

Exhibit No.:
Issue: Accounting Schedules
Witness: Lisa K. Hanneken
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case Nos.: SR-2013-0321 and
WR-2013-0322
Date Testimony Prepared: September 4, 2013

**MISSOURI PUBLIC SERVICE COMMISSION
REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

**DIRECT TESTIMONY
OF
LISA K. HANNEKEN**

Staff 1

**LINCOLN COUNTY SEWER & WATER, LLC
CASE NOS. SR-2013-0321 and WR-2013-0322**

*Jefferson City, Missouri
September 2013*

Staff Exhibit No. 1
Date 11-05-13 Reporter KF
File No. SR-2013-0321
WR-2013-0322

1 **DIRECT TESTIMONY**

2 **OF**

3 **LISA K. HANNEKEN**

4 **LINCOLN COUNTY SEWER & WATER, LLC**

5 **CASE NOS. SR-2013-0321 and WR-2013-0322**

6 Q. Please state your name and business address.

7 A. Lisa K. Hanneken, 111 N. 7th Street, Suite 105, St. Louis, MO 63101.

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

9 A. I am employed by the Missouri Public Service Commission ("Commission") as
10 a Utility Regulatory Auditor V in the Auditing Unit of the Utility Services Department,
11 Regulatory Review Division.

12 **BACKGROUND OF WITNESS**

13 Q. Please describe your educational background, work experience and any cases in
14 which you have previously filed testimony before this Commission.

15 A. My credentials and listing of cases in which I have filed testimony previously
16 before this Commission are attached to this direct testimony as Schedule LKH-1.

17 **EXECUTIVE SUMMARY**

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

19 A. My direct testimony will address the background of Lincoln County Sewer &
20 Water, LLC (LCSW or Company) and its current rate case.

21 In addition, I am sponsoring Staff's accounting schedules which will be filed
22 concurrently with this direct filing.

1 **COMPANY AND SYSTEM BACKGROUND**

2 Q. Please describe LCSW's background.

3 A. LCSW filed documents with the Secretary of State on May 9, 2011, and is owned
4 by Dennis Kallash. Among other business interests, Mr. Kallash is involved with subdivision
5 development including the two subdivisions within the service areas, Bennington and Rockport.
6 LCSW owns and operates the Bennington and Rockport water and sewer systems. In the past,
7 these systems have been owned and operated by other entities in which Mr. Kallash is involved.
8 Prior to Commission approval of LCSW's application in its certification cases, Nos. WA-2012-
9 0018 and SA-2012-0019, certain operational aspects of the water and sewer systems were
10 governed by subdivision covenants and by-laws. Once the Commission approved the Unanimous
11 Stipulation and Agreement in LCSW's certificate cases, LCSW became the entity responsible for
12 the utility services previously operated as part of the Bennington and Rockport developments.
13 LCSW then filed tariffs, which were approved for its operations, and the covenants and by-laws
14 of Bennington and Rockport ceased to apply to those operations.

15 Bennington is located about a mile west of Troy, Missouri. This subdivision currently
16 has fifty (50) water customers and fifty-one (51) sewer customers. Rockport is located
17 several miles south of Troy, Missouri. At present, this subdivision has seventy-two (72) water
18 and sewer customers.

19 Q. Does Mr. Kallash own any other entities that conduct business with LCSW?

20 A. Yes, Mr. Kallash has stated he owns DK Deer Farm, which is paid by LCSW to
21 haul sludge for ultimate land application on DK Deer Farm's property. However, Staff has been
22 unable to verify the ownership of DK Deer Farm through the Missouri Secretary of State website
23 as there is no business with this name currently listed.

1 Additionally, Mr. Kallash has stated he owns Fitch and Associates, a surveying firm in
2 Troy, MO. Again, the Missouri Secretary of State website does not list an active business by this
3 name, therefore Staff is unable to verify the ownership. Mr. Kallash frequently utilizes Fitch
4 and Associates vehicles to conduct utility business. Staff has addressed the reimbursement of
5 Mr. Kallash for transportation required to conduct utility business in its inclusion of vehicle
6 expense in its cost of service calculations.

7 **RATE CASE BACKGROUND AND RESULTS**

8 Q. When did the current rate case (Case Nos. SR-2013-0321 and WR-2013-0322)
9 begin?

10 A. LCSW filed its application for a rate increase on December 4, 2012, in which it
11 requested an increase of \$13,382 in its annual sewer system operating revenues and \$7,569 in its
12 water system operating revenues.

