

Exhibit No.:
Issue: Payroll/Labor Costs
Witness: Bret Prenger
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case Nos: SR-2010-0110 and
WR-2010-0111
Date Testimony Prepared: March 12, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

Bret G. Prenger

LAKE REGION WATER & SEWER COMPANY

CASE NOS. SR-2010-0110 AND WR-2010-0111

Jefferson City, Missouri
March 2010

1 All employees working on the Lake Region operations are actually employed by the
2 Water District.

3 Q. Did Staff annualize Labor Costs?

4 A. Yes. Staff's approach to calculating payroll and payroll related benefits level in
5 the Lake Region rate cases was based on using the most current information through the
6 update period of September 30, 2009. The payroll and payroll benefits were calculated on a
7 total Water District basis and allocated to each of the three entities-- Lake Region,
8 Ozark Shores and the Water District. Staff used an "allocated approach," where the payroll
9 costs and payroll related benefits are split between three separate entities that benefit from the
10 work performed by the employees using the time reporting procedure discussed above. In
11 the Company's original Direct filing it allocated payroll and payroll related costs between the
12 three entities using the following percentages: 18% for the Water District, 41% for Ozark
13 Shores and 41% for Lake Region.

14 Staff obtained the actual time reporting information in a data request from the
15 Company, and the payroll charge-outs for both test year 2008 and through the update period,
16 September 2009. The time reporting used by Lake Region and Ozark Shores are electronic
17 timesheets of all the employees of Lake Region and Ozark Shores. The payroll charges show
18 total hours worked by each employee, broken down into specific hours worked at each of the
19 three entities. The Staff examined the hours worked specifically to Lake Region by each
20 employee and divided that into the total hours worked for that period. That provided an
21 allocation percentage for each employee; then used to apply to each individuals annual salary
22 to determine the total annualized payroll and benefits. The Staff used this
23 approach/calculation method for each employee with the exception of the General Manager,

1 whose time it was determined to be evenly split between the three entities. His salary and
2 benefits were allocated on the basis of 33% to each entity. The annualized payroll amount
3 was allocated based on the split for each employee using only the Lake Region portion of
4 payroll. Staff allocated payroll and payroll related costs based on the actual time spent on
5 Lake Region using the time reporting for resulting in 43.43% compared to the 41% used by
6 the Company.

7 The salary of each employee also contains payroll benefits received by each employee,
8 so there will not be an individual adjustment representing benefits. After annualizing payroll,
9 Staff broke down the Lake Region allocated amount by entity to show how much payroll was
10 sent to Horseshoe Bend Sewer and Shawnee Bend Sewer and Water systems.

11 Q. What was the total amount of Payroll and Payroll benefits for Lake Region?

12 A. The total amount of payroll and payroll benefits included for Lake Region is
13 \$203,557. Staff attached a schedule that shows payroll on not only a total Lake Region basis,
14 but breaks down those labor costs for each of Lake Region's operating systems on the an
15 annual basis and monthly customer charge as well.

16 The total Lake Region payroll and related payroll costs are further allocated among the
17 three operating systems:

18	Shawnee Bend Water	25.5%	\$51,907
19	Shawnee Bend Sewer	26.8%	54,553
20	Horseshoe Bend Sewer	<u>47.7%</u>	<u>97,097</u>
21	Total	100%	\$203,557

1 Q. How many customers does Lake Region service?

2 A. Lake Region provides service to approximately 1,419 customers in its three
3 operating systems. That is broken down as follows: Shawnee Bend Water, 648;
4 Shawnee Bend Sewer, 623; and Horseshoe Bend Sewer, 148; for a Lake Region total of
5 1,419 customers.

6 Q. At page 12 of Company witness Summers' Rebuttal he identifies the monthly
7 per customer payroll costs as \$12.34 and indicates Lake Region ranks second lowest of
8 four utilities he examined. What monthly cost per customer did Staff calculate?

9 A. Based on the customer levels above, the average yearly total for each customer
10 for payroll and benefits would be \$143.45 [\$203,537 total payroll and benefits divided by
11 1,419 total Lake Region customers]. On a monthly basis this represents a \$11.95 per
12 customer amount for total Lake Region payroll and benefits. The difference between the
13 monthly amount identified by Mr. Summers in his Rebuttal testimony of \$12.34 and the
14 amount Staff determined of \$11.95 per customer is because the Company used meter counts
15 of 1,375 as its basis of customers while Staff used 1,419 customers. Staff believes the
16 amount of \$11.95 is more appropriate because it was derived using actual customer numbers,
17 not meters, which is a more accurate depiction for the rate case. Also, the actual customer
18 number represents the level that Staff used for annualizing revenues in this case.

19 Q. Does Staff believe that the per customer amount it calculated is an
20 accurate level?

21 A. The \$11.95 per customer amount for payroll is actually an over stated amount
22 because of some large commercial customers on the Horseshoe Bend Sewer system.
23 Attached to my Surrebuttal testimony is a schedule that shows the total payroll costs broken

1 out by Lake Region's operating system. It is noteworthy while the total Lake Region payroll
2 costs are \$11.95 per customer, the Shawnee Bend Water costs are \$6.68 per customer and the
3 Shawnee Bend Sewer costs are \$7.29 per customer. Even though the Horseshoe Bend Sewer
4 system shows high payroll costs, the difficulty is identifying the "true" payroll costs per
5 customer for that operating system. While Horseshoe Bend Sewer has the smallest number of
6 customers of the three Lake Region operating systems, it has the most revenues. This is
7 because it has two large commercial customers whose businesses have multiple
8 housing units. The two customers, who are both interveners in this case, are
9 Four Seasons Racquet and Club Condo Property Owners Association., Inc (Racquet Club)
10 and Four Seasons Lakesites Property Owners Association, Inc. (Property Owners). This is the
11 reason why Horseshoe Bend has so few of customers but high levels of revenues compared to
12 the Shawnee Bend Water and Sewer systems.

