
8 \$1.50/meter/month in its cost-of-service calculations. However, based on a bid LCSW
9 received for meter reading, the Company believes the meter reading expenses should be
10 calculated at \$2.75/meter/month – *if the meter reading device is not included in plant in*
11 *service.*

12 **BILLING & COLLECTIONS (BILLING PROGRAM/BILLING EXPENSES)**

13 **Q. Please describe this issue and the Company's position.**

14 A. This issue relates to whether the cost of the Company's computerized billing
15 program should be included in plant in service, or in the alternative, whether additional labor
16 expense should be included in the cost of service if the program is not included in plant in
17 service.

18 **Q. What was Staff's approach to the computerized billing program?**

19 A. The Staff did not include the cost of the Company's computerized billing
20 program in plant in service, apparently because it believes the program is needed only
21 because of the type of meters that the Company installed.

22

1 **Q. Is that the case?**

2 A. No. The billing program is not needed just because the Company installed
3 remote-read meters. For example, the billing program is used to create the Company's
4 monthly bills, track customer payments, track the status of customer accounts, create late
5 notices, calculate late fees, create disconnect and reconnect orders, and create disconnect
6 letters. Additionally, the billing program is used as a data base for customer contact info,
7 account history, water usage history, service locations, meter information (install date, size,
8 serial number, etc.) As a result, the Company believes the cost of the billing program should
9 be included in plant in service regardless of what conclusion the Commission reaches in
10 regard to the type of meters the Company installed.

11 **Q. What is the cost of the billing program?**

12 A. The billing program cost \$3,745.

13 **Q. Are there other adjustments that need to be made to the Company's cost**
14 **of service if the cost of the computerized billing program is not included in plant in**
15 **service?**

16 A. Yes. Not only did the Staff not include the Company's billing program in
17 plant in service, it also did not include additional hours in its cost-of-service calculations to
18 reflect the fact that the Company would be required to manually prepare its bills, manually
19 track customer payments, manually track the status of customer accounts, manually create
20 late notices, etc., etc., etc. in the absence of the billing program. *If the billing program is not*
21 *included in plant in service*, the Company believes an additional 12 hours/month should be
22 included in annualizing the payroll expense for its office personnel.

1 **CERTIFICATE CASE EXPENSE**

2 **Q. Please describe this issue and the Company's position.**

3 A. In its cost-of-service calculations in the Company's certificate cases, the Staff
4 included some of the Company's costs for those cases as a separate cost-of-service
5 component; however, the Staff has removed this cost-of-service component from these cases.

6 **Q. How should those costs be treated?**

7 A. The Company's position regarding this matter is that the costs related to the
8 certificate cases should have been considered organization costs and included as "Intangible
9 Plant" in account 301, and the Company also questions whether the costs were
10 inappropriately reduced by the Staff. As an alternative to the suggested treatment of these
11 costs, the proper level of costs should be amortized over a reasonable period of time and
12 included in the Company's cost of service until that amortization period is over.

13 **PROPERTY & LIABILITY INSURANCE**

14 **Q. Please describe this issue and the Company's position.**

15 A. Upon becoming a PSC-regulated utility, the Company purchased property and
16 business liability insurance policies at the approximate costs of \$630/year and \$1,115/year,
17 respectively. The Company believes the cost of both of these policies should be reflected in
18 its cost of service, but the Staff has included only the cost of the property insurance policy.

19 **TREATMENT OF LAND**

20 **Q. Please describe this issue and the Company's position.**

21 A. In February 2012, during the pendency of LCSW's initial certificate cases, the
22 Company received title to the land on which its sewage treatment facilities are located, but

1 there was no allowance for land included in determining the Company's rate base during the
2 certificate cases. The Company believes the value of this land should be treated as an equity
3 investment by Mr. Kallash and included in plant in service. For the Bennington system the
4 value of this land is \$20,000 and for the Rockport system the value of this land is \$38,000.

5 **ADMINISTRATION & GENERAL SALARY (ANNUALIZED HOURS & PAY**
6 **RATE)**

7 **Q. Please describe this issue and the Company's position.**

8 A. This issue relates to the services performed by Toni Kallash, and the manner
9 in which her hours work should be annualized and the manner in which her pay rate should
10 be established.

11 Ms. Kallash performs functions for the utility on a daily and monthly basis
12 that are too numerous to list but which include items such as producing customer bills,
13 picking up and depositing customer payments, answering customer calls, monitoring the
14 Company's answering machine, meeting with new applicants, general bookkeeping,
15 purchasing office supplies and dealing with title companies on property transfers. Ms.
16 Kallash has performed these functions for utility operations for approximately 16 years.

17 The Company believes the Staff's annualization of Ms. Kallash's work hours
18 understates the hours she works because it includes two months that are clearly not reflective
19 of the time that Ms. Kallash spends on utility-related work. After examining the Staff's work
20 paper regarding this matter, I believe a monthly average of 87 hours should be used in lieu of
21 the Staff's monthly average of 66 hours. (It should be noted that these hours do not include
22 consideration of the billing expenses issue discussed previously.)