13 Q. What test year was chosen for the audit?

14 A. The Auditing Staff initially recommended a test year in this case of the
15 twelve-months ending September 30, 2012; however, later it became apparent that adequate data
16 could not be obtained from LCSW for that time period. Therefore, in relation to a 60-day
17 extension for filing of Staff's recommendation approved by the Commission on March 4, 2013,
18 the Auditing Staff revised the test year to the twelve-months ending December 31, 2012, updated
19 through March 31, 2013. However, while more of the information that Staff would rely upon in
20 a rate case audit was available from LCSW for the revised period than in the prior test year, there
21 was still considerably less data available from the Company related to the revised test year than
22 would normally be provided by a water or sewer utility in a rate audit.

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Lisa K. Hanneken

1 Q. What difficulties did Staff encounter in gathering the basic data required for
2 its audit?

3 A. The Auditing Staff discovered during the course of its audit that the Company had
4 disposed of much of its historical records related to the utility operations and rate base. In
5 addition, in certain instances, LCSW declined to provide requested historical documentation
6 based on its determination that the documentation was irrelevant since it pertained to the time
7 period prior to LCSW becoming a regulated utility (i.e., July 2012). Staff explained that
8 documentation pertaining to the test year in a rate case is relevant and should be available to
9 Staff for its audit, particularly given that the Company agreed to maintain such documentation in
10 the Unanimous Stipulation and Agreement approved by the Commission in LCSW's previous
11 certification cases, Nos. WA-2012-0018 and SA-2012-0019. It should be noted that LCSW has
12 also been either unable or unwilling to provide certain information requested by Staff related to
13 the time period subsequent to becoming certificated in July 2012. The result of LCSW's actions
14 in this regard was that Staff did not have access to much of the normal audit data applicable to
15 both the original test year and the revised test year established for the current cases.

16 LCSW's failure to provide audit information in this case is not consistent with the
17 Company's practice in its previous certification cases, Nos. WA-2012-0018 and SA-2012-0019.
18 During those cases, Staff was provided with historical data which allowed it to perform its audit
19 and develop water and sewer revenue requirements using a full twelve months of historical test
20 year data. Given the current lack of data, Staff was unable to verify a significant portion of the
21 expenses and revenues applicable to either the Company's initial or revised test year periods set
22 in this proceeding. Therefore, Staff's accounting schedules show no costs or revenues for the test

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Lisa K. Hanneken

1 year as a starting place for its adjustments in the income statements; instead, Staff has simply
2 calculated its adjustment amounts as the entire allowance for each revenue and expense item.

3 Notwithstanding the Auditing Staff's lack of access to certain data that would normally
4 be provided by utilities as part of the rate case audit process, the Auditing Staff believes it was
5 generally able to make a reasonable and conservative determination of the appropriate levels of
6 revenues, expenses and rate base that should be included in the Company's cost of service.

7 In the Company's certification cases, Staff discussed with the Company the need to keep
8 adequate documentation and the need to be able to segregate the costs of one subdivision
9 from another, as well as to be able to segregate financial results between water and sewer
10 systems. In LCSW's prior certificate cases, Nos. WA-2012-0018 and SA-2012-0019, LCSW
11 agreed to certain record keeping requirements as part of its stipulation and agreement approved
12 by the Commission. These requirements included proper record retention and reporting of
13 revenues, expenses, and rate base items per Uniform System of Accounts (USOA) guidelines. In
14 addition, LCSW agreed to keep adequate timesheets and mileage logs which would allow Staff
15 to make a determination of the related expenses in future rate cases. The Auditing Staff's
16 experience in this rate proceeding indicates that LCSW has failed to abide by the recordkeeping
17 requirements contained within the certificate case stipulation and agreement.

18 Q. Did LCSW ultimately provide the Staff with adequate documentation needed to
19 perform its audit in all instances?

20 A. No. There are still items for which the Auditing Staff had to rely on estimated
21 revenue and expense amounts, instead of historical accounting information, in order to provide a
22 complete cost of service for LCSW. In addition, there are items LCSW has requested Staff

1 include in rates in these cases but for which the Company has not provided the necessary
2 documentation to Staff in order for those items to be considered for inclusion in Staff's case.

3 Q. What revenue requirement has resulted from Staff's calculations in this case?

4 A. Overall, Staff is recommending a reduction on a total company basis of \$8,598.

5 This is broken down by system as follows:

6

| System Name | Staff Proposed Increase/(Decrease) |
|------------------|---------------------------------------|
| Bennington Sewer | \$(2,199) |
| Bennington Water | \$1,186 |
| Rockport Sewer | \$(4,920) |
| Rockport Water | <u>\$(2,665)</u> |
| Total | \$(8,598) |

7
8 Q. What does Staff recommend regarding the lack of books and records for LCSW?

