

Exhibit No.:
Issues: Sewer Connection Fees
(CIAC)
Witness: James M. Russo
Sponsoring Party: MO PSC Staff
Type of Exhibit: Direct Testimony
Case No.: SR-2008-0080
Date Testimony Prepared: December 21, 2007

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

JAMES M. RUSSO

TIMBER CREEK SEWER COMPANY

CASE NO. SR-2008-0080

**Jefferson City, Missouri
December 2007**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

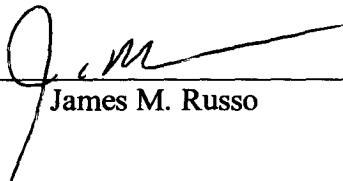
In the Matter of Timber Creek Sewer)
Company, Inc.'s Tariff Designed to)
Increase Rate for Sewer Service.)

Case No. SR-2008-0080

AFFIDAVIT OF JAMES M. RUSSO

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James M. Russo, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 6 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.




James M. Russo

Subscribed and sworn to before me this 13th day of December, 2007.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16

DIRECT TESTIMONY

OF

JAMES M. RUSSO

TIMBER CREEK SEWER COMPANY

CASE NO. SR-2008-0080

BACKGROUND OF WITNESS.....	1
EXECUTIVE SUMMARY	2
CIAC FEE CALCULATION	3

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

DIRECT TESTIMONY
OF
JAMES M. RUSSO
TIMBER CREEK SEWER COMPANY
CASE NO. SR-2008-0080

Q. state your name and business address.

A. James M. Russo, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am the Rate and Tariff Examination Supervisor in the Water and Sewer Department with the Missouri Public Service Commission (Commission).

BACKGROUND OF WITNESS

Q. Please describe your educational background and other qualifications.

A. I graduated from California State University-Fresno, Fresno, California, and received a Bachelor of Science degree in Accounting. Prior to my employment with the Commission, local elected officials in county government employed me in various capacities. I was the assistant treasurer-tax collector for San Joaquin and El Dorado Counties in California. My responsibilities included all financial dealings of the counties and all accounting activities of the agency. In addition, I was the supervising accountant auditor in El Dorado County for two years. My division was responsible for internal audits of all county agencies, special districts, and franchise/lease agreements.

Q. What has been the nature of your duties with the Commission?

A. From April 1997 to December 2001, I worked in the Accounting Department of the Commission, where my duties consisted of directing and assisting with

1 various audits and examinations of the books and records of public utilities operating
2 within the State of Missouri under the jurisdiction of the Commission. From
3 December 16, 2001 to August 2003 I was a Regulatory Auditor IV in the Energy
4 Tariffs/Rate Design Department, where my duties consisted of analyzing applications,
5 reviewing tariffs, and making recommendations based upon these evaluations. On
6 August 16, 2003, I assumed the position of Rate and Tariff Examination Supervisor in the
7 Water and Sewer Department where my duties consist of reviewing tariffs, preparing and
8 analyzing cost of service and rate design, and performing accounting functions.

9 Q. Have you previously filed testimony before this Commission?

10 A. Yes. A list of cases in which I have filed testimony before this
11 Commission is attached as Schedule 1 to my direct testimony.

12 **EXECUTIVE SUMMARY**

13 Q. With reference to consolidated Case No. SR-2008-0080, have you made
14 an examination and study of the material provided by Timber Creek Sewer Company
15 (Timber Creek or Company) relating to its proposed increase in its Contribution-in-Aid-
16 of Construction (CIAC) connection fee?

17 A. Yes, I have.

18 Q. What is the purpose of your direct testimony?

19 A. The purpose of my direct testimony is to present the Commission Staff's
20 (Staff) position relating to the amount of the Company's proposed revised CIAC
21 connection fee. Staff recommends the CIAC connection fee be raised to \$2,650 from the
22 current amount of \$1,600.

23 Q. What is the CIAC connection fee?

1 A. This fee is charged for new connections, and in this instance also for
2 potential new connections, to the Company's system in its Platte County service area to
3 offset the Company's investment in new or expanded sewage treatment facilities. For
4 ratemaking purposes, the fees collected reduce the Company's investment in plant (rate
5 base), - on which the Company earns a return, on a dollar-for-dollar basis.