1 **Q. Does LCSW have any other issue with the Staff's calculation?**

2 A. Yes. The Company does not believe the pay rate used by the Staff is
3 appropriate, though it does agree with the three job positions the Staff used in its wage
4 analysis. Based on a review of available regional wage information from 2012 for an
5 *experienced* employee in the three job positions the Staff used in its analysis and the CPI-W
6 data for June 2013, the Company believes an hourly pay rate of \$15.34 for Ms. Kallash is
7 appropriate. However, the Company also believes Ms. Kallash's pay rate should be further
8 adjusted to include the payroll taxes the Company would be paying if she was paid as a direct
9 employee, which would result in an hourly pay rate of \$16.51/hour.

10 **MANAGEMENT FEES (ANNUALIZED HOURS & PAY RATE)**

11 **Q. Please describe this issue and the Company's position.**

12 A. This issue relates to whether the services performed by Dennis Kallash should
13 be compensated through a flat "management fee" or whether he should be paid for the hours
14 he actually works.

15 The Company believes Mr. Kallash should be paid based upon the time he
16 spends working for the utility company and that he should be paid at a reasonable hourly
17 rate. In contrast, the Staff has simply continued the annual "management fee" of \$7,500 used
18 in the estimated cost-of-service calculation in the Company's certificate cases.

19 **Q. What services does Mr. Kallash perform for the Company?**

20 A. Mr. Kallash performs functions for the utility on a daily and monthly basis
21 that are too numerous to list but which include items such as responding to service-related
22 customer calls, performing the required water sampling, performing inspections of new

1 customer connections, monitoring the operation of the sewer and water systems, reading the
2 water meters, ordering field supplies, installing water meters, and being the Company's
3 contact person for dealings with the Commission and the Department of Natural Resources
4 (DNR). He has performed activities for utility systems for approximately 16 years.

5 **Q. What time does Mr. Kallash spend working on utility matters and what**
6 **would be an appropriate pay rate for Mr. Kallash?**

7 A. Based on a review of a Staff work paper related to the time Mr. Kallash
8 spends working for the Company, the Company believes he should be paid for 684 hours
9 annually (57 hours/month), which does *not* include water testing time. Further, based on a
10 review of available regional wage information from 2012 for experienced "general and
11 operations managers", and the CPI-W data for June 2013, the Company believes an hourly
12 pay rate of \$39.65 for Mr. Kallash is appropriate. However, the Company also believes Mr.
13 Kallash's pay rate should be further adjusted to include the payroll taxes the Company would
14 be paying if he was paid as an employee, which would result in an hourly pay rate of
15 \$42.68/hour.

16 **SLUDGE HAULING**

17 **Q. Please describe this issue and the Company's position.**

18 A. The issue here is whether the sludge hauling expense should be based on the
19 most recent actual costs for sludge hauling or a three year average for those costs.

20 For its calculation of this expense, the Staff has used an average of the most
21 recent three years of expenses. For the Rockport system, this calculation even included one
22 year for which the Company had no hauling expense, which occurred because the Company

1 was able to use a part of its sewage treatment plant for sludge holding. The Company
2 believes this expense should be set based on the gallons hauled and cost for hauling for the
3 most recent year that hauling information is available for each system (2012 for Bennington
4 and 2011 for Rockport).

5 **Q. Does the Company have plans to change its sludge hauling practices and**
6 **will those new practices affect its sludge hauling costs?**

7 A. Yes. Based on a recommendation from its certified sewage treatment plant
8 operator, the Company is implementing a program to haul sludge from its treatment plants on
9 a quarterly basis. As a result, the most recent annual sludge hauling costs will be more
10 reflective of the Company's costs as compared to the Staff's three-year average.
11 Additionally, per the operator's recommendation, the Company is implementing a program to
12 partially pump its sewage treatment plant clarifiers on a monthly basis, and this will result in
13 an additional expense of approximately \$200/month/plant.

14 **CAPACITY ADJUSTMENTS (ROCKPORT WATER & SEWER FACILITIES)**

15 **Q. Please describe this issue and the Company's position.**

16 A. The Rockport water and sewer facilities were built to serve the overall
17 development; however, the development has yet to fully build out. As a result, the Staff
18 implemented certain "capacity adjustments" in the cost-of-service calculations in the
19 Company's certificate cases, and based its capacity adjustments on estimated customer usage
20 amounts.