9 A. Staff would recommend that, as a result of this immediate case, the Commission
10 order LCSW to:

- 11
- 12 • Adhere to Commission Rule 4 CSR 240-61.010 for sewer and 4 CSR 240-50.020 for water regarding required records retention;
 - 13 • Adhere to Commission Rule 4 CSR 240-61-020 for sewer and 4 CSR 240-50.030 for water regarding maintaining its books and records in
14 accordance with the appropriate Uniform System of Accounts;
 - 15 • Keep appropriate timesheets and vehicle logs as agreed to in the
16 Unanimous Stipulation and Agreement in LCSW's prior certificate cases,
17 Nos. WA-2012-0018 and SA-2012-0019, and recommended in this case
18 by Staff's Engineering and Management Services Unit.
19

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1 Q. What actions would Staff take should LCSW fail to comply with Commission
2 Rules and/or any Commission Report and Orders?

3 A. Staff would have the option to file a complaint against LCSW to address any
4 continued violation of Commission Rules and/or Commission Report and Orders.

5 Q. Does this conclude your direct testimony?

6 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Lincoln County)
Sewer and Water, LLC for Approval Of a Rate) Case No. SR-2013-0321
Increase)
)
)
In the Matter of the Application of Lincoln County)
Sewer and Water, LLC for Approval Of a Rate) Case No WR-2013-0322
Increase)
)

AFFIDAVIT OF LISA K. HANNEKEN

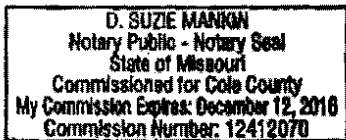
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Lisa K. Hanneken

Subscribed and sworn to before me this 4th day of September, 2013.





Notary Public

CASE PROCEEDING PARTICIPATION

LISA K. HANNEKEN

| COMPANY | CASE NO. | ISSUES |
|--------------------------------------|-----------------|---|
| Emerald Pointe Utility Company, Inc. | SR-2013-0016 | <u>Direct</u> – City of Hollister Fees; <u>Surrebuttal</u> – Rate Base Items |
| Laclede Gas Company | GO-2013-0352 | <u>ISRS filing</u> – Supervision |
| Liberty Utilities | GO-2013-0048 | <u>ISRS filing</u> – Supervision |
| Missouri American | WO-2012-0401 | <u>ISRS filing</u> – Supervision |
| Laclede Gas Company | GO-2012-0356 | <u>ISRS filing</u> – Supervision |
| Meramec Sewer Company | SR-2012-0309 | <u>Informal Rate Case</u> – Lead Auditor |
| AmerenMissouri | ER-2012-0166 | <u>Direct</u> – Fuel, Taum Sauk Failure, Callaway Refueling, Fuel Inventory, Coal Refinement, Off-System Sales, Capacity Sales, Midwest Independent Transmission System Operator (MISO), Westinghouse Credits, Rate Case Expense, Outside Services, Costs associated with Owensville Acquisition, Project First; <u>Surrebuttal</u> – Rate Case Expense, Fuel, Intangible Assets, Changes to Staff's Cost of Service |
| Lincoln County Sewer & Water | WA-2012-0018 | <u>Informal Rate Case</u> – Lead Auditor, Rate Base, Maintenance, Sludge, Vehicles, Payroll, Legal, Exhibit Modeling System (Accounting Schedules) |

| COMPANY | CASE NO. | ISSUES |
|-----------------------------------|--------------|--|
| House Springs Sewer Co. | SR-2011-0274 | <u>Informal Rate Case</u> – Lead Auditor, Payroll, Rate Base, Accounting, Insurance, Utilities, Sludge, Vehicles, Property Taxes, Miscellaneous Expenses |
| Laclede Gas Company | GO-2011-0361 | <u>ISRS filing</u> – Supervision |
| Missouri American | WO-2011-0106 | <u>ISRS filing</u> – Supervision |
| Missouri American / Aqua Missouri | WO-2011-0168 | <u>Sale Case</u> – Rate Base Determination |
| AmerenMissouri | ER-2011-0028 | <u>Direct</u> – Fuel, Maintenance, AMS Allocations, Taum Sauk Failure, SO2 Tracker, Callaway Refueling, Fuel Inventory, Off-System Sales, Capacity Sales, Westinghouse Credits; <u>Surrebuttal</u> – Coal Power Plant Maintenance, Limestone Expense, Taum Sauk Failure, Sioux Plant Coal Costs |
| Atmos Energy Corporation | GO-2011-0149 | ISRS filing |
| Aqua Missouri | SW-2011-0103 | Single Tariff Pricing |
| Laclede Gas Company | GO-2011-0058 | ISRS filing |
| AmerenUE | ER-2010-0028 | <u>Direct</u> – Fuel, Maintenance, AMS Allocations, Taum Sauk Failure, SO2 Tracker, Callaway Refueling, Fuel Inventory, Off-System Sales, Capacity Sales, Westinghouse Credits |

| COMPANY | CASE NO. | ISSUES |
|---------------------------------|--|---|
| Mill Creek Sewer Company | SO-2010-0237 | <u>Receivership</u> – Testified regarding company status |
| Atmos Energy Corporation | GO-2010-0168 | ISRS filing |
| Laclede Gas Company | GR-2010-0171 | <u>Direct</u> - Lead Auditor, EMS, Allocations, Uncollectibles, Revenues, Franchise Tax, GRT Tax, Gov. Affairs, Postage Exp., Legal Exp., Gasoline Exp., Cust. Dep, Cust. Advances, Special Deposits, Prepayments, CWC, Rate Case Exp. <u>Surrebuttal</u> – Uncollectibles |
| Aqua Missouri | SC-2010-0150 SC-2010-0152 WC-2010-0151 WC-2010-0153 | Compliant Cases |
| Aqua Missouri | SR-2010-0026 SR-2010-0023 WR-2010-0025 WR-2010-0027 | Informal Rate Case – Lead Auditor, EMS, Rate Base, Revenue, Corporate Allocations, Income taxes |
| Mill Creek Sewer Company | SR-2005-0116 | <u>Informal Rate Case</u> – Quarterly Reviews |
| AmerenUE Gas Company | GT-2009-0413 | ISRS filing |
| Atmos Energy Corporation | GO-2009-0046 | ISRS filing |
| Peaceful Valley Service Company | SR-2009-0146 WR-2009-0145 | <u>Informal Rate Case</u> – Lead Auditor |
| Cannon Home Association | SR-2009-0144 | <u>Informal Rate Case</u> – Lead Auditor |

| COMPANY | CASE NO. | ISSUES |
|------------------------------------|--|--|
| AmerenUE Gas Company | GT-2009-0038 | ISRS filing |
| Laclede Gas Company | GO-2009-0029 | Abandonment Case – Recommendation Submission |
| Aqua Missouri | SR-2008-0267 SR-2008-0368 WR-2008-0266 WR-2008-0269 | Informal Rate Case – Lead Auditor for part of time, EMS, Rate Base, Payroll, Corporate Allocations, Misc. Expenses |
| Laclede Gas Company | GO-2008-0067 | Abandonment Case – Recommendation Submission |
| Missouri American Water Company | WR-2007-0216 | <u>Direct</u> – Lead Auditor, Allocations, Payroll and Payroll Taxes, Employee Benefits, Incentive Compensation |
| AmerenUE Electric Company | ER-2007-0002 and GR-2007-0003 | <u>Direct</u> – Corporate Allocations and Expenses, Payroll and Payroll Taxes, Employee Benefits, Incentive Compensation, Miscellaneous Expenses |
| Atmos Energy Corporation | GR-2006-0387 | <u>Direct</u> – Lead Auditor, Corporate Allocations and Expenses, Payroll and Payroll Taxes, PSC Assessment, Taxes Other, Legal Fees |
| Central Jefferson County Utilities | QS-2006-0003 | <u>Small Co Rate Request</u> – Lead Auditor, Rate base, payroll, affiliated transactions |
| Evergreen Lakes Water Company | QW-2005-0007 | <u>Informal Rate Case</u> – All issues |
| Central Jefferson County Utilities | SF-2004-0587 | <u>Finance Case</u> – All issues except revenues |
| TBJ Sewer System, Inc. | SR-2003-0244 | <u>Informal Rate Case</u> – All issues |

| COMPANY | CASE NO. | ISSUES |
|---------------------------------|--------------|--|
| Central Rivers Wastewater, Inc. | N/A | <u>Rate Review</u> – All issues related to review |
| Fidelity Telephone Company | IR-2004-0272 | <u>Direct</u> - Rate Base and Related Expenses; Insurance Other Than Group; Miscellaneous Other Taxes |
| Missouri American Water Company | WR-2003-0500 | <u>Direct</u> – Rate Base and Related Expenses, AFUDC, Dues and Donations, Waste Disposal Expense, Storage Tank Lease Expense, Deferred Maintenance Expense, Transportation Expense, Insurance Other Than Group, Cost of Depreciation Study Expense <u>Surrebuttal</u> – AFUDC, Dues and Donations, St. Joseph Waste Disposal Expense, Transportation Expense, Property Taxes |
| Laclede Gas Company | GR-2002-356 | <u>Direct</u> - Cash Working Capital, Rate Case Exp./PSC Assessment, Advertising, Misc. Expense |