

Exhibit No.: _____
Issue: Plant Balances
CIAC
Witness: Joe W. Conner
Type of Exhibit: Surrebuttal
Sponsoring Party: Silverleaf Resorts, Inc.
Case No.: WO-2005-0206
Date Testimony Prepared: July 11, 2005

MISSOURI PUBLIC SERVICE COMMISSION

SILVERLEAF RESORTS, INC.

CASE NO. WO-2005-0206

SURREBUTTAL TESTIMONY OF

JOE W. CONNER

Jefferson City, Missouri

July 11, 2005

1 WITNESS INTRODUCTION

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

4 A. My name is Joe W. Conner and my business address is 1221 River Bend Drive,
5 Suite 120, Dallas, Texas 75247.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by Silverleaf Resorts, Inc. as Chief Operating Officer.

8 **Q. ARE YOU THE SAME JOE CONNER THAT PREVIOUSLY PREPARED**
9 **AND FILED DIRECT TESTIMONY IN THIS CASE?**

10 A. Yes, I am.

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 A. The purpose of my testimony is to address the plant balance and contributions in
13 aid of construction issues raised by Commission Staff witnesses Dale W.
14 Johansen and Graham A. Vesely.

15 PLANT BALANCES

16 **Q. BOTH STAFF WITNESS DALE W. JOHANSEN AND STAFF WITNESS**
17 **GRAHAM A. VESELY ASK THE COMMISSION TO ESTABLISH**
18 **ACCOUNT BALANCES FOR PLANT IN SERVICE, ACCUMULATED**
19 **DEPRECIATION RESERVES, CIAC AND RATE WITHIN THE**
20 **CONTEXT OF THIS CASE. WHERE WOULD THESE BALANCES**
21 **MORE COMMONLY BE ADDRESSED?**

22 A. They would be most relevant in a rate case.

1 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THESE ISSUES**
2 **IN A SILVERLEAF RATE CASE?**

3 A. No.

4 **Q. WHY NOT?**

5 A. Silverleaf has never been a part of a formal rate case.

6 **Q. PLEASE DESCRIBE SILVERLEAF'S RATE CASE HISTORY.**

7 A. Silverleaf initiated a small company rate case in 1998 that resulted in the current
8 water and sewer rates. Silverleaf later submitted another small company rate case
9 request on August 3, 2000. On April 26, 2002, the Commission Staff filed a
10 motion asking for permission to begin an Earnings Investigation (Commission
11 Cases Nos. WO-2002-1040 & SO-2002-1039). The Commission later issued an
12 order directing that such earning investigations take place.

13 On November 7, 2002, Silverleaf received correspondence from Regulatory
14 Auditor Graham Vesely requesting information to begin the earnings investigation
15 and to process the 2000 request for rate increase. The information requested was
16 for the 12-month period ended Sept 30, 2002.

17 On November 30, 2003, a final order was issued closing the Earnings
18 Investigations based upon Staff's suggestion that Silverleaf was under-earning
19 between its water and sewer operations by a net amount of approximately
20 \$7,000.00.

21 **Q. WAS THERE ANY MENTION OF SILVERLEAF'S 2000 REQUEST FOR**
22 **A RATE INCREASE IN THE COMMISSION'S ORDER?**

23 A. No.

1 **Q. HAS SILVERLEAF MADE A MORE RECENT ATTEMPT TO INITIATE**
2 **A RATE CASE?**

3 A. Yes. On December 30, 2003, Silverleaf sent correspondence to the Commission
4 again requesting a rate increase and to treat the Timber Creek Resort system as a
5 private utility, as was previously suggested by the Commission Staff. This letter
6 was returned to Silverleaf as being in an unacceptable format for such request.
7 Silverleaf re-sent its request on April 12, 2004 using the Commission's preferred
8 format. On April 23, 2004, Silverleaf received notification from the Commission
9 that because it did not request a specific dollar amount, no further action would be
10 taken on Silverleaf's request.

11 Since that time, Silverleaf has not made any further requests to the PSC for rate
12 increase or a change in status for Timber Creek Resort.

