

Exhibit No.:
Issue: *Rate Case Expense*
Witness: *"Kofi" A. Boateng*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case Nos.: *WR-2006-0425 and*
SR-2006-0426 (Consolidated)
Date Testimony Prepared: *January 12, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

"KOFI" AGYENIM BOATENG

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

**CASE NOS. WR-2006-0425 & SR-2006-0426
(Consolidated)**

Jefferson City, Missouri
January 2007

****Denotes Highly Confidential Information****

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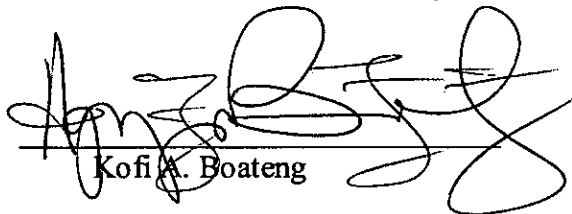
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing)	
Algonquin Water Resources of Missouri, LLC)	
to Implement a General Rate Increase for)	Case Nos. WR-2006-0425 and
Water and Sewer Service Provided to)	SR-2006-0426 (Consolidated)
Customers in Its Missouri Service Areas.)	

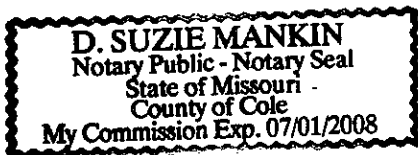
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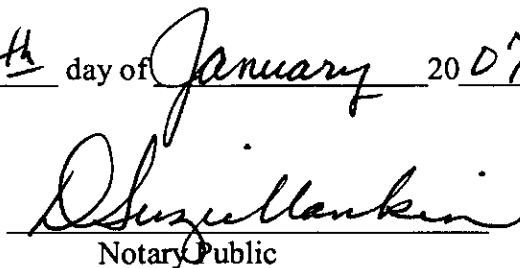
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Kofi A. Boateng, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 11 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Kofi A. Boateng

Subscribed and sworn to before me this 11th day of January 2007.




Notary Public

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OF
"KOFI" A. BOATENG
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(Consolidated)

EXECUTIVE 1

RATE CASE EXPENSE 2

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OF

"KOFI" A. BOATENG

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

CASE NOS. WR-2006-0425 & SR-2006-0426

(Consolidated)

Q. Please state your name and business address.

A. "Kofi" Agyenim Boateng, Governor Office Building, P. O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Are you the same Kofi A. Boateng who has previously filed Direct and Rebuttal Testimony in Case No. WR-2006-0425?

A. Yes.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my testimony is to respond to the Rebuttal Testimony of Algonquin Water Resources of Missouri, LLC's (Algonquin or Company) witness Larry W. Loos with regard to rate case expense.

EXECUTIVE SUMMARY

Q. Please briefly summarize your Surrebuttal Testimony pertaining to this rate case.

1 A. The Staff in this Surrebuttal Testimony addresses its concern why Algonquin
2 filed this formal rate case when the Commission has developed procedures to allow qualified
3 utilities under its jurisdiction, such as Algonquin, to seek rate relief using the small company
4 rate increase procedures.

5 The Company should have filed its first rate case since purchasing the properties from
6 Silverleaf Resorts, Inc. (Silverleaf) in August 2005, by using the small company rate increase
7 procedures, to save time and expense. Algonquin hired a consultant and incurred legal fees to
8 process this rate case, incurring substantial costs to bring this rate increase application before
9 the Commission.

10 Algonquin says it needs to increase its sewer revenues by \$18,000 and its water
11 revenues by \$27,000 just to recover its rate case expense. See page 2, line 19 of Mr. Loos'
12 Rebuttal Testimony. These amounts were determined by using total projected costs for rate
13 case expense of \$225,000 amortized over a 5-year period.

14 If the Company had filed a small company rate increase case, and if the outcome was
15 not acceptable to it, the Company could then have chosen to file a request using the traditional
16 formal rate case procedures of the Commission. Staff believes that the filing of this formal
17 rate increase request was premature, since the Company admits that at the time of its filing it
18 lacked complete and consistent information upon which to base future rates.