21

1 **Q. If capacity adjustments are made, is there a more appropriate way to**
2 **establish those adjustments?**

3 A. Yes. The Company's DNR permits for the Rockport water and sewer
4 facilities are essentially based on number of customers, which result from specific customer
5 usage amounts that are used in the design of the facilities. As a result, the Company believes
6 that any capacity adjustments for those facilities should be based on an analysis of the
7 number of customers that the facilities were designed/permitted to serve and the current
8 number of customers served. The Staff's estimated customer usage amounts are not
9 reflective of the terms of the DNR permits, nor are they reflective of the DNR's design
10 criteria. Using Staff's approach could result in an absurd situation where DNR requires
11 LCSW to construct additional facilities at the same time the Commission is not allowing the
12 Company to earn a return on its existing facilities.

13 **Q. What "design" customer numbers does the Company believe should be**
14 **used if capacity adjustments are made?**

15 A. For the water system, 120 customers should be used so far as the well is
16 concerned and 209 customers should be used so far as the storage tank is concerned. For the
17 sewage treatment plant, 209 customers should be used.

18 **Q. Are there any other factors that should be considered if capacity**
19 **adjustments are made?**

20 A. Yes. For adjustments related to the well, they should be limited to the
21 incremental costs of the pump and motor that are over and above the costs that would have
22 been experienced if "bare minimum" facilities had been installed.

1 **Q. How would the use of the above-noted customer numbers for calculating**
2 **the capacity adjustments affect the Staff's proposed adjustments?**

3 A. For the adjustment related to the well, the adjustment would be reduced from
4 87% to 40%. For the adjustment related to the water storage tank, the adjustment would be
5 reduced from 70% to 65.55%. For the adjustment related to the sewage treatment plant, the
6 adjustment would be reduced from 77% to 65.55%. Using the lower adjustment percentages
7 would still result in plant balances not being considered in the calculation of the Company's
8 rate base for these cases (i.e. – being held for future use), but the amount of those balances
9 would be significantly less.

10 **RATE BASE (BEGINNING BALANCES)**

11 **Q. Please describe this issue and the Company's position.**

12 A. As a part of the Company's certificate cases, a level of rate base was used as
13 the "starting balance" for the Company (including certain plant-held-for-future-use balances
14 discussed later). However, upon reviewing the information used to calculate that rate base
15 amount, it is clear that not all of the costs associated with the original construction of the
16 water and sewer facilities were used in arriving at that rate base amount. Examples of the
17 items for which costs were not included are: (1) engineering fees; (2) the structures that
18 house the wells and/or storage tanks; (3) the structures that house the sewage treatment plant
19 blowers; and (4) the base rock and concrete pads for the water storage tanks. The Company
20 believes that including these missing items (and the land for the treatment facilities as
21 previously discussed) is necessary to establish an accurate rate base for the Company.

1 **PLANT HELD FOR FUTURE USE / DEPRECIATION RESERVES (ROCKPORT**
2 **WATER & SEWER FACILITIES)**

3 **Q. Please describe this issue and the Company's position.**

4 A. As a part of the Company's certificate cases, and as a result of the afore-
5 mentioned capacity adjustments, certain amounts of the Company's plant in service balances
6 were identified as plant held for future use.

7 It is the Company's position that the balances identified as plant held for
8 future use should have been removed from plant in service before the plant depreciation
9 reserve calculation was done. However, it does not appear to the Company that the Staff did
10 this.

11 **Q. Why is Staff's approach inappropriate?**

12 A. Failure to remove the plant held for future use from plant in service prior to
13 calculating the depreciation reserve could result in the that plant being fully depreciated
14 before it is "placed in service" through growth in the customer base.

15 **RATE CASE EXPENSE (LEGAL FEES, CONSULTING FEES, OFFICE**
16 **PERSONNEL)**

17 **Q. Please describe this issue and the Company's position.**

18 A. The Company's prudently incurred legal fees and consulting fees related to
19 the resolution of its operating revenue increase requests, the cost of time spent directly on
20 rate case activities by office personnel other than Ms. Kallash, and the cost of time spent
21 directly on rate case activities by Mr. Kallash and Ms. Kallash should be included in
22 determining the Company's cost of service. For recovery of the total rate case expense
23 determined to be appropriate, the Company believes that no more than a 3-year amortization

1 should be used. At this point in time, the Staff's cost-of-service calculations do not include
2 any allowances for rate case expense.

3 **MISCELLANEOUS REVENUES (LATE FEES)**

4 **Q. Please describe this issue and the Company's position.**

5 A. This issue relates to the calculation of late fees to be included in the
6 calculation of the Company's revenues.

7 Based upon recent and known upcoming customer changes, the Company
8 believes the Staff's miscellaneous revenues related to late fees is overstated for both systems
9 and both services (by 11 accounts for Rockport and by 3 accounts for Bennington).

10 **VEHICLE EXPENSE (MILEAGE – MANAGER & OFFICE PERSONNEL)**

11 **Q. Please describe this issue and the Company's position.**

12 A. This issue relates to the calculation of the mileage expense to be included in
13 the calculation of the Company's cost of service.

