

Exhibit No.:  
Issues: Rate Base, Cost of Service,  
Rate Design and Tariffs  
Witness: James A. Merciel, Jr.  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Rebuttal Testimony  
File No.: WA-2012-0066  
Date Testimony Prepared: May 11, 2012

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**JAMES A. MERCIEL, JR.**

**MISSOURI-AMERICAN WATER COMPANY**

**FILE NO. WA-2012-0066**

*Jefferson City, Missouri  
May 2012*

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

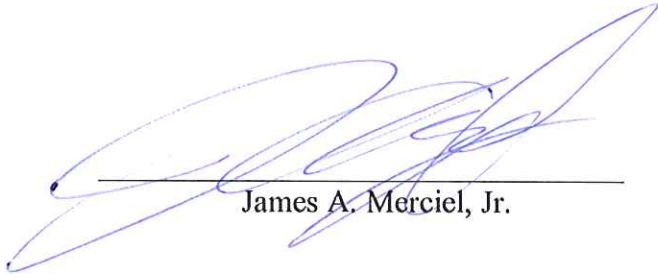
In the Matter of Missouri-American Water )  
Company for a Certificate of Convenience )  
and Necessity Authorizing it to Install, )  
Own, Acquire, Construct, Operate, )  
Control, Manage and Maintain Water and )  
Sewer Systems in Christian and Taney )  
Counties, Missouri. )

File No. WA-2012-0066

**AFFIDAVIT OF JAMES A. MERCIEL, JR.**

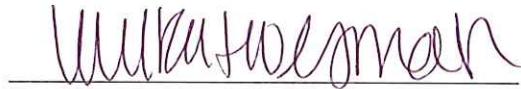
STATE OF MISSOURI    )  
                                  ) ss  
COUNTY OF COLE     )

James A. Merciel, Jr., of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 11 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal 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 A. Merciel, Jr.

Subscribed and sworn to before me this 11<sup>th</sup> day of May, 2012.

LAURA HOLSMAN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 21, 2015 Commission Number: 11203914
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Notary Public

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JAMES A. MERCIEL, JR.**

4 **MISSOURI-AMERICAN WATER COMPANY**

5 **FILE NO. WA-2012-0066**

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11  
12 Q. Please state your name and business address.

13 A. James A. Merciel, Jr., P. O. Box 360, Jefferson City, Missouri, 65102.

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

15 A. I am employed by the Missouri Public Service Commission (Commission) as a  
16 Utility Regulatory Engineering Supervisor, in the Water and Sewer Unit.

17 **Background of Witness**

18 Q. Please describe your education and work experience.

19 A. I graduated from the University of Missouri at Rolla in 1976 with a Bachelor  
20 of Science degree in Civil Engineering. I am a Registered Professional Engineer in the State  
21 of Missouri. I worked for a construction company in 1976 as an engineer and surveyor, and  
22 have worked for the Commission in the Water and Sewer Unit since 1977.

23 Q. What are your work responsibilities at the Commission?

24 A. My responsibilities include reviewing information and making  
25 recommendations with regard to certifications for new water and sewer utilities, sales of  
26 utility systems, formal complaint cases, and technical issues associated with water and sewer  
27 utility rate cases. In addition to formal case work, I handle informal customer complaints that  
28 are of a technical nature, conduct inspections and evaluations of water and sewer utility  
29 systems, and informally assist water and sewer utility companies with respect to day-to-day

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1 operations, planning, and customer service issues. In the past, I have supervised engineers  
2 and technicians in the Water and Sewer Unit working on the above-described type of case  
3 work and informal matters. In the context of my position with Staff, I served on the American  
4 Water Works Association Small Systems Committee for three years, and have served on the  
5 National Association of Regulatory Utility Commissioners Staff Subcommittee on Water for  
6 approximately the past sixteen (16) years.

7 Q. Have you testified before the Commission previously?

8 A. Yes. A list of cases in which I have provided testimony is included as Schedule  
9 JAM 1 to this Rebuttal Testimony.

10 **Executive Summary**

11 Q. What is the purpose of this Rebuttal Testimony?

12 A. The purpose of my Rebuttal Testimony is to state Staff's position  
13 recommending that the Commission grant a Certificate of Convenience and Necessity (CCN)  
14 to Missouri-American Water Company (MAWC or Company) for its proposed Saddlebrooke  
15 service area, and, along with Staff witness Paul R. Harrison, to present Staff's position on rate  
16 base, utility plant capacity disallowance, and rates recommended by Staff to be applicable to  
17 the proposed Saddlebrooke service area. Also, to respond to some specific statements made  
18 by Company witness Dennis R. Williams, and Intervenor AG Processing (AGP) witness  
19 Donald E. Johnstone, who filed Direct Testimony in this case.

20 **Rate Base**

21 Q. Does Staff have a recommendation regarding the appropriate level of rate base  
22 with respect to the Saddlebrooke water and sewer systems?

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1           A.     Yes. Staff's position, with respect to rate base, was included in the Staff's  
2 Recommendation that was filed in this case on January 6, 2012. A copy of the public version  
3 of Staff's Recommendation is attached and incorporated herein as Schedule JAM 2 to this  
4 Rebuttal Testimony; however instead of the rates as shown in the Staff Recommendation,  
5 Staff is recommending updated rates, as described in this Rebuttal Testimony. The costs of  
6 the various specific components were included in the Auditing Unit's EMS runs that were  
7 attached to the Staff Recommendation. An updated EMS run is included with the Rebuttal  
8 Testimony of Staff witness Paul R. Harrison.

9           Q.     Did you participate in determining the rate base?

10          A.     Yes. Because of the limited information available in terms of records from the  
11 current owner of the Saddlebrooke utility systems, I made estimates of the costs of some of  
12 the plant items that are in service, and I reviewed information that is available for some plant  
13 items, in order to assist in a determination of rate base.

14          Q.     What is the rate base level recommended by Staff?

15          A.     Staff recommends a rate base of \$445,628. This number is also being  
16 supported by Staff witness Paul R. Harrison. A worksheet showing investment, depreciation  
17 reserve, and contribution-in-aid-of-construction (CIAC) is included as Schedule JAM 3