

**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) **File No. SR-2013-0321**
a Rate Increase)

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

LCSW'S STATEMENT OF POSITION

COMES NOW Lincoln County Sewer & Water, LLC (“LCSW” or “Company”) and,
as its Statement of Position, respectfully states as follows to the Missouri Public Service
Commission (“Commission”):

INTRODUCTION

LCSW was granted certificates of convenience and necessity to provide water
and sewer service by a Commission order issued on June 27, 2012 (Cases Nos. WA-
2012-0018 and SA-2012-0019). Its tariff sheets became effective for regulated service
on July 20, 2012.

LCSW operates water and sewer systems in two subdivisions in Lincoln County
– Bennington and Rockport. It serves approximately fifty (50) water customers and fifty-
one (51) sewer customers in Bennington and seventy-two (72) water and sewer
customers in Rockport. These four systems all have separate rates.

At the time LCSW received its certificates, there were no water meters in place at
either Bennington or Rockport. LCSW’s customers initially received all the water they
could use for a set price. This was a particular issue on the Bennington system which,

from time to time, could have capacity issues associated with the customers' usage patterns.

The installation of meters was a subject of the Stipulation and Agreement in the certificates cases. That Stipulation set a minimum numbers of meters to be installed on an annual basis going forward. LCSW decided to go ahead and install meters for all customers. This meter installation took place between July and September, 2012. It allowed the Company to bill all customers for their actual usage and has had positive effects from a conservation standpoint for the systems. Installing meters for all customers also eliminated any issues that might have resulted from why certain customers were or were not selected for various phases of meter installation.

According to the Company's records, the meters and meter installations cost approximately \$65,565 and represented a significant investment in the water systems by LCSW and its members. Accordingly, after the completion of the installation, LCSW consulted with the Staff's water and sewer department and then sent a letter to the Commission initiating small water and sewer rate cases on December 4, 2012, in an attempt to recognize its investment in rates.

LCSW ran into issues trying to work with Staff early in this process. After the Company determined it would be unable to reach an agreement with Staff, it engaged the undersigned counsel and a consultant, LCSW witness Dale Johansen, in an attempt to reach a result that recognizes the investment that has been made in these systems and the expenses and work that is required to provide water and sewer service to the LCSW customers. Only with the filing of rebuttal testimony did the Staff take a position in favor of including LCSW's meter investment in rate base. OPC continues to oppose.

LCSW has spent what is a significant amount of time attempting to work its way through the Commission's rate case process. It is the Company's hope that the Commission will use this process to issue an order that insures the viability of this small water and sewer utility and does not force this company toward receivership.

In the following section of this document, LCSW will set forth a brief statement of position in regard to each of the issues that were identified on the Joint List of Issues, Order of Witnesses, Order of Cross-Examination and Order of Opening Statements document that was filed by the parties on October 25, 2013.

ISSUES AND COMPANY POSITIONS

1. Meters/Meter Reading

- a. What is the appropriate amount, if any, to include in rates for the purchase, installation, and operation and maintenance of the Company's automated meters?
- b. If the automated meter costs are not included in rates, what amount of non-automated meter purchase, installation, and operation and maintenance costs should be included in rates?
- c. If the automated meter costs are not included in rates, what amount of meter reading costs should be included in rates?

LCSW Position: As a result of LCSW's certificate cases that were completed in mid-2012, the Company agreed to install meters in its two water systems. In lieu of a multi-year approach that would have resulted in some customers being metered and others not being metered, the Company decided to install meters in both systems as a single project. The costs of that project were as follows: 1) – Meters - \$32,867; and 2) Parts & Installations - \$32,698.

The Company chose to install remote-read meters. These meters have advantages over other meters in that they provide the ability to determine whether there is unusual customer usage (either continuous or intermittent) such as might be caused

by a leak on customer facilities; the ability to identify backflow through the meter; the ability to produce a 96-day record of customer usage; and the ability to identify days during which a customer had zero usage. All of these features can be advantageous to the customers and have in fact resulted in savings to the customers by identifying leaks on customer facilities.