14 For Ms. Kallash's annual mileage expense, the Staff uses 144 trips and 1
15 mile/trip in calculating its allowed expense. The Company agrees with the number of trips
16 the Staff used (an average of 12 "bank trips" per month); however, the round-trip mileage
17 from the Company's office to the bank is 6.2 miles.

18 For Mr. Kallash's annual mileage expense, the Staff assumes an average of 12
19 monthly master meter reading trips for the Bennington system and an average of 9 monthly
20 master meter readings for the Rockport system, during which it is assumed the customer
21 meters will be read. However, the Staff does not include any "miscellaneous" trips to the
22 systems for purposes such as customer trouble calls or service installation inspections. Based

1 on its current practices, the Company believes that an average of 14 monthly master meter
2 reading trips, during which customer meters would be read and required water sampling
3 would be done, and four "miscellaneous" monthly trips per system (2 per service) should be
4 used to calculate Mr. Kallash's annual mileage expense. For the miles/trip, the Company
5 agrees with the mileage used by the Staff.

6 **WATER TESTING EXPENSE**

7 **Q. Please describe this issue and the Company's position.**

8 A. This issue relates to the calculation of the water testing expenses to be
9 included in the calculation of the Company's cost of service. The Company believes this
10 expense should be set at an amount that properly reflects the actual cost of the "testing trips"
11 required annually.

12 **Q. What testing trips are required?**

13 A. It is the Company's position that there are 20 testing trips required, and that
14 the per trips costs are as follows: incremental mileage of 5 miles/trip above the mileage
15 accounted for elsewhere; incremental time of 2 hours/trip above the work hours accounted
16 for elsewhere; and miscellaneous supplies at \$5/trip. Based on these costs, the annual water
17 testing expense is approximately \$1,864. In contrast, the Staff has included \$360/year for
18 water testing as a part of its overall "management fee" allowance.

19 **ELECTRIC EXPENSE (ROCKPORT – AMERENMISSOURI RATE CHANGE)**

20 **Q. Please describe this issue and the Company's position.**

21 A. This issue relates to the calculation of the electric expenses to be included in
22 the calculation of the Company's cost of service for the Rockport sewer and water systems.

1 The Company's position is that the Rockport sewer and water systems' electric
2 expenses should be based upon an annualization of the systems' kilowatt hours usage and the
3 current rates being paid for the service. It appears to the Company that the Staff has
4 annualized the systems' monthly billed amounts, which does not accurately capture a recent
5 AmerenMissouri rate change.

6 **OFFICE SUPPLIES AND NON-BILLING POSTAGE (MAILING OF ANNUAL**
7 **CONSUMER CONFIDENCE REPORT)**

8 **Q. Please describe this issue and the Company's position.**

9 A. This issue relates to the calculation of the office supplies and non-billing
10 postage expenses to be included in the calculation of the Company's cost of service, with
11 specific reference to the Company's annual water system consumer confidence report.

12 The Company believes the costs related to the separate mailing of the
13 Company's DNR-required annual water system consumer confidence report (CCR) to its 122
14 customers should be included in the Company's cost of service. These costs include the
15 paper to produce the report (5 pages), ink to print the report, large envelopes in which to mail
16 the report and the postage for mailing the report. Sending the CCR to each of the customers
17 results in a total cost of approximately \$217 (\$56 for supplies and \$161 for postage). The
18 Staff's calculations of its office supplies and general postage expense items do not recognize
19 this mailing.

20

1 **TELEPHONE/INTERNET EXPENSES**

2 **Q. Please describe this issue and the Company's position.**

3 A. The Company believes the actual monthly cost of its telephone/internet
4 landline "bundle" (\$95) for the telephone at its utility office, and related fees, surcharges and
5 taxes, should be used in determining its cost of service. In contrast, the Staff has used a cost
6 for these items that is less than the actual cost.

7 **INCOME TAXES**

8 **Q. Please describe this issue and the Company's position on it.**

9 A. The issue here is whether the Company's cost of service should or should not
10 include income tax expenses because of its status as an LLC.

11 To the extent the return on equity identified in the cost-of-service calculations
12 would result in an income tax liability for the Kallash's as the members of the LLC, the
13 Company believes this tax liability should be included in determining its cost of service. The
14 Company does not believe it should be treated differently than other PSC-regulated utilities
15 in this regard simply because the tax liability accrues to the owners personally versus a
16 corporation. In the Company's view, the income tax calculation in this instance should differ
17 from the income tax calculation used for a corporation only in the tax rates used (i.e. –
18 personal vs. corporate).