6 Q. What do you mean by the words potential connections in the preceding
7 answer?

8 A. The Planning and Zoning Department in Platte County requires developers
9 to pre-pay connection fees for each lot when the developer records the plat map with the
10 County. This is what I am referring to when I say "potential connections."

11 Q. Who actually pays the CIAC connection fee?

12 A. For Timber Creek, the fee is paid primarily by developers when they
13 record their plat maps with the Planning and Zoning Department of Platte County. In
14 some instances, the fee might be paid by individual customers connecting to the system.

15 **CIAC FEE CALCULATION**

16 Q. Did you prepare the CIAC Fee Calculation Worksheet (worksheet) that is
17 Attachment F to the disposition agreement which was previously filed in this case on
18 September 25, 2007?

19 A. Yes.

20 Q. Regarding that worksheet, where did the dollar amounts come from for
21 account number 362 – Receiving Wells, account number 363 – Electric Pumping
22 Equipment, and account number 372 – Treatment & Disposal Facilities, listed under the
23 heading "Existing Treatment and Disposal Plant"?

1 A. These amounts were taken from Attachment C to the previously-
2 mentioned Disposition Agreement. Specifically, they are listed on lines 9 through 11 of
3 Accounting Schedule 3, titled "Total Plant in Service."

4 Q. How did you determine the existing plant treatment capacity and the existing
5 plant customer capacity numbers?

6 A. These amounts were taken from information provided in an e-mail that the
7 Company provided to Staff on August 15, 2007. A copy of that e-mail is attached as
8 Schedule 2 to this Direct Testimony.

9 Q. Please explain how you calculated the Price per GPD for Existing
10 Treatment Plant.

11 A. I calculated the Price per GPD for Existing Treatment Plant by dividing
12 the total existing treatment and disposal plant cost (\$1,836,081) by the existing plant
13 capacity (530,000 GPD), resulting in \$3.46 as the price per GPD.

14 Q. Please explain how you calculated the CIAC Requirement per Customer
15 for Existing Plant.

16 A. I calculated the CIAC Requirement per Customer for Existing Plant by
17 dividing the total existing treatment and disposal plant cost (\$1,836,081) by the Existing
18 Plant Customer Capacity (1,432), resulting in the CIAC Requirement per Customer for
19 Existing Plant of \$1,282.

20 Q. Please explain how the \$8 per gallon new construction cost figure was
21 determined?

22 A. The \$8 per gallon new construction cost was provided by the company
23 during the negotiations leading up to the execution of the previously-mentioned

1 Disposition Agreement. This cost is also discussed in the Direct Testimony of James
2 Merciel of the Commission's Water and Sewer Department.

3 Q. Please explain the "Less: CIAC Over Collection" line on the worksheet.

4 A. I calculated the amount shown on the "Less: CIAC Over Collection" line
5 by subtracting the CIAC for Existing Plant (\$1,282) from the currently tariffed CIAC
6 connection fee (\$1,600), resulting in a difference of \$318. I then multiplied this \$318 by
7 the number of CIAC fees collected over existing capacity (659). I then divided the result
8 of that calculation by the number of customers that the next phase of the treatment plant
9 expansion can accommodate (675), resulting in the CIAC Over Collection of \$310 per
10 connection.

11 Q. Why is the Staff proposing the CIAC Over Collection "credit"?

12 A. As mentioned earlier, the CIAC connection fees are primarily paid by
13 developers. Also, based on the calculations discussed above, it appears that the CIAC
14 connection fees paid in the past have resulted in too much CIAC being collected. As a
15 result, the Staff believes it is appropriate for the parties that have paid the connection
16 fees, and have thus contributed to the overpayment of CIAC, to potentially receive a
17 credit for such overpayments through the calculation of the revised CIAC connection fee.

18 Q. Please explain the Amount of CIAC to be Collected calculation.

19 A. The Amount of CIAC to be Collected is the GPD New Construction Cost
20 (\$2,960) less the Prior CIAC Over Collection (\$310), resulting in \$2,650 as the Amount
21 of CIAC to be Collected.

22 Q. Please Explain the Increase from Existing CIAC Fee calculation.

1 A. The Increase from Existing CIAC Fee calculation in the Amount of CIAC
2 to be Collected (\$2,650) less the existing CIAC Fee (\$1,600), resulting in \$1,050 as the
3 increase in the CIAC connection fee.

4 Q. Did any of the numbers used in your original calculation change with the
5 filing of the updated Staff Accounting Schedule on October 24, 2007?