As a part of installing the remote-read meters it chose to install, the Company needed to purchase a remote meter reading device. The Company believes the actual cost of its remote meter reading device and the training associated with that device is reasonable and necessary and should be included in plant in service and used in determining its cost of service. The meter reading device cost \$9,438 and training regarding the use of the device cost \$1,500.

If the Commission does not include the costs associated with the remote-read meters and the meter reading device, as an alternative, meter reading expenses should be calculated at \$2.75/meter/month, based on the bid LCSW received for such services.

Johansen, Dir., pp. 3-6; Sur., pp. 2-4.
Kallash, Reb., p. 4.

2. Billing Program & Billing Expenses

- a. What is the appropriate amount to include in rates for the Company's billing program?
- b. If the billing program is not included in rates, should additional payroll expenses be included for billing and related activities?

LCSW Position: The billing program purchased by the Company is independently used and useful in the Company's operations and is not exclusively related to the Company's remote-read meters. For example, the billing program is used to create the Company's monthly bills, track customer payments, track the status of customer accounts, create late notices, calculate late fees, create disconnect and reconnect orders, and create

disconnect letters. Additionally, the billing program is used as a data base for customer contact info, account history, water usage history, service locations, and meter information (install date, size, serial number, etc.). As a result, the Company believes the billing program cost (\$3,745.00) should be included in plant in service and appropriate depreciation expense and taxes added to cost of service regardless of what conclusion the Commission reaches in regard to the type of meters the Company installed.

In the alternative, if the Company's billing program is not included in plant in service, there should be a recognition of the additional costs associated with the fact that, in the absence of the billing program, the Company would be required to manually prepare its bills, manually track customer payments, manually track the status of customer accounts, manually create late notices, etc. *If the billing program is not included in plant in service*, the Company believes an additional 12 hours/month should be added when annualizing the payroll expense for LCSW office personnel.

Johansen, Dir., pp. 6-7; Sur., pp. 4-5.

3. Land Ownership and Valuation

- a. Should the value of the land on which the Company's facilities are situated be included in rate base for the Company?
- b. If so, what is the value of that land?

LCSW Position: LCSW has obtained ownership of the land in Bennington and Rockport that includes the lot where the sewage treatment plants sit. The value of this land is \$20,000 for the Bennington system and \$38,000 for the Rockport system. The value of the land should be included in the Company's rate base.

Johansen, Dir., pp. 8-9
Kallash, Sur., pp. 8-9.

4. Rate Base

- a. What are the appropriate beginning balances for the Company's rate base?

LCSW Position: Mr. Johansen's review of the beginning balances reflected in the Company's certificate cases reveals that not all of the costs associated with the original construction of the water and sewer facilities were used in arriving at that rate base. This includes the costs associated with: (1) engineering fees; (2) the structures that house the wells and/or storage tanks; (3) the structures that house the sewage treatment plant blowers; and, (4) the base rock and concrete pads for the water storage tanks. Including these items is necessary to establish an accurate rate base for the Company.

Johansen, Dir., p. 14; Sur., p. 12.
Kallash, Reb., pp. 5-6.

5. Capacity Adjustments (Rockport)

- a. What should be the adjustment to rate base for excess capacity in the Company's Rockport facilities?

LCSW Position: Staff proposes capacity adjustments related to the well pump, storage tank and sewer treatment facility found in the Rockport subdivision. The elements of LCSW's Rockport water and sewer systems are in service and used and useful. There is no allegation that the initial construction of these facilities was not prudent. Under a traditional review of utility construction, these investments would be appropriate for rate base. However, Staff proposes "capacity adjustments" based on its position that these facilities are "oversized for present use."

If capacity adjustments are made, a more appropriate way to make these adjustments is the approach described by LCSW witness Johansen. Mr. Johansen computed capacity adjustments based on an analysis of the number of customers that

the facilities were designed/permitted to serve and the current number of customers served. Using Staff's approach could result in an absurd situation where the State of Missouri, with one hand (the Department of Natural Resources) requires LCSW to construct additional facilities, while at the same time its other hand (this Commission) decides that the Company may not earn a return on or of these same facilities. It also involves a hindsight analysis based on information far beyond that which was available when the facilities were constructed.