**SCHEDULES FOR THE DIRECT
TESTIMONY OF DALE W. JOHANSEN
CASE NOS. SR-2013-0321 & WR-2013-0322**

Listing and Description of Schedules

- Schedule DWJ - 1: Education & Work Experience Summary
- Schedule DWJ - 2: List of Issues for Testimony
- Schedule DWJ - 3: Staff's Cost of Service Summary for Bennington Sewer
- Schedule DWJ - 4: Staff's Cost of Service Summary for Bennington Water
- Schedule DWJ - 5: Staff's Cost of Service Summary for Rockport Sewer
- Schedule DWJ - 6: Staff's Cost of Service Summary for Rockport Water

EDUCATION & WORK EXPERIENCE
SUMMARY FOR DALE W. JOHANSEN

COLLEGE EDUCATION

Associate of Arts in Pre-Engineering Studies
State Fair Community College – Sedalia, Missouri

Bachelor of Science in Agricultural Engineering
School of Engineering – University of Missouri @ Columbia

REGULATORY/UTILITY WORK EXPERIENCE

Johansen Consulting Services

Utility & Regulatory Consultant
October 2011 – Present

Missouri Public Service Commission

Gas Pipeline Safety Engineer
Energy Department – Gas Safety/Engineering
Utility Operations Division
September 2007 to September 2011

Manager - Water & Sewer Department

Utility Operations Division
June 1995 – August 2007

Johansen Consulting Services

Utility & Regulatory Consultant
March 1994 – May 1995

Missouri One Call System, Inc.

Executive Director
January 1992 – February 1994

Missouri Public Service Commission

Director of Utility Services Division

November 1990 – December 1991

Utility Division Case Coordinator

November 1987 – October 1990

Gas Pipeline Safety Program Manager

Gas Department – Utility Division
October 1980 – October 1987

Gas Pipeline Safety Engineer

Gas Department – Utility Division
May 1979 – September 1980

LIST OF ISSUES FOR TESTIMONY

Office Rent & Office Utilities

Meters/Meter installations

Meter Reading Device/Meter Reading Expenses

Billing & Collections (billing Program/billing Expenses)

Certificate Case Expense

Property & Liability Insurance

Treatment of Land

Administration & General Salary (annualized hours & pay rate)

Management Fees (annualized hours & pay rate)

Sludge Hauling

Capacity Adjustments (Rockport water & sewer facilities)

Rate Base (beginning balances)

Plant Held for Future Use / Depreciation Reserves (Rockport water & sewer facilities)

Rate Case Expense (legal fees, consulting fees, office personnel)

Miscellaneous Revenues (late fees)

Vehicle Expense (mileage – manager & office personnel)

Water Testing Expense

Electric Expense (Rockport – Ameren Missouri rate change)

Office Supplies and Non-Billing Postage (mailing of annual Consumer Confidence Report)

Telephone/Internet Expenses

Income Taxes

Lincoln County Sewer Water, LLC (Bennington Sewer)
 Informal Rate Case
 WR-2013-0322/SR-2013-0321
 Test Year Ending 12-31-2012
 Rate Design Schedule - Sewer

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
Rev-1	ANNUALIZED REVENUES					
Rev-2	Annualized Rate Revenues		(1) \$24,107			
Rev-3	Miscellaneous Revenues		(1) \$277			
Rev-4	TOTAL ANNUALIZED REVENUES		\$24,384			
1	OPERATIONS EXPENSES		(2)			
2	Management Salary		\$1,636	\$0	\$1,636	0.00%
3	Operators Salary / Contractor Services		\$5,548	\$0	\$5,548	0.00%
4	Electricity - Pumping Treatment		\$1,851	\$0	\$1,851	0.00%
5	Chemicals		\$306	\$0	\$306	0.00%
6	Sludge Removal		\$1,988	\$0	\$1,988	0.00%
7	TOTAL OPERATIONS EXPENSE		\$11,329	\$0	\$11,329	
8	MAINTENANCE EXPENSES					
9	Supplies Expense		\$23	\$0	\$23	0.00%
10	TOTAL MAINTENANCE EXPENSE		\$23	\$0	\$23	
11	CUSTOMER ACCOUNT EXPENSE					
12	Billing & Collections		\$407	\$0	\$407	0.00%
13	Office Supplies		\$20	\$0	\$20	0.00%
14	Postage Expense		\$16	\$0	\$16	0.00%
15	TOTAL CUSTOMER ACCOUNT EXPENSE		\$443	\$0	\$443	
16	ADMINISTRATIVE & GENERAL EXPENSES					
17	Administration & General Salaries		\$2,199	\$0	\$2,199	0.00%
18	Telephone & Pagers		\$302	\$0	\$302	0.00%
19	Vehicle Expense		\$315	\$0	\$315	0.00%
20	Property & Liability Insurance		\$96	\$0	\$96	0.00%
21	Rent		\$1,686	\$0	\$1,686	0.00%
22	Other Misc. Expenses		\$39	\$0	\$39	0.00%
23	TOTAL ADMINISTRATIVE AND GENERAL		\$4,637	\$0	\$4,637	
24	OTHER OPERATING EXPENSES					
25	MO DNR Fees		\$100	\$0	\$100	0.00%
26	PSC Assessment		\$970	\$0	\$970	0.00%
27	Corporate Registration		\$15	\$0	\$15	0.00%
28	Depreciation		\$3,236	\$0	\$3,236	0.00%
29	TOTAL OTHER OPERATING EXPENSES		\$4,321	\$0	\$4,321	
30	TAXES OTHER THAN INCOME					
31	Real & Personal Property Taxes		\$74	\$0	\$74	0.00%
32	TOTAL TAXES OTHER THAN INCOME		\$74	\$0	\$74	
33	TOTAL OPERATING EXPENSES		\$20,827	\$0	\$20,827	
34	Interest Expense		(3) \$682	\$0	\$682	0.00%
35	Return on Equity		(3) \$676	\$0	\$676	0.00%
36	Income Taxes		(3) \$0	\$0	\$0	0.00%
37	TOTAL INTEREST RETURN & TAXES		\$1,358	\$0	\$1,358	
38	TOTAL COST OF SERVICE		\$22,185	\$0	\$22,185	
39	Less: Miscellaneous Revenues		\$277	\$0	\$277	0.00%
40	COST TO RECOVER IN RATES		\$21,908	\$0	\$21,908	
41	INCREMENTAL INCREASE IN RATE REVENUES		-\$2,199			

Lincoln County Sewer Water, LLC (Bennington Sewer)
 Informal Rate Case
 WR-2013-0322/SR-2013-0321
 Test Year Ending 12-31-2012
 Rate Design Schedule - Sewer

A	B	C	D	E	F	
Line Number	Description	Account Number (Optional)	Staff Annualized	Customer Charge	Commodity	Percentage Rate
42	PERCENTAGE OF INCREASE		<u>-9.02%</u>			
43	REQUESTED INCREASE IN REVENUES		\$6,691			

- (1) From Revenue Schedule
- (2) From Expense Schedule
- (3) From PreTax Rate of Return Schedule, Rate Base & Return Schedule

Lincoln County Sewer Water, LLC (Bennington Water)
 Informal Rate Case
 WR-2013-0322/SR-2013-0321
 Test Year Ending 12-31-2012
 Rate Design Schedule - Water

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
Rev-1	ANNUALIZED REVENUES					
Rev-2	Annualized Rate Revenues		(1) \$18,018			
Rev-3	Miscellaneous Revenues		(1) \$277			
Rev-4	TOTAL ANNUALIZED REVENUES		\$18,295			
1	OPERATIONS EXPENSES		(2)			
2	Management Salary (1)		\$1,604	\$0	\$1,604	0.00%
3	Operators Salary/Contract Services (1)		\$900	\$0	\$900	0.00%
4	Electricity-(Pumping)		\$1,856	\$0	\$1,856	0.00%
5	Testing Expense		\$200	\$0	\$200	0.00%
6	TOTAL OPERATIONS EXPENSE		\$4,560	\$0	\$4,560	
7	MAINTENANCE EXPENSES					
8	Misc. Supplies		\$23	\$0	\$23	0.00%
9	TOTAL MAINTENANCE EXPENSE		\$23	\$0	\$23	
10	CUSTOMER ACCOUNT EXPENSE					
11	Billing & Collections		\$400	\$0	\$400	0.00%
12	Office Supplies		\$20	\$0	\$20	0.00%
13	Postage		\$13	\$0	\$13	0.00%
14	TOTAL CUSTOMER ACCOUNT EXPENSE		\$433	\$0	\$433	
15	ADMINISTRATIVE & GENERAL EXPENSES					
16	Administration & General Salary (1)		\$2,156	\$0	\$2,156	0.00%
17	Telephone & Pagers		\$296	\$0	\$296	0.00%
18	Vehicle Expense		\$309	\$0	\$309	0.00%
19	Property & Liability Insurance		\$179	\$0	\$179	0.00%
20	Building Rent		\$1,653	\$0	\$1,653	0.00%
21	Other Misc. Expenses		\$38	\$0	\$38	0.00%
22	TOTAL ADMINISTRATIVE AND GENERAL		\$4,631	\$0	\$4,631	
23	OTHER OPERATING EXPENSES					
24	PSC Assessment		\$53	\$0	\$53	0.00%
25	Corporate Registration		\$15	\$0	\$15	0.00%
26	Depreciation		\$6,032	\$0	\$6,032	0.00%
27	TOTAL OTHER OPERATING EXPENSES		\$6,100	\$0	\$6,100	
28	TAXES OTHER THAN INCOME					
29	Real & Personal Property Taxes		\$74	\$0	\$74	0.00%
30	TOTAL TAXES OTHER THAN INCOME		\$74	\$0	\$74	
31	TOTAL OPERATING EXPENSES		\$15,821	\$0	\$15,821	
32	Interest Expense		(3) \$1,838	\$0	\$1,838	0.00%
33	Return on Equity		(3) \$1,822	\$0	\$1,822	0.00%
34	Income Taxes		(3) \$0	\$0	\$0	0.00%
35	TOTAL INTEREST RETURN & TAXES		\$3,660	\$0	\$3,660	
36	TOTAL COST OF SERVICE		\$19,481	\$0	\$19,481	
37	Less: Miscellaneous Revenues		\$277	\$0	\$277	0.00%
38	COST TO RECOVER IN RATES		\$19,204	\$0	\$19,204	
39	INCREMENTAL INCREASE IN RATE REVENUES		\$1,186			
40	PERCENTAGE OF INCREASE		6.48%			
41	REQUESTED INCREASE IN REVENUES		\$3,785			