19 **RATE CASE EXPENSE**

20 Q. Did Mr. Loos' testimony address the test year data concerns?

21 A. Yes. In his Direct Testimony, Mr. Loos discussed the test year period
22 operations on page 29 as follows:

1 Q. Are there challenges in using the twelve month period ended
2 September 30, 2005 as the test period?

3
4 A. Yes, there are. Some challenges include:

- 5 1) This is the first rate case filed by Algonquin in Missouri.
6 2) This is the first full rate case filed in connection with this
7 property.
8 3) Since Algonquin started operating the systems in August
9 2005, operating expense is not available specific to Algonquin.
10 4) There are a number of perceived deficiencies or limitations
11 associated with operating data maintained by Silverleaf.
12 However, this is the only data available.

13 Responding to the same issue in his Rebuttal Testimony on page 3, Mr. Loos states:

14 Q. Do you believe the lack of Company specific data poses a problem as
15 suggested by Mr. Boateng?

16
17 A. No, I do not. The fact that the September 30, 2005 test year
18 represented ten and one-half months of Silverleaf operations and one
19 and one-half month months of Algonquin operation does not represent
20 a barrier to developing a reasonable measure of test period operations
21 for rate case purposes. Since the Company updated its original filing in
22 its entirety to reflect September 30, 2006 operations, the test year
23 ultimately used by the Company reflects a full year's operations by
24 Algonquin.

25 Mr. Loos recognized the difficulty the Company had in developing a rate case using two sets
26 of books – one from the previous owner, Silverleaf, and another from the current owner,
27 Algonquin.

28 Q. Mr. Loos explained in his Rebuttal Testimony on page 3, lines 18-21, that the
29 test year Algonquin ultimately used reflects one full year of the Company's operations, since
30 it updated its case filing to September 30, 2006. Do you agree?

31 A. No, I do not. Even though Algonquin submitted an updated case based on one
32 full year of operations, this update did not update the test year or otherwise change the nature
33 of the test year. The difficulty that both Algonquin and Staff had in piecing together the test
34 year caused much delay in the rate case process. Merging the seller's operating results with

1 one and one-half months of the buyer's operating results is not easy or straightforward.
2 Accounting records used by each of the two entities do not match up, so cost categories had to
3 be identified and merged together to arrive at a full twelve months of operating data, just to
4 develop the starting point. The hardest part of this process was acquiring the necessary
5 information from the records of both Algonquin and Silverleaf.

6 Q. Did Algonquin's updated September 30, 2006 case update the test year?

7 A. No. There is a fundamental difference between a test year and an update
8 period. A test year is a 12-month period used as the basis for the audit of any rate increase
9 filing. This period serves as the starting point for analysis and review of the utility's
10 operations, to set the reasonableness and appropriateness of the rate filing or complaint case
11 for the prospective period when the rate will be in effect. The test year forms the basis for
12 any adjustments necessary to remove abnormalities that may have occurred during the period
13 and to appropriately reflect any ongoing increase or decrease shown in the financial records of
14 the utility.

15 An update considers factors occurring subsequent to the test year, through a specific
16 date. In this rate case, the date is September 30, 2006. Updating a case does not change the
17 test year. Rather, the test year data is adjusted to reflect the revenue requirement associated
18 with the factors considered during the updated period.

19 Staff does not believe that having update in a case like this rate case negate the
20 significance of test year. Though, the Staff believes having a twelve-month data as an update
21 period helps in making necessary adjustments to the test year data.

1 Q. At page 4 of Mr. Loos' Rebuttal Testimony, he alleges that Silverleaf did not
2 have successful experience in increasing rates with the small company rate increase process.
3 Please respond.

4 A. Mr. Loos' Rebuttal Testimony only talked about dates and periods when
5 Silverleaf initiated small company rate increase cases, and when agreements were reached by
6 Silverleaf and the Commission Staff. Mr. Loos is concerned about the length of time it took
7 for Silverleaf to get rate relief. Mr. Loos failed to point out the causes for the delays in those
8 cases. Since Mr. Loos did not provide the reasons for the delays, it is impossible to know
9 what Algonquin thought was the cause of the delays. However, one cause of the delays in the
10 prior rate cases was that it was very difficult to identify the rate base. This issue required
11 substantial research and review of records and documents in order to value the proper plant
12 investments. This process was not straightforward, and it required an inordinate amount of
13 time and resources. Mr. Loos, himself, has identified problems with Silverleaf's books and
14 records. Without adequate records as the starting point, the Staff had to exercise great care, in
15 order to determine the amount of investment to properly include in rate base.

16 Thus, it wasn't the small company rate increase procedures that did not permit
17 adequate and timely filing process; rather, it was the previous owner's inability to maintain
18 sufficient records to justify plant investment.

19 Q. Did Silverleaf ever receive rate relief under the small company rate increase
20 process?

21 A. Yes. I understand that Silverleaf received an increase in rates in 1997 using
22 these procedures.

1 Q. Do the small company rate increase procedures have an open-ended date in
2 which the Commission has to process the rate increase request?

3 A. No.

4 Q. Do delays occur in implementing rate increases under the informal procedures?

5 A. Yes. Many times the delays come from the company that requests the rate
6 increase. Sometime the company is not able to provide the necessary records to develop the
7 rate case review. Also, delays in the completion of construction projects and in purchases of
8 equipment have sometimes caused delays in the implementation of rates. Small companies,
9 with limited resources, have often asked for delays in processing the rate case because they
10 lack the necessary personnel to pursue the rate increase, even after the rate request is made.
11 This pushes back the start of the audit process until the Company's personnel are ready for the
12 review to take place.

13 Specifically, in the case of Silverleaf rate cases, the Company did not want to address
14 the concerns that Staff raised during the course of its audit. Silverleaf did not pursue rate
15 relief when Staff identified the issues presented in this case relating to the cost overruns and
16 excess capacity. This was Silverleaf's choice. Silverleaf certainly could have addressed these
17 points if it had chosen to do so. The small company rate increase process could have
18 accommodated these differences if Silverleaf had wanted to do so. However, the fact that
19 Silverleaf did not either agree or disagree with these proposals should not in any way be an
20 indictment of the small company rate increase process. Certainly, the new owner, Algonquin,
21 should not now come forward and criticize those procedures until it has tested them first hand.

22 Q. What is the main issue between Algonquin and Staff concerning use of the
23 small company rate increase process?

1 A. The issue on this point is that the Company chose to file a formal rate case at
2 great expense, without attempting the informal rate increase process first. Much of the cost to
3 the Company would have been avoided while, at the same time, the Company would probably
4 have received rate relief. Mr. Loos indicates in Rebuttal Testimony that even Staff is
5 recommending a rate increase for Algonquin, so the Company would have likely received
6 some level of increase using the small company rate increase process. And if differences
7 existed between the parties, then the small company rate increase procedures would allow
8 either the airing of those differences, or an agreement to rate relief could have been reached.
9 Any disagreements that continued to exist could have been addressed in future formal cases.
10 As I indicated in my Rebuttal Testimony, the issues to be addressed in the formal case could
11 have been narrowed at a lesser cost to the Company.

12 Q. Did Algonquin have difficulty in developing its cost-of-service runs in this
13 case?

14 A. Yes. I understand that Algonquin planned to file its rate case even before May
15 2006, but delayed the case because of the difficulty in putting the case together. This is
16 directly related to the premature nature of filing the rate case. The difficulty in identifying
17 cost categories and developing the cost structures caused the case to be filed when it did. To
18 suggest that taking the cost structures of two different companies and merging them together
19 "does not represent a barrier to developing a reasonable measure of test period operations for
20 rate case purposes" ignores the realities of combining those costs structures. While this was
21 certainly not an insurmountable task, it was difficult at best, and resulted in lots of wasted
22 effort on the parts of the technicians working for Algonquin and Staff to complete the rate
23 case.

1 Q. What reasons did Algonquin witness Loos provide for filing this as a formal
2 rate case?

3 A. On page 5, lines 5 through 8 of his Rebuttal Testimony, Mr. Loos states
4 Algonquin's reasons for using the standard formal rate case procedure as follows:

5 With the apparent lack of success by Silverleaf, the need the Company has for
6 rate relief (as verified in the Staff Schedules), the open ended nature of the
7 informal process, and the nature of the issues the Company desired to have
8 resolved, filing a general rate case was clearly the only option.

9 Q. How would you respond to any of the above-stated reasons?

10 A. In the first place, since Silverleaf has experienced the mechanics of the small
11 company procedure for both rates increase requests and earnings complaints without
12 registering any dissatisfaction with the Commission, I conclude there is no reason to believe
13 that Silverleaf was dissatisfied with the small company process when it held utility regulatory
14 certificate. Neither Silverleaf nor anyone else told the Staff that Silverleaf was dissatisfied
15 with the small company rate increase process. Algonquin's belief that Silverleaf was not
16 successful with the small company rate procedure appears to be nothing more than
17 Algonquin's own subjective opinion, which is based solely upon its experience in the sale
18 case, Case WO-2005-0206, and not upon any attempt to use the small company rate increase
19 process first hand itself.

20 Secondly, it must be pointed out that Staff's obligation to review a company's rate
21 request does not change under the formal rate increase process, as opposed to the small
22 company rate increase process. Simply because a company files for its rate increase through
23 the small company rate procedure does not lessen Staff's responsibility of promptly reviewing
24 that request. Nor does the fact that a company uses the formal procedures for rate relief mean
25 that Staff will provide a greater degree of review. The key difference between the two

1 processes is that, with the informal process, no costs for consultant fees and legal fees to
2 process the rate case will be incurred. This is a huge advantage to both the company and its
3 ratepayers and is the very reason the Commission developed the small company rate increase
4 process.

5 Q. Algonquin states that one of its reasons for filing this formal rate increase
6 request stems from the open-ended nature of the informal process. Please comment.

7 A. A countless number of companies have used the small company process for
8 their rate increase requests. This procedure provides flexibility to small companies over the
9 "formal" process and greatly reduces the company's responsibility to support rate relief. Once
10 the company determines the need for rate relief and submits a letter requesting such rate
11 relief, Staff has the responsibility to identify the costs and develop the revenue requirement
12 need. As noted above, sometimes there are delays in acquiring the necessary information
13 from the company to determine the level of rate relief that may exist. Other times, rate relief
14 is not justified and Staff's recommendations do not include any increase in rates. Obviously,
15 this causes delays in the process when the utility disagrees. However, as Mr. Loos noted, in
16 this case the Staff recommended an increase in rates. This rate increase recommendation
17 would have been made the same under the small company rate increase process as it has been
18 made in this formal case.

19 Q. Is there any more reason cited by Algonquin for filing a formal rate case?

20 A. Yes. The nature of the issues the Company desired to have resolved is one of
21 the reasons for filing the formal rate case, according to Algonquin witness Loos. Mr. Loos'
22 Rebuttal Testimony, page 5, describes the nature of the issues that the Company wants to
23 address and resolve in this case. Mr. Loos states that "the Company's concern primarily

1 centers on the inadequate level of rate base that Staff insists that Algonquin has devoted to
2 public service."

3 Q. Does Staff believe that Algonquin has devoted an adequate level of rate base to
4 public service?

5 A. Algonquin purchased the Missouri assets from Silverleaf in August 2005.
6 Most of the plant included in rate base in this case was not placed into service by Algonquin,
7 but rather by the previous owner. Thus, Silverleaf was the entity that first devoted the utility
8 assets into public service, not Algonquin. Algonquin purchased these assets from Silverleaf
9 and inherited the book values of those assets from the selling company. The primary issue
10 between the Company and Staff is that Algonquin paid more than the net book value of the
11 assets it purchased from Silverleaf, for which it is now attempting to seek recovery. Staff
12 witness Graham A. Vesely has addressed the rate base components in his testimony.

13 Q. Mr. Loos indicates at page 2 of his Rebuttal Testimony that in order to recover
14 its rate case expense, the Company needs to increase its sewer revenues by \$18,000 and its
15 water revenues by \$27,000. What is Staff's position on this?

16 A. Staff does not believe that the Company should be allowed any rate recovery
17 for rate case expense for reasons identified previously. In addition, the Company has not
18 provided a response to a data request that Staff issued on October 2, 2006, in which it
19 solicited information about the Company's contract with consultants. In the absence of this
20 information, Staff will not be in a position to verify this request from the Company.

21 The \$18,000 amount for sewer services and \$27,000 amount for water services
22 identified at page 2, line 19 of Mr. Loos' Rebuttal Testimony relates to total projected costs
23 for rate case expense of \$225,000, amortized over a five-year period.

1 Algonquin proposed to recover \$5.92 from each sewer customer every month, just for
2 rate case expense. Algonquin proposed to recover \$3.05 from each water customer every
3 month, just for rate case expense.

4 Q. What is the total amount of actual costs that the Company has incurred
5 currently for rate case expense?

6 A. According to Algonquin's updated response provided in Data Request No. 49
7 on January 10, 2007, the Company has incurred about ** _____ ** in rate case expense.

8 Q. Does this conclude your Surrebuttal Testimony?

9 A. Yes, it does.