Using Mr. Johansen's approach to capacity adjustment, results in the following changes to Staff's case: (1) For the adjustment related to the well, the adjustment would be reduced from 87% to 40%; (2) For the adjustment related to the water storage tank, the adjustment would be reduced from 70% to 65.55%; and, (3) For the adjustment related to the sewage treatment plant, the adjustment would be reduced from 77% to 65.55%. This approach would still result in plant balances not being considered in the calculation of the Company's rate base for these cases (i.e. – being held for future use). However, the amount of the balances would more appropriate than the Staff proposal.

Johansen, Dir., pp. 12-14; Sur., pp. 10-12.

6. Plant Held for Future Use

- a. Should the capacity adjustment to rate base be recorded as plant held for future use?

LCSW Position: In the Stipulation and Agreement in Company's certificate cases (Cases Nos. WA-2012-0018 and SA-2012-0019), plant in place, but deemed subject to Staff's capacity adjustment, was identified as "plant held for future use." To the extent rate base items in that stipulation are found to be controlling in this case, the designation in that Stipulation of certain of the Company's plant as "plant held for future

use,” should also be controlling. LCSW takes the position that the balances identified as plant held for future use should have been removed from plant in service before the plant depreciation reserve calculation was done. Failure to do so will result in a certain amount of plant being depreciated before the Company ever has an opportunity to earn either a return of or a return on that depreciated plant through growth in the customer base.

Johansen – Dir., p. 15.

7. Depreciation Rates

- a. What is the appropriate depreciation rate for the Company’s submersible pumping equipment account on the Bennington system?
- b. Should the Commission order adjustments to the accumulated depreciation for the Bennington submersible pump account?

LCSW Position: LCSW supports Staff’s depreciation rates and depreciation reserve calculation, other than the above issue associated with plant held for future use.

Johansen, Dir.

8. Rate Case Expense

- a. What is the appropriate amount of rate case expense to include in the Company’s rates?

LCSW Position: The Company is incurring rate case expense in order to bring the matters in dispute before the Commission. These expenses are reasonable.

Accordingly, an allowance for rate case expense should be included in the rate to be set in this proceeding. The Commission should bring these expenses forward to a date that will allow the majority of costs to be captured in the Commission’s order. Recently, in the Emerald Pointe rate case, the Commission recognized that many of a company’s rate case expenses are not incurred until the hearing and will continue to accumulate even after the Commission issues its report and order. Accordingly, in that case, the

Commission used a cut-off date that was one week after the filing of post-hearing briefs. A similar approach in this case would result in a cut-off date for rate case expenses of November 29, 2013.

Johansen, Dir., pp. 15-16; Sur., p. 13.

9. Certificate Case Expense

- a. What is the appropriate amount of costs related the Company's certificate cases to include in the Company's rates?

LCSW Position: LCSW's expenses associated with its certificate cases should be included as "Intangible Plant" in "Account 302 – Franchises and Consents," and considered organization costs and included in rate base or amortized over a reasonable period of time. These expenses were necessary and reasonable expenses incident to procuring the certificates of convenience and necessity that provide the basis for LCSW's activities as a regulated entity.

Johansen, Dir., p. 8; Sur., pp. 5-7.

10. Office Rent/Office Utilities

- a. What is the appropriate amount of expense to include in rates for the Company's office space, including rent and utilities?

LCSW Position: The Company has dedicated office space for LCSW in order to separate its utility operations from other businesses. The actual rent and related expenses, such as utilities, associated with this office space should be used in determining the Company's cost of service, as opposed to the hypothetical amounts used by the Staff and Public Counsel witnesses.

The size, location, available parking and the opportunity to maintain a drop box for customer payments, all make the Company's facility an appropriate space for LCSW's operations. The rent of \$950/month, as well as the actual utility expenses of

\$85/month for electric and \$65/month for water – should be included in LCSW’s cost of service.

