BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of	)	
Gascony Water Company, Inc. for a	)	File No. WR-2017-0343
Rate Increase	)	

GASCONY'S INITIAL POST-HEARING BRIEF

COMES NOW Gascony Water Company, Inc. ("Gascony" or "Company"), by and through counsel, and submits its Initial Post-Hearing Brief for consideration by the Missouri Public Service Commission ("Commission"):

Introduction

Gascony was incorporated in January of 1998 and became a regulated water company under the jurisdiction of the Commission in April of 1999 (Case No. WA-97-510). The Company was developed to provide adequate facilities and maintain continuity of water service to customers in Gascony Village, which consists of 755 privately owned lots sitting on approximately 235 acres in rural Gasconade County, Missouri. Gascony Village is governed by a homeowners' association and a board of directors that is elected by the property owners.

The Company provides service to approximately 180 customers, consisting of 26 full-time, 156 part-time, and 3 commercial customers. The commercial customers, a swimming pool and pool house, a community kitchen, and a dump station, are owned by the homeowners' association. The Company's water system consists of a well, storage tank, well house, and approximately 6½ miles of supply mains. The storage tank holds approximately 1,000 gallons of water, and the supply mains are primarily 2-inch and 2½-inch PVC piping.

George Hoesch and Jim Russo provided testimony on behalf of the Company in this matter. Mr. Hoesch, the certified operator for the utility, is the Company's president. Mr. Russo, a former Commission Staff member, is self-employed as a consultant and was retained by

Gascony to assist the Company with expert witness matters. Mr. Russo's Direct Testimony is Exhibit 1, and his Surrebuttal Testimony is Exhibit 2. Mr. Hoesch's Direct Testimony is Exhibit 3, and his Surrebuttal Testimony is Exhibit 4.

Policy Considerations

A rulemaking is pending to rescind the rule which contains the current small utility rate case procedure, 4 CSR 240-3.050, and replace it with 4 CSR 240-10.075, the "Staff Assisted Rate Case Procedure Rule." Both versions of the rule are designed for utilities like Gascony, an unsophisticated, small water utility. Unfortunately, Gascony has not been assisted by Staff in this rate case process.

At the Commission's agenda meeting on March 7, 2018, the Commission discussed another proposed rule – one to provide incentives for larger companies to step in and acquire nonviable small water and sewer utilities. Perhaps some of the small utilities would be able to remain viable, if their rates were truly just and reasonable – instead of primarily being the result of one-sided negotiations between an unsophisticated utility owner and the Commission's Staff.

Mr. Hoesch did not want to have an evidentiary hearing in this matter. He did not want to hire a lawyer and an expert witness. But he knew he could not accept Staff's recommendations and remain a viable utility. Gascony is having to fight for every dollar necessary to keep the utility in business. If Staff is not opposing the Company on an issue, then the Office of the Public Counsel ("OPC") is fighting the Company on the issue. The lengths to which OPC has gone in this case to try to prevent Gascony from being awarded a reasonable revenue requirement is illustrated by OPC's position on mileage. Staff's adversarial stance is illustrated by Staff's position and evidence on the issue of salary expense.

The Company is seeking an increase from the rates which were originally authorized in the 1998-99 CCN proceeding – nearly 20 years ago. Revenues generated by current tariffed rates (those set in 1999) are approximately $36,296. The Company is requesting an increase of $21,001, while Staff supports an increase of only $1,231, and OPC supports an increase of only $952. How can a small utility remain viable when Staff and OPC fight to keep a revenue requirement increase at approximately $1,000 over a 20-year period?

Discussion of Contested Issues

1. Revenue Requirement / Expenses

a. What amount of President of Company's compensation should be included in Company's cost of service?

RESPONSE: A total annual salary for Mr. Hoesch of $27,510 should be included in the Company's cost of service. Mr. Hoesch, as the certified operator for the utility and the owner and manager of the Company, has both managerial and operational responsibilities. When Staff first met with Mr. Hoesch, he did not consider his managerial tasks. These tasks, however, are necessary for the operation of the utility, and documentation of all duties performed by Mr. Hoesch were provided to Staff as the case progressed. Mr. Hoesch's managerial hours are summarized in Schedule 2 to Mr. Russo's Direct Testimony, Ex 1.

Staff recommends that the cost of service for the Company include only $15,000 for Mr. Hoesch's salary, including both operational and managerial duties. This is the exact amount included for Mr. Hoesch's salary approximately 20 years ago. Staff witness Taylor was asked about this recommendation, and he testified that Staff's recommendation for Mr. Hoesch is in line with the salaries for other small utilities, pointing to Schedule MJT-r7 of Ex. 102. Tr. Vol. 2, pp. 153-154.