13 **Q. IN LIGHT OF THIS RATE HISTORY AND THE STATUS OF THIS**
14 **CASE, IS IT APPROPRIATE TO TRY AND DETERMINE THE PLANT**
15 **BALANCES IDENTIFIED BY STAFF WITHIN THIS CASE?**

16 A. No. I do not believe that there has been a meaningful and reasonable process by
17 which a determination has been made that could have been reflected in the
18 accounts of Silverleaf respecting any amounts -- be it depreciation, used and
19 useful assets, CIAC, efficiently installed assets (Well#2) or any related matter --
20 through the informal rate case process in 1998, the Staff initiated earnings
21 investigation in 2002, or otherwise. Silverleaf has not accepted most of the
22 positions and amounts Staff has proposed and hence it cannot reasonably be
23 expected that these should somehow have been acceptable to Silverleaf and have

1 been reflected in the books and of the utility. Silverleaf has consistently rejected
2 Staff’s position on these matters and has therefore not taken its recommendation.

3 **Q. WHERE COULD THESE ISSUES BE ADDRESSED?**

4 A. The most appropriate place to make these types of determinations would be in a
5 formal rate case – something that Algonquin has agreed to initiate after its
6 acquisition of the properties in question.

7 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

8 **Q. STAFF WITNESS VESELY IDENTIFIES IN HIS REBUTTAL**
9 **TESTIMONY APPROXIMATELY \$1,351,550 OF UTILITY PLANT THAT**
10 **HE BELIEVES SHOULD BE IDENTIFIED AS CUSTOMER**
11 **CONTRIBUTION OR CIAC. WHAT DOES THIS AMOUNT**
12 **REPRESENT?**

13 A. The entire \$1,351,550 represents money invested by Silverleaf in utility plant for
14 the development of the water or wastewater systems. There is no “third party”
15 investment involved. These investments have consistently been recorded on
16 Silverleaf’s books as an asset of the utility. Thus, Silverleaf does not agree with
17 the assertion that Silverleaf (the utility) has received either cash contributions or
18 asset contributions from Silverleaf (the developer) that should be identified as
19 CIAC.

20 **Q. WOULD YOU AGREE THAT OTHERS MIGHT DIFFER?**

21 A. Yes. Silverleaf understands the concept and recommended accounting treatment
22 of CIAC. Silverleaf would assume that during a formal rate case, this type of
23 issue could be litigated. The ultimate decision as to what is and is not CIAC

1 could then be recorded in the accounts of the utility. However, absent such a
2 process, Silverleaf cannot accept the amount that Staff has insisted be treated as
3 CIAC.

4 **Q. STAFF WITNESS VESELY RECOMMENDS ON PAGE 14 OF HIS**
5 **REBUTTAL TESTIMONY THAT “CIAC BE ASSIGNED A BOOK**
6 **VALUE OF ZERO IN DETERMINING ANY ACQUISITION PREMIUM”**
7 **AND ALLEGES THAT STAFF “HAS IDENTIFIED AN ACQUISITION**
8 **PREMIUM OF \$2,345,600” (P. 6). WHAT WOULD BE THE RESULT OF**
9 **THESE RECOMMENDATION TAKEN IN COMBINATION?**

10 A. The net result would a negative rate base, which is clearly incorrect. The CIAC
11 value identified by Staff as \$1,351,550 cannot be correct as it is equal to the net
12 book value of Silverleaf’s entire investment in the Pipes Mains and Services
13 Account/category (i.e. Silverleaf’s entire investment in any and all pipes and
14 services at all the resorts in Missouri). CIAC cannot be equal to that amount
15 because some items in the Pipes Mains and Services category would most
16 certainly qualify as rate base under any approach. This issue would be well suited
17 for a general rate case after the proposed acquisition.

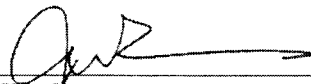
18 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

19 A. Yes.

AFFIDAVIT

STATE OF Texas)
)
COUNTY OF DALLAS) ss

I, Joe W. Conner, state that I am employed by Silverleaf Resorts, Inc. as its Chief Operating Officer; that the Surrebuttal Testimony attached hereto has been prepared by me or under my direction and supervision; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief.



Joe W. Conner

Subscribed and sworn to before me this 11 day of July, 2005.



Notary Public

My Commission Expires:

