

Exhibit No.:

Issues:

*Allocation of
Investment,
Availability Fees,
Customer Rates*

Witness:

Gregory R. Meyer

Sponsoring Party:

MoPSC Staff

Case No.:

WA-95-164

**MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION**

REBUTTAL TESTIMONY

OF

GREGORY R. MEYER

FILED

MAR 24 1995

**MISSOURI
PUBLIC SERVICE COMMISSION**

FOUR SEASONS WATER AND SEWER COMPANY

CASE NO. WA-95-164

*Jefferson City, Missouri
March, 1995*

13.

REBUTTAL TESTIMONY

OF

GREG R. MEYER

FOUR SEASONS LAKESITES WATER AND SEWER COMPANY

CASE NO. WA-95-164

Q. Please state your name and business address.

A. Greg R. Meyer, 906 Olive Street, Suite 330, St. Louis, Missouri 63101.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission). I have been employed with the Commission since July 1979.

Q. What has been the nature of your duties while in the employ of the Commission?

A. I have supervised and assisted in audits and examinations of the books and records of utility companies operating within the state of Missouri. Please refer to Schedule 1, attached to this rebuttal testimony, for a list of the major audits on which I have supervised and/or assisted.

Q. With reference to Case No. WA-95-164, please describe generally your analysis of Four Seasons Lakesites Water and Sewer Company (Company).

A. I have reviewed the Company's Application, testimony, and other filed documentation, reviewed responses to Staff data requests and met with representatives of the Company.

Q. Please describe your areas of responsibility in this case.

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1 A. My principal areas of responsibility in this case are to describe Staff's
2 recommendations regarding the division of investment between developer and utility
3 company and the recognition of availability fees. In addition, I will provide support for the
4 establishment of rates to be charged for water and sewer service as they are described in the
5 rebuttal testimony of Staff witness Martin Hummel of the Water and Sewer Department.

6 Q. What area is the Staff recommending the Commission certify for the
7 Company to operate?

8 A. As detailed in the rebuttal testimony of Staff witness Hummel, the Staff is
9 recommending the Company receive a certificate to operate the Grand Point Subdivision.

10 Q. Who is the developer of Grand Point Subdivision?

11 A. The developer of Grand Point Subdivision is Four Seasons Lakesites, Inc.
12 (Developer). The Company is an affiliate of the Developer. Presently, this development is
13 designed to accommodate 400 lots. According to Company officials water and sewer service
14 mains will be available to all 400 lots by August 1995.

15
16 ***ALLOCATION OF INVESTMENT***

17 Q. Please describe the division of investment between the Developer and the
18 Company.

19 A. The Staff recommends that the Developer install the water and sewer mains
20 and then contribute the mains to the Company. The Developer would also be responsible
21 for any income taxes that might arise as a result of this contribution. The Company would
22 be required to finance the construction of the sewer treatment plant and water production
23 plant. Generally, the sewer treatment plant would encompass the lift stations and, initially,

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1 the lagoon. The water production plant would generally include the well, pump, pumphouse
2 and storage tank, meters, etc.

3 Q. What ratemaking treatment should be given to the investment that the
4 Company must finance?

5 A. The Company should be allowed to record this investment as plant in service
6 and will be afforded the opportunity to earn a return on that investment. Additionally, that
7 investment should be depreciated and that expense would be a component of the Company's
8 cost of service.

9 Q. How will the investment that the Company is required to make be financed?

10 A. It is my understanding that the Developer, will provide the financial support
11 for the Company to invest in its construction program. The rebuttal testimony of Staff
12 witness Randy Z. Wright of the Financial Analysis Department provides a more detailed
13 explanation regarding the financial aspects of the Company.

14 Q. Is this division of investment consistent with current Staff positions and past
15 Commission decisions?

16 A. Yes, if a developer wants to construct a new project within an existing
17 certificated area, that developer typically must install the mains and contribute those mains
18 to the certificated utility. The taxes that may arise from that transaction are also the
19 responsibility of the developer. The Commission has approved this type of division of
20 investment in numerous stipulations.

21 Q. Please explain the Company proposal.

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1 A. The Company proposes to invest \$900 in plant per customer for water service
2 and an additional \$900 in plant per customer for sewer service. Therefore, if the system was
3 serving ten customers, the Company would record \$9,000 in investment for water operations
4 and \$9,000 for sewer operations.

5 Q. Does the Staff concur with this position?

6 A. The Staff prefers to establish the investment of utility company based on
7 actual construction costs. The Staff's position in this case is consistent with past precedent.
8 However, when it is not possible to establish the investment base on actual costs, the Staff
9 has recommended an investment per customer amount. Establishing an actual cost for
10 construction enables the Staff to accurately develop depreciation expense and a return on
11 investment for the cost of service calculation. Utilizing an investment per customer figure
12 requires that certain assumptions be made to establish customer rates.

13 Q. Has Staff analyzed the actual costs of construction the Company must
14 finance?

15 A. No, the Company presented the Staff with some preliminary investment
16 information on March 21, 1995. The Staff simply does not have enough time to review this
17 material prior to the filing of this rebuttal testimony. It is the intention of the Staff to meet
18 with Company representatives prior to the hearings in this case and discuss in greater detail
19 the actual construction costs of the water and sewer systems. At this meeting, the Staff
20 would expect the Company to provide adequate documentation to support the actual
21 construction expenditures. However, the Staff continues to assert that the actual investment

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dollars for mains should be contributed by the Developer and that the production/treatment plant constructed by the Company would be placed in rate base.

AVAILABILITY FEES

Q. Please describe Staff's understanding of an availability fee.

A. An availability fee is established by a developer and is charged to a lot owner when that lot has the capability of receiving water and sewer service. In other words, the water and sewer mains and production and treatment facilities have been constructed, but no service is being provided as of yet. For Four Seasons Lakesites, Inc., the monthly availability fee is ten dollars for water service and fifteen dollars for sewer service in the Grand Point Subdivision. Attached as Schedule 2 to this rebuttal testimony are selected pages from the "Declaration of Restrictive Covenants" which describes the payment of water availability fees. Also attached as Schedule 3 is an "Addendum to Contract For the Sale of Lots - Grand Point Subdivision" which describes the payment of sewer availability fees.

Q. What is the purpose of an availability fee?

A. The purpose of an availability fee is to defray the operation and maintenance costs of a utility during the growth or development of the system. Availability fees reduce the financial risk a utility encounters in the early years of operation. To the extent that a developer must subsidize the utility in the first years of operation, availability fees reduce the developer's risk also.

Q. Of the 400 lots that Grand Point subdivision was designed for, how many lots are currently sold?

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1 A. As of March 20, 1995, 163 lots have been sold. This represents annual
2 revenues of approximately \$20,000 for water and \$29,000 for sewer from availability fees.

3 Q. Please describe the Staff's position regarding availability fees.

4 A. The Staff recommends that availability fees not become part of the
5 Company's tariffs. Instead, the Staff asserts that the Developer and the Company need to
6 enter into a written agreement whereby the Developer assigns the right to the Company to
7 bill and receive availability fees.

8 Q. How should the Company account for the availability fees received?

9 A. The receipt of availability fees would be treated as revenue and would help
10 cover the operations and maintenance expenses of the Company.

11 Q. Who is responsible for the collection of availability fees?

12 A. The Developer should continue to assume responsibility for collection of
13 unpaid availability fees. To the extent availability fees are paid currently, these funds would
14 flow directly to the Company.

15 Q. Who should be responsible for paying availability fees?

16 A. The Staff has developed two alternatives regarding the payment of
17 availability fees.

18 Alternative one would require only those lots that have been sold by the Developer
19 to be responsible for paying availability fees. In this case, the Developer would not be
20 responsible for paying availability fees on unsold lots. However, under this scenario, the
21 Developer would be required to contribute sufficient funds to cover any loss in operations
22 of the Company. The Developer would be required to continue to cover any loss in

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1 operations of the Company until the system has sufficient customer numbers to operate with
2 reasonable rates being charged. The Developer also would reimburse the Company for any
3 uncollected availability fees. The Developer would be required to reimburse to the
4 Company on April 1 any unpaid availability fees that were billed during the previous
5 calendar year. For example, on April 1, 1996, the Developer would pay the Company any
6 unpaid availability fees from the twelve months ending December 31, 1995.

7 The Staff has developed the above scenario because of the affiliated relationship that
8 exists between the Developer (Four Seasons Lakesites, Inc.) and the Company (Four Seasons
9 Lakesites Water and Sewer Company). To the extent that this affiliated relationship ceases
10 to exist, the Staff would propose that the second alternative to be adopted.

11 The second alternative would require that all lot owners, including the Developer,
12 pay availability fees. In this scenario, the Developer would not be required to cover any
13 losses that might occur from operating the Company. However, the Developer would still
14 be required to reimburse the Company for unpaid availability fees from lot owners. The
15 Developer would not have to guarantee the financial viability of the Company because of
16 the larger revenue stream that would be produced under this scenario.

17 Q. Does the Staff have a preference from the above two alternatives?

18 A. Yes, at this time the Staff would recommend that the Company choose the
19 first alternative due to the affiliated relationship.

20 Q. Did the Staff consider that the Company could generate revenues in excess
21 of expenses with the recognition of the availability fees? If so, what proposals would the
22 Staff have regarding these profits?

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1 A. Yes, the Staff has considered the possibility that the Company may generate
2 excessive revenues with the recognition of the availability fees. The Staff's recommendation
3 concerning these profits would depend on what alternative the Company chooses regarding
4 the payment of availability fees. If the Developer agreed to be responsible for the financial
5 viability of the Company, the Developer should be able to share excess profits with the
6 Company. The Staff would propose that the sharing be equal between the Developer and
7 the Company. If the Developer is not responsible for the financial viability of the Company,
8 then no sharing of excess profits should be allowed. The Staff would also contend that any
9 excess revenues that remain with the Company in either case should be used to reduce the
10 current and future investment base (plant in service) of the Company.

11 The Staff anticipates conducting this earnings review to determine if excess profits
12 exist during the second quarter of each year for the previous calendar year. The Staff
13 believes that this review is necessary for the protection of present and future customers.

14 Q. Lastly, can a lot owner be denied their request for water/sewer service due
15 to the fact that they had not paid all or any of their availability fees?

16 A. No, since the Staff is not recommending tariffing of the availability fees, a
17 potential water/sewer customer should not be denied a request for service from the
18 Company. This position is consistent with 4 CSR 240-13.050 Discontinuance of Service,
19 and with the practice of other utilities in the state that bill unregulated charges for affiliates.

20
21 ***CUSTOMER RATES***

22 Q. Have you reviewed the customer rate calculation contained in Staff witness
23 Hummel's testimony?

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1 A. Yes, I have. In fact, several members have reviewed the calculation and had
2 input into the various factors.

3 Q. Do you have any comments regarding that calculation?

4 A. Yes, the rate calculation currently includes an estimated investment base.
5 Staff witness Hummel developed these estimates for both the water and sewer systems. If
6 the Staff can determine the actual construction costs for the systems, the Staff will update
7 its cost of service calculation. The revised calculation would include actual investment and
8 actual depreciation expense based on the prescribed depreciation rates attached to
9 Mr. Hummel's testimony.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the Application of Four Seasons)
Lakesites Water and Sewer Company for a)
certificate of convenience and necessity authorizing)
it to construct, install, own, operate, control,)
and maintain water and sewer utility properties for)
the public, located in an unincorporated area in)
Camden County and Miller County, Missouri,)
generally comprising the eastern half of the area)
known as "Shawnee Bend".)

Case No. WA-95-164

FILED

MAR 24 1995

AFFIDAVIT OF GREGORY R. MEYER

MISSOURI
PUBLIC SERVICE COMMISSION

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Gregory R. Meyer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.

Gregory R. Meyer
GREGORY R. MEYER

Subscribed and sworn to before me this 23rd day of March, 1995

Judy Fritsch
JUDY FRITSCH Notary Public
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY

My Commission Expires: MY COMMISSION EXP. SEPT 22, 1997

SUMMARY OF RATE CASE INVOLVEMENT

Greg R. Meyer

| <u>COMPANY</u> | <u>CASE NO.</u> |
|--|-------------------------|
| Missouri Utilities Company | GR-79-270 |
| Missouri Public Service Company | GR-80-117 |
| Missouri Public Service Company | ER-80-118 |
| Missouri Utilities Company | ER-80-215 |
| General Telephone Company of the Midwest | TR-81-47 |
| Capital City Water Company | WR-81-193 |
| Missouri Utilities Company | GR-81-244 |
| Missouri Utilities Company | WR-81-248 |
| Missouri Utilities Company | ER-81-346 |
| Associated Natural Gas Company | GR-82-108 |
| Southwestern Bell Telephone Company | TR-82-199 |
| Kansas City Power and Light Company | ER-83-49 |
| Southwestern Bell Telephone Company | TR-83-253 |
| Kansas City Power and Light Company | ER-85-128/ EO-85-185 |
| Arkansas Power and Light Company | ER-85-265 |
| Southwestern Bell Telephone Company | TR-86-84 |
| General Telephone Company of the Midwest | TC-87-57 |
| Union Electric Company | EC-87-114 |
| Southwestern Bell Telephone Company | TC-89-14 |
| GTE North Incorporated | TR-89-182 |
| Arkansas Power and Light Company | EM-90-12 |
| Southwestern Bell Telephone Company | TC-93-224 |

SCHEDULE 1

**DECLARATION
of
RESTRICTIVE COVENANTS**



**FOUR SEASONS
LAKESITES, INC.**

provided, that in the case of a multiple family building owned by two or more persons, (whether as tenants in common, partners, or shareholders in a corporation, but not including husband and wife), each owner who also occupies a separate unit of said multiple family building shall be liable for a separate assessment, which shall be a lien on the entire building, and each owner-occupant so separately assessed shall be issued a separate Association membership card issued for use only by said owner-occupant and members of his family; provided further, that the Developer, in its contract for sale of property for multiple family development, may cause additional assessments to be levied on the multi-family building to be constructed on such property, and in such an event the owner of such multiple family property will be liable for such additional assessments.

VIII. PROVISIONS WITH RESPECT TO DISPOSAL OF SANITARY SEWAGE. No outside toilet shall be permitted. No sanitary waste shall be permitted to enter the lake and all sanitary installations must conform with the recommendations of the Developer, its successors and assigns, and the County and State Boards of Health, and the Missouri Department of Natural Resources.

IX. WATER SYSTEM AND SEWAGE TREATMENT SYSTEM.

A. The Owner of each lot agrees to pay the owner of the water works system to be constructed within the Development, a minimum monthly availability charge for water, water service and the accommodations afforded the owners of said lots by said water works system, commencing upon the availability of water in a water works system distribution main provided for the lot and continuing thereafter so long as water is available for use, whether or not tap or connection is made to a water works system distribution main and whether or not said owner actually uses or takes water. No charge will be made to the lot owners for the right to connect to the water system. Each lot owner will bear the cost of the service line from his building into the water main. The said owner or owners of said water works system will be a privately owned public utility authorized by a Certificate of Public Convenience and Necessity issued by the State of Missouri Public Service Commission to operate water works systems.

The aforesaid amounts of said availability charges, times and methods of payments thereof by said owners and other matters shall be as provided in Schedules of Rates and Rules, Regulations and Conditions of Services for Water Services filed and published by said public utility or utilities which said Missouri Public Service Commission, or any successor Regulatory Body of the State of Missouri, in accordance with law and passed to file or formally approved by said Commission as the then effective Schedule of Rates and Rules, Regulations and Conditions of Service of said public utility or public utilities, or if not so provided, as determined by the owner of the Water Works System. The amounts of said availability charges and other charges are subject to change hereafter by order of the said Missouri Public Service Commission or its successors in accordance

ADDENDUM TO CONTRACT FOR THE SALE
OF LOTS IN GRAND POINT SUBDIVISION

This Addendum is made this _____ day of _____, 199__, to the contract for purchase of lot _____ in Grand Point Subdivision, Camden County, Missouri, by and between Four Season Lakesites, Inc., a Missouri corporation, hereinafter referred to as FSL, and

_____,
hereinafter referred to as Purchasers, to-wit:

Sewage treatment in Grand Point shall be provided as follows:

1. All residences constructed must provide an NSF Class I treatment plant, a 500 gallon wet well holding tank and a lift pump and piping to extend from the residence to the main connection at the road. This installation shall be the cost of the Purchasers. The cost is estimated to be from \$4,000.00 to \$4,500.00.
2. The holding tanks shall be pumped periodically and the residue removed by truck until such time as underground central sewers are completed. The date for the construction of underground central sewers cannot yet be determined since they are not currently required until residences have been constructed on thirty percent (30%) of the projected four hundred (400) lots in the Grand Point Subdivision.
3. Prior to the availability of underground central sewers, owners of lots with residences shall be charged a monthly fee of \$45.00 per lot for periodic pumping of holding tanks, minor routine maintenance and service. The monthly fee for undeveloped

lots shall be \$15.00 per month per lot. When the underground central sewer system is available to the Purchaser's lot, the monthly fee will then be used for construction, operation, maintenance and eventual hook up to the underground central sewer system. This fee shall not exceed \$45.00 per month per lot for lots with residences on them, and \$15.00 per month per lot for undeveloped lots. No separate hook up fee to connect to the underground central sewer system shall be charged.

4. The terms of this Addendum supersede any statements in the Water and Sewer Agreement, Acquisition Agreement or any disclosure document provided to Purchaser relative to the lot hereinabove described.

FOUR SEASONS LAKESITES, INC.

BY: _____
DATE

PURCHASERS:

DATE

DATE

DATE

DATE