Schedule DWJ-4

~~Accounting Schedule-04~~
~~Sponsor: Water/Sewer Unit~~

Lincoln County Sewer Water, LLC (Bennington Water)
Informal Rate Case
WR-2013-0322/SR-2013-0321
Test Year Ending 12-31-2012
Rate Design Schedule - Water

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
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- (1) From Revenue Schedule
- (2) From Expense Schedule
- (3) From PreTax Rate of Return Schedule, Rate Base & Return Schedule

Lincoln County Sewer Water, LLC (Rockport Sewer)
 Informal Rate Case
 WR-2013-0322/SR-2013-0321
 Test Year Ending 12-31-2012
 Rate Design Schedule - Sewer

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
Rev-1	ANNUALIZED REVENUES					
Rev-2	Annualized Rate Revenues	(1)	\$29,436			
Rev-3	Miscellaneous Revenues	(1)	\$841			
Rev-4	TOTAL ANNUALIZED REVENUES		<u>\$30,277</u>			
1	OPERATIONS EXPENSES	(2)				
2	Management Salary		\$2,310	\$0	\$2,310	0.00%
3	Operators Salary / Contractor Services		\$4,800	\$0	\$4,800	0.00%
4	Electricity - Pumping Treatment		\$4,147	\$0	\$4,147	0.00%
5	Chemicals		\$190	\$0	\$190	0.00%
6	Sludge Removal		\$793	\$0	\$793	0.00%
7	TOTAL OPERATIONS EXPENSE		<u>\$12,240</u>	\$0	<u>\$12,240</u>	
8	MAINTENANCE EXPENSES					
9	Supplies Expense		\$33	\$0	\$33	0.00%
10	TOTAL MAINTENANCE EXPENSE		<u>\$33</u>	\$0	<u>\$33</u>	
11	CUSTOMER ACCOUNT EXPENSE					
12	Billing & Collections		\$381	\$0	\$381	0.00%
13	Office Supplies		\$20	\$0	\$20	0.00%
14	Postage Expense		\$15	\$0	\$15	0.00%
15	TOTAL CUSTOMER ACCOUNT EXPENSE		<u>\$416</u>	\$0	<u>\$416</u>	
16	ADMINISTRATIVE & GENERAL EXPENSES					
17	Administration & General Salaries		\$3,104	\$0	\$3,104	0.00%
18	Telephone & Pagers		\$427	\$0	\$427	0.00%
19	Vehicle Expense		\$445	\$0	\$445	0.00%
20	Property & Liability Insurance		\$58	\$0	\$58	0.00%
21	Rent		\$2,380	\$0	\$2,380	0.00%
22	Other Misc. Expenses		\$46	\$0	\$46	0.00%
23	TOTAL ADMINISTRATIVE AND GENERAL		<u>\$6,460</u>	\$0	<u>\$6,460</u>	
24	OTHER OPERATING EXPENSES					
25	MO DNR Fees		\$550	\$0	\$550	0.00%
26	PSC Assessment		\$1,369	\$0	\$1,369	0.00%
27	Corporate Registration		\$15	\$0	\$15	0.00%
28	Depreciation		\$2,275	\$0	\$2,275	0.00%
29	TOTAL OTHER OPERATING EXPENSES		<u>\$4,209</u>	\$0	<u>\$4,209</u>	
30	TAXES OTHER THAN INCOME					
31	TOTAL TAXES OTHER THAN INCOME		<u>\$0</u>	\$0	<u>\$0</u>	
32	TOTAL OPERATING EXPENSES		<u>\$23,358</u>	\$0	<u>\$23,358</u>	
33	Interest Expense	(3)	\$1,004	\$0	\$1,004	0.00%
34	Return on Equity	(3)	\$995	\$0	\$995	0.00%
35	Income Taxes	(3)	\$0	\$0	\$0	0.00%
36	TOTAL INTEREST RETURN & TAXES		<u>\$1,999</u>	\$0	<u>\$1,999</u>	
37	TOTAL COST OF SERVICE		<u>\$25,357</u>	\$0	<u>\$25,357</u>	
38	Less: Miscellaneous Revenues		<u>\$841</u>	\$0	<u>\$841</u>	0.00%
39	COST TO RECOVER IN RATES		<u>\$24,516</u>	\$0	<u>\$24,516</u>	
40	INCREMENTAL INCREASE IN RATE REVENUES		<u><u>-\$4,920</u></u>			
41	PERCENTAGE OF INCREASE		<u><u>-16.25%</u></u>			

Lincoln County Sewer Water, LLC (Rockport Sewer)
 Informal Rate Case
 WR-2013-0322/SR-2013-0321
 Test Year Ending 12-31-2012
 Rate Design Schedule - Sewer

A	B	C	D	E	F
Line Number	Account Number (Optional)	Staff Annualized	Customer Charge	Commodity	Percentage Rate
42	REQUESTED INCREASE IN REVENUES		\$6,691		

- (1) From Revenue Schedule
- (2) From Expense Schedule
- (3) From PreTax Rate of Return Schedule, Rate Base & Return Schedule

Lincoln County Sewer Water, LLC (Rockport Water)
 Informal Rate Case
 WR-2013-0322/SR-2013-0321
 Test Year Ending 12-31-2012
 Rate Design Schedule - Water

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
Rev-1	ANNUALIZED REVENUES					
Rev-2	Annualized Rate Revenues		(1) \$33,566			
Rev-3	Miscellaneous Revenues		(1) \$841			
Rev-4	TOTAL ANNUALIZED REVENUES		\$34,407			
1	OPERATIONS EXPENSES		(2)			
2	Management Salary (1)		\$2,310	\$0	\$2,310	0.00%
3	Operators Salary/Contract Services (1)		\$1,296	\$0	\$1,296	0.00%
4	Electricity-(Pumping)		\$1,727	\$0	\$1,727	0.00%
5	Testing Expense		\$200	\$0	\$200	0.00%
6	TOTAL OPERATIONS EXPENSE		\$5,533	\$0	\$5,533	
7	MAINTENANCE EXPENSES					
8	Misc. Supplies		\$33	\$0	\$33	0.00%
9	TOTAL MAINTENANCE EXPENSE		\$33	\$0	\$33	
10	CUSTOMER ACCOUNT EXPENSE					
11	Billing & Collections		\$381	\$0	\$381	0.00%
12	Office Supplies		\$20	\$0	\$20	0.00%
13	Postage		\$13	\$0	\$13	0.00%
14	TOTAL CUSTOMER ACCOUNT EXPENSE		\$414	\$0	\$414	
15	ADMINISTRATIVE & GENERAL EXPENSES					
16	Administration & General Salary (1)		\$3,104	\$0	\$3,104	0.00%
17	Telephone & Pagers		\$427	\$0	\$427	0.00%
18	Vehicle Expense		\$445	\$0	\$445	0.00%
19	Property & Liability Insurance		\$297	\$0	\$297	0.00%
20	Building Rent		\$2,380	\$0	\$2,380	0.00%
21	Other Misc. Expenses		\$46	\$0	\$46	0.00%
22	TOTAL ADMINISTRATIVE AND GENERAL		\$6,699	\$0	\$6,699	
23	OTHER OPERATING EXPENSES					
24	PSC Assessment		\$76	\$0	\$76	0.00%
25	Corporate Registration		\$15	\$0	\$15	0.00%
26	Depreciation		\$8,469	\$0	\$8,469	0.00%
27	TOTAL OTHER OPERATING EXPENSES		\$8,560	\$0	\$8,560	
28	TAXES OTHER THAN INCOME					
29	TOTAL TAXES OTHER THAN INCOME		\$0	\$0	\$0	
30	TOTAL OPERATING EXPENSES		\$21,239	\$0	\$21,239	
31	Interest Expense		(3) \$5,275	\$0	\$5,275	0.00%
32	Return on Equity		(3) \$5,228	\$0	\$5,228	0.00%
33	Income Taxes		(3) \$0	\$0	\$0	0.00%
34	TOTAL INTEREST RETURN & TAXES		\$10,503	\$0	\$10,503	
35	TOTAL COST OF SERVICE		\$31,742	\$0	\$31,742	
36	Less: Miscellaneous Revenues		\$841	\$0	\$841	0.00%
37	COST TO RECOVER IN RATES		\$30,901	\$0	\$30,901	
38	INCREMENTAL INCREASE IN RATE REVENUES		<u><u>-\$2,665</u></u>			
39	PERCENTAGE OF INCREASE		<u><u>-7.75%</u></u>			
40	REQUESTED INCREASE IN REVENUES		\$3,785			

Lincoln County Sewer Water, LLC (Rockport Water)
 Informal Rate Case
 WR-2013-0322/SR-2013-0321
 Test Year Ending 12-31-2012
 Rate Design Schedule - Water

	A	B	C	D	E	F
Line Number	Description	Account Number (Optional)	Staff Annualized	Customer Charge	Commodity	Percentage Rate

- (1) From Revenue Schedule
- (2) From Expense Schedule
- (3) From PreTax Rate of Return Schedule, Rate Base & Return Schedule