This list provided by Staff does not contain sufficient information to allow for a fair comparison. For example, Staff included salary and travel expenses for the listed companies, but did not include related items such as labor contracts and other fees for services. Staff also failed to explain to the Commission that all but one of the listed cases was resolved through company-Staff settlement agreements. In other words, Staff's testimony in this case is simply that its recommendation for Mr. Hoesch's salary is consistent, in terms of the average annual cost per customer, with Staff's positions in other cases. The Report and Order in the one case which was tried to the Commission (File No. SR-2013-0321) authorized inclusion of approximately $34,500 for salary ($23,710.70 for Mr. Kallash and $10,783.77 for Mrs. Kallash) in the cost of service for the utility serving 122 customers.

Gascony serves 180 customers and is requesting that an annual salary for Mr. Hoesch of $27,510 be included in the Company's cost of service, based on the ample evidence provided regarding Mr. Hoesch's operational and managerial duties. Staff's and OPC's unreasonable recommendations for salary expense should be rejected by the Commission, and a total overall annual salary of $27,510 for Mr. Hoesch should be included in the Company's cost of service.

Russo Direct, pp. 3-5.
Russo Surrebuttal, pp. 2, 3-9.
Hoesch Surrebuttal, pp. 7-10.

b. What amount of office rents should be included in Company's cost of service?

RESPONSE: The appropriate level of rent for the Saint Louis office is $2,159 annually. The appropriate level of rent expense for the Gascony Village office is $2,210 annually. Staff and OPC argue that only $1,500 should be included in the cost of service for rent. Again, this is the exact amount included almost 20 years ago; with no adjustment for inflation, no recognition of the fact that the current Gascony Village office is larger than the office used 20 years ago, and no recognition of the fact that both the St. Louis in-home office and the on-site office are necessary for the provision of utility service.

As explained by Mr. Russo, Gascony is unique in its remote location and customer composition. Gascony Village consists of camping lots that are visited primarily on weekends from property owners that live outside of the area. Approximately 85% of the Company's customers are comprised of these weekend visitors. Mr. Hoesch performs the majority of the operational activities on weekends, which makes him available to meet with the customers of the Company during their visits.

These weekend visits are during what would be considered non-normal business hours. Mr. Hoesch then uses his small Saint Louis office to complete the management activities that take place during normal business hours. In addition, the Company's business records are kept at this location. It would not be practical, from an economic or logistical standpoint, for the Company to maintain only one office location.

Staff and OPC's unreasonably low recommendation for rent expense should be rejected, and, based on the evidence presented by Gascony, an annual amount of $4,369 should be included in the Company's cost of service for office rent.

Russo Direct, pp. 5-7.
Hoesch Direct, pp. 7-8.
Russo Surrebuttal, pp. 9-10.
Hoesch Surrebuttal, pp. 10-11.

c. What amount of travel expense relating to President of Company's travel costs should Company be allowed to include?

RESPONSE: The Commission should continue the practice of allowing the Company to recover mileage reimbursement at the federal mileage rate. OPC's recommendation to the contrary should be rejected.

OPC witness Roth was asked about her mileage recommendation for this case and was unable to provide any justification for OPC's position in this case that a mileage rate published by the state of Missouri should be used instead of the federal mileage reimbursement rate. At the evidentiary hearing, OPC attorneys and witnesses frequently mentioned a distinction between a tax deduction and a mileage reimbursement. When pressed, however, Ms. Roth could not provide a single example of when something other than the federal mileage reimbursement rate was used in a Missouri rate case. Tr. Vol. 2, pp. 195-199.

Hoesch Direct, p. 8.
Russo Surrebuttal, p. 15.

d. What is the appropriate amount of rate case expense to include in the cost of service for Company and what is the appropriate mechanism to apply to rate case expense costs for Company?

RESPONSE: The Company should be allowed to include in its cost of service the total amount of prudently incurred rate case expenses, including legal and expert witness fees, to be amortized over a period of six years. Gascony kept rate case expenses to a minimum, with a total of only three people working on this rate case for the Company – George Hoesch, Jim Russo, and Diana Carter. Also, the Company agreed with Staff on its recommendations for capital structure, ROE, and many operating conditions, limiting the issues to be tried. Mr. Hoesch knew that the Company could not remain viable if all of Staff's recommendations were accepted and the revenue requirement was only increased by approximately $1,200.

Russo Direct, pp. 7-8.
Russo Surrebuttal, pp. 10-12.

e. What amount of depreciation expense should be included and what is the mechanism to apply such depreciation?

RESPONSE: $3,358 in depreciation expense should be included.

Russo Surrebuttal, Schedule SUR-jr1.

f. What is the total annual revenue required to recover the cost of providing utility service to Company's customers?

RESPONSE: The total revenue requirement for the Company is approximately $57,300. Revenues generated by current tariffed rates (those set in 1999) are approximately $36,296. An increase of $21,001 is required in order for the Company to recover the present cost of providing utility service to its customers. In contrast, Staff supports an increase of only $1,231 over the revenue requirement authorized for the Company in 1999 – nearly 20 years ago, and OPC supports an increase of only $952.

Russo Direct, p. 10.
Russo Surrebuttal, Schedule SUR-jr1.

2. Rate Base

a. Should Company be allowed to include in its rate base values real property identified as Lot 27 and real property identified as the Storage Building Lot (also referred to as the Shed Property or Shed Lot)? If so, what is a reasonable amount to be allowed?

RESPONSE: Yes, rate base should include values for the real property identified as Lot 27 ($10,000) and the Storage Building Lot ($7,500).

The Company did not own Lot 27 at the time of the original CCN case. In 1989, Gasc-Osage Realty Company, Inc., the predecessor to the regulated water company, deeded the land to the children of Mr. Hoesch. This event occurred approximately ten years before the existence of the regulated utility. In his direct testimony in the CCN case, Mr. Hoesch testified that the utility *will* own the land. Mr. Hoesch is trying to make that happen today, and it would be unjust and unreasonable to exclude this newly acquired property from the Company's rate base.

Similarly, the real estate on which the storage building sits should not be excluded from rate base. The storage building lot was a necessary purchase long after the original CCN case and the original development of the system and had nothing to do with the original development.

Although Staff described this as a "shed," the 20 by 24 feet structure includes 6" studded walls attached to a cement floor with footings. There is a steel entry door and an insulated steel garage door with an electric garage door opener that is connected to a numeric keypad for entry. The Company has a work bench installed in the work area of one comer of the building and uses the storage building to house the trencher, gator, and miscellaneous tools and spare parts, as well as the back-up generator that may be required in order for the utility to provide water service.

Russo Direct, pp. 8-9.
Hoesch Direct, pp. 5-6.
Russo Surrebuttal, pp. 2-3.
Hoesch Surrebuttal, pp. 1-4.

b. Should Company be allowed to include in its rate base values equipment identified as a trencher and a utility task vehicle ("UTV")? If so, what is a reasonable amount to be allowed?

RESPONSE: Yes, rate base should include values for the trencher ($8,000) and the UTV ($3,500). The Company placed the trencher in service in July of 2015, and the Company placed the UTV in service in September of 2015. The uses for these items are described in Mr. Hoesch's Direct Testimony, Ex. 3.

Russo Direct, pp. 9-10.
Hoesch Direct, pp. 6-7.
Hoesch Surrebuttal, pp. 4-7.

3. Rate Design: What are the appropriate Customer Equivalency Factors that will be used to determine rates for the various customer classes?

RESPONSE: The customer equivalent factor (for comparing part-time and full-time customers) should be increased from .35 to .5. Additionally, the swimming pool customer equivalent factor should be increased from 3.56 to 6; the kitchen customer equivalent factor should be increased from 0.565 to 2; and the dump station customer equivalent factor should be increased from 1.65 to 2.5.

Russo Direct, pp. 12-16.
Russo Surrebuttal, pp. 12-13.

4. Miscellaneous: Should the Company ensure all new customers complete an application for service per the Company's tariff and should this requirement be completed within thirty (30) days of the resolution of the case?

RESPONSE: The Company has no objection to implementing the Staff-suggested policy of requiring new customers to complete an application for service per the Company's tariff.

The dispute between the parties is regarding the Staff-suggested requirement, which is supported by OPC, that the Company "complete" the requirement within thirty days. The Company submits that there is no way to "complete" this requirement within thirty days. There may not be new customers within the thirty days following resolution of this case, and, of course, there may be new customers following the first thirty-day period. The Company has no objection to making an application available, per the Company's tariff, for new customers to fill out upon a request for new service.

Russo Direct, pp. 17-18.
Russo Surrebuttal, pp. 13-14.

WHEREFORE, Gascony respectfully submits its Initial Post-Hearing Brief. Gascony requests a revenue requirement increase of increase of $21,001 and such additional relief as is just and proper under the circumstances.

/s/ Diana C. Carter
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CERTIFICATE OF SERVICE

I hereby certify that the above and foregoing document was filed in EFIS on this 6th day of April, 2018, with notice of the same being sent to all counsel of record.

/s/ Diana C. Carter________