Johansen, Dir., p. 3.
Kallash, Sur., pp. 2-8.

11. Property/Liability Insurance

- a. What is the appropriate amount of expense to include in rates for property or liability insurance?

LCSW Position: LCSW’s cost of service should include all property and liability insurance premiums incurred by the Company at the cost of \$630/year and \$1,115/year.

Johansen, Dir., p. 8.

12. Income Taxes

- a. Is it appropriate to include income tax expense in the Company’s cost of service?

LCSW Position: Although LCSW does not file its own income tax return, income tax associated with its utility operations are still incurred by the Company’s members. An income tax calculation for LCSW should differ from the corporate income tax calculation used by the Commission only in the tax rate utilized. Accordingly, income taxes should be computed at a rate of at least 16% (a combination of the minimum Federal and State individual income tax rates). Ignoring this expense serves to punish the Company’s members for utilizing a corporate structure that is advantageous to its customers and ensures that the members will not have a reasonable opportunity to earn a fair return on their investment identified in the Staff’s recommendation.

Johansen, Dir., p. 19; Sur., pp. 16-17.
Kallash, Sur., pp. 13-14.

13. Salaries – Dennis and Toni Kallash

- a. What is the appropriate level of salary to include in rates for Dennis Kallash?
- b. What is the appropriate level of salary to include in rates for Toni Kallash?

LCSW Position:

a. Dennis Kallash

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

Mr. Kallash performs many functions for the utility on a daily and monthly basis to include items such as responding to service-related customer calls, performing the required water sampling, performing inspections of new customer connections, monitoring the operation of the sewer and water systems, reading the water meters, ordering field supplies, installing water meters, and being the Company's contact person for dealings with the Commission and the Department of Natural Resources. He has performed activities for utility systems for approximately 16 years. Mr. Kallash's Company activities take a minimum of 684 hours annually (57 hours/month) (which does *not* include water testing time).

Further, based on a review of available regional wage information from 2012 for experienced "general and operations managers", and the CPI-W data for June 2013, the Company believes an hourly pay rate of \$39.65 for Mr. Kallash is appropriate. However, the Company also believes Mr. Kallash's pay rate should be further adjusted to include the payroll taxes the Company would be paying if he was paid as an employee, which would result in an hourly pay rate of \$42.68/hour.

b. Toni Kallash

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

The Company believes the Staff's annualization of Ms. Kallash's work hours understates the hours she works because it includes two months that are clearly not reflective of the time that Ms. Kallash spends on utility-related work. The Company takes the position that a monthly average of 87 hours should be used in lieu of the Staff's monthly average of 66 hours. These hours do not include consideration of the billing expenses issue discussed previously.

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

Johansen, Dir., pp. 9-11; Sur., pp. 7-9.
Kallash, Sur., pp. 9-12.

14. Mileage

- a. What is the appropriate amount of expense to include in rates for vehicle mileage?

LCSW Position: Company witness Johansen has calculated that the Company is incurring mileage and, thus, vehicle expense in the amount of \$504, for Ms. Kallash and \$2,572, for Mr. Kallash, on an annual basis. For Ms. Kallash's mileage the Company's position is based on the number of "bank" trips identified by the Staff and the round trip mileage from the Company's office to the bank. For Mr. Kallash's mileage the Company's position is based on the minimum number of trips Mr. Kallash makes to the systems on a routine basis and the relevant mileages for such trips identified by the Staff.

Johansen, Dir., pp. 16-17; Sur., pp. 13-14.
Kallash, Reb., pp. 9-10; Sur., pp. 15-16.

15. Testing

- a. What is the appropriate amount of expense to include in rates for water testing?

LCSW Position: Staff's water testing expense should be increased by \$1,504 on an annual basis in order to address the expenses specifically associated with the water testing required by the Department of Natural Resources and performed by LCSW. The Company's adjustment to the Staff's recommended amount of \$360 annually is based on the incremental time and mileage expenses related to the testing trips the Company makes to the systems and the Company's estimate of the supplies used to perform the required system tests.

Johansen, Dir., p. 17; Sur., pp. 14-15.

16. Sludge Hauling

- a. What is the appropriate amount of expense to include in rates for sludge hauling?

LCSW Position: Based on a recommendation from its certified sewage treatment plant operator, LCSW has implemented a program to haul sludge from its treatment plant on a quarterly basis. As a result, the most recent annual sludge hauling costs are more reflective of the Company's costs going forward than the three-year average used by the Staff. Further evidence of the inappropriate nature of the Staff average is the fact that in one of the years used by Staff there was no sludge hauling expense as the Company used a part of its sewage treatment plant (a part whose costs the Staff recommends not be included in rate base) for sludge holding. Additionally, to comply with the operator's recommendation, LCSW has implemented a program to pump its sewage treatment plant clarifiers on a monthly basis at an additional cost of approximately \$200/month/plant.

Johansen, Dir., pp. 11-12; Sur., pp. 9-10.
Kallash, Reb., p. 10; Sur., pp. 14-15.

17. Office Supplies and Postage (Mailing of Consumer Confidence Report)

What is the appropriate amount of expense to include in rates for office supplies and postage in regard to the mailing of the Consumer Confidence Report?

LCSW Position: LCSW is required by the Department of Natural Resources (DNR) to provide each of its customers with its annual consumer confidence report. LCSW has difficulty mailing the report in its regular billing envelope and the report is not always received from DNR in conjunction with the Company's billing cycle. Therefore, LCSW provides the report to its customers by separate mailing. The Company's cost of service should include the costs associated with this separate mailing (\$217 - \$56 for supplies and \$161 for postage).

Johansen, Dir., p. 18.
Kallash, Sur., pp. 16-17.

18. Late Fees

- a. What is the appropriate amount of revenue to include in rates for late fees?

LCSW Position: Based on known changes in specific customers, Staff’s miscellaneous revenues related to late fees is overstated by 11 accounts for Rockport and by 3 accounts for Bennington.

Johansen, Dir., p. 16.

19. Telephone and Internet

- What is the appropriate amount of expense to include in rates for telephone and internet usage?

LCSW Position: The Company’s actual monthly cost of its telephone/internet landline “bundle” for the telephone at its utility office (and related monthly charges, fees, surcharges and taxes) should be used in determining its cost of service. The net cost of the telephone/internet landline bundle is \$95/month and the related monthly charges, surcharges, taxes and fees are \$33.65/month.

Johansen, Dir., p. 19; Sur., p. 16.

20. Electricity Expense (Operations)

- What is the appropriate amount of expense to include in rates for electricity related to the Rockport well and sewage treatment plant?

LCSW Position: The expense for Rockport should be calculated based on an annualization of the systems’ kilowatt hours usage and the current rates being paid for the service. This is because the service for the Rockport water and sewer systems is provided by Ameren Missouri. Ameren Missouri instituted a rate increase as of January 2, 2013. Accordingly, an annualization of the systems’ monthly billed amounts would not capture that increase and would necessarily result in a shortage of electric expense for LCSW on day 1 of its new rates.

Johansen, Dir., pp. 17-18; Sur., pp. 15-16.

21. EMSU Staff Recommendations

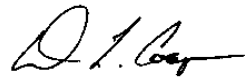
Should the Company continue to implement the recommendations of Staff's EMSU unit regarding time sheets, vehicle logs, estimation procedures, after-hours availability, and distribution of customer rights information?

LCSW Position: LCSW has agreed to most of these items previously, implemented the recommendations of Staff's EMSU unit and will agree to continue to comply with those recommendations and work with Staff in the future as to these issues.

Kallash, Sur., pp. 17-18.

WHEREFORE, LCSW respectfully requests that the Commission consider this Statement of Position.

Respectfully submitted,



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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or by electronic mail to all counsel of record on this 30th day of October, 2013.