13 Another indication of the size of Horseshoe Bend Sewer system has almost half the
14 payroll costs (47.7%) assigned to it while having the fewest customers.

15 Q. Company witness Summers refers to the labor contracts the Water District has
16 with Lake Region and Ozark Shores at page 10, line 18 of his Rebuttal testimony. Have you
17 reviewed these labor agreements?

18 A. Yes, I have reviewed those agreements during the course of the audit.

19 Q. Mr. Summers further states that at page 10 of his rebuttal "the labor contracts
20 include the cost of payroll taxes, health insurance and pension" costs. Has Staff included
21 those payroll benefit costs in its revenue requirement calculation?

22 A. Yes, it has.

23 Q. Did Staff include benefits in the Direct filing?

1 A. No. Staff believed that benefits were included in the Direct filing based on
2 information provided by the Company. However, after the Direct filing, Mr. Summers
3 indicated Staff did not have the level of payroll costs in the case that included the payroll
4 benefits. It was Staff's intention to include the proper level of payroll benefits in the
5 Direct filing but the information Staff used to calculate payroll did not initially include the
6 benefit costs. Staff received the payroll benefit information after the Direct filing and
7 calculated the amount for this cost, allocating the payroll benefit costs to each of three
8 operating systems on the same basis as payroll costs.

9 Q. Did Staff provide updated work papers to the parties reflecting the changes it
10 made for payroll?

11 A. Yes. Staff supplied the updated payroll and payroll benefit costs to the
12 Company and Office of Public Counsel (Public Counsel) during the week of
13 February 1, 2010. In addition, payroll work papers including the affects on the revenue
14 requirement calculation were provided to all the parties to these two rate cases at the
15 pre-hearing conference held on February 8, 2010. The parties were made aware of the
16 revision to payroll based on the omission of the payroll benefits in the Direct filing.
17 Staff's Direct filed payroll number was \$145,828.13, while the updated and current payroll
18 number is \$203,557.

19 Q. Was the change in payroll from Staff's Direct filing solely based on the
20 omission originally of payroll benefits?

21 A. No. Staff also made changes to the number of payroll periods used to
22 annualize the payroll costs. Staff originally used a twice monthly level (or 24 times annually)

1 to annualize payroll. After the filing Staff learned that the number of pay periods in the year
2 should have been 26 because the District pays its employees every two weeks.

3 Q. Has Staff re-calculated the revenue requirement calculation?

4 A. Yes. Staff made the payroll changes discussed above in each of the three
5 revenue requirement calculations-- Shawnee Bend Water and Sewer and
6 Horseshoe Bend Sewer systems. The three revenue requirement runs updated for the payroll
7 changes as well as other related information that has been revised after the Direct filing has
8 been attached to the Surrebuttal testimony of Staff witness Cary Featherstone.

9 Q. Does this conclude your Surrebuttal Testimony?

10 A. Yes it does.

11

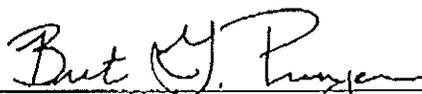
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Lake Region Water & Sewer) SR-2010-0110
Company's Application to Implement a)
General Rate Increase in Water and Sewer) Case No. AND
Service.)
WR-2010-0111

AFFIDAVIT OF BRET G. PRENGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Bret G. Prenger, 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 7 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.



Bret G. Prenger

Subscribed and sworn to before me this 11th day of March, 2010.



Notary Public

**Lake Region Water and Sewer
Case Nos. SR-2010-011- WR-2010-0111**

Payroll Analysis Worksheet

<u>Entity</u>	<u>Customer Number</u>	<u>Total Payroll Costs Including Benefits</u>	<u>Allocation Percentage per Entity Basis</u>	<u>Total Payroll Costs per Entity</u>	<u>Annualized Payroll Costs per Customer Yearly</u>	<u>Annualized Payroll Costs per Customer Monthly</u>	<u>Total Yearly Lake Region Payroll Costs per Customer</u>	<u>Total Monthly Lake Region Payroll Costs per Customer</u>
Shawnee Bend								
Water	648	-	25.50%	\$51,907.04	\$80.10	\$6.68		
Sewer	623	-	26.80%	\$54,553.28	\$87.57	\$7.30		
Horseshoe Bend								
Sewer	148	-	47.70%	\$97,096.69	\$656.06	\$54.67	(1)	
Total Lake Region	1419	\$203,557.00	100.00%	\$203,557.00	\$823.73	\$68.64	\$143.45	\$11.95

Footnote (1)

1) The Monthly Horseshoe Bend Sewer costs per customer is high because there are a significant amount of commercial customers that represent only 1 customer each building unit such as the the Racquet Club customer and Hotel customer