6 A. Yes. The Public Service Commission auditors increased the balance of
7 plant account number 375, -- Treatment & Disposal Facilities by \$2,104. The overall
8 effect on the proposed CIAC fee is minimal, increasing the recommended CIAC
9 connection fee by \$1 to \$2,651. Because the change is minimal, the Staff is not
10 recommending any change to its original recommended CIAC connection fee of \$2,650.
11 Even so, I have attached an updated CIAC Fee Calculation Worksheet as Schedule 3 to
12 this Direct Testimony.

13 Q. Does this conclude your Direct Testimony?

14 A. Yes it does.

RATE CASE PROCEEDING PARTICIPATION

JAMES M. RUSSO

<u>COMPANY</u>	<u>CASE NO.</u>
Union Electric Company	GR-97-393
Gascony Water Company	WA-97-510
St. Joseph Light and Power Company	EC-98-573
St. Joseph Light and Power Company	HR-99-245
St. Joseph Light and Power Company	GR-99-246
St. Joseph Light and Power Company	ER-99-247
UtiliCorp United Inc./St. Joseph Light and Power Company	EM-2000-292
UtiliCorp United Inc./Empire District Electric Company	EM-2000-369
Osage Water Company	WR-2000-557
Osage Water Company	SR-2000-556
Missouri Gas Energy	GR-2001-292
Southern Missouri Gas Company, L.P.	GR-2001-0388
Environmental Utilities	WA-2002-65
Laclede Gas Company	GR-2002-356
Laclede Gas Company	GA-2002-429
Missouri Gas Energy	GT-2003-0033
Aquila Networks L & P	GT-2003-0038
Southern Missouri Gas Company, L.P.	GT-2003-0031
Atmos Energy Corporation	GT-2003-0037
Fidelity Natural Gas, Inc.	GT-2003-0036
Laclede Gas Company	GT-2003-0032
Union Electric Company	GT-2003-0034
Union Electric Company	GR-2003-0517
Missouri Gas Energy	GT-2004-0049
Aquila Inc.	GR-2004-0072
Missouri Gas Energy	GC-2004-0216
Missouri Gas Energy	GC-2004-0305
Algonquin Water Resources of Missouri, LLC	WR-2006-0425

From: Derek Sherry [derek.sherry@excite.com]
Sent: Wednesday, August 15, 2007 5:32 PM
To: Russo, Jim
Subject: CIAC and Capacity Charge

Jim,
From our conversations today, here are my calculations.
Please share with Dale, Bill, Phil and Carey.
Thanks,
Derek.

Plant in Service = \$3,078,966
Plant Capacity = 530,000 GPD
Total Customer Served by Plant (370 GPD / household) = 1433 customers
 $\$3,078,966 / 1433 = \2149 connection fee (currently \$1600)
Total "sold" Customers = 2092
CIAC collected for 2092 customers = \$2,479,743
Customers oversold = $2092 - 1433 = 659$ customers
Back out CIAC for oversold customers = $659 \times \$1600$ (current CIAC) = \$1,054,400
Remaining CIAC for 1433 customers served by plant = $\$2,479,743 - \$1,054,400 = \$1,425,343$
Capacity charge calculation:
\$10 GPD for construction of new plant $\times 370$ GPD = \$3700
Proposed CIAC = \$2149
Capacity charge = $\$3700 - \$2149 = \$1551$

Join Excite! - <http://www.excite.com>
The most personalized portal on the Web!

Schedule 2

CIAC Fee Calculation Worksheet

Existing Treatment and Disposal Plant

Account #	Description	Amount
362	Receiving Wells	\$ 47,776
363	Electric Pumping Equipment.	\$ 69,018
372	Treatment & Disposal Facilities	<u>\$ 1,721,391</u>
	Total	\$ 1,838,185

Existing Plant Capacity 530,000 Gallons per Day (GPD)

Existing Plant Customer Capacity 1,432
(at design usage of 370 gpd/customer)

Price per GPD for Existing Treatment Plant \$3.47

CIAC Requirement per Customer for Existing Plant \$1,283

New Capacity Charge Calculation

\$8.00 per GPD New Construction Cost x 370 GPD \$2,960

Less: Prior CIAC Over Collection \$309

Amount of CIAC to be Collected \$2,651

Increase from Existing CIAC Fee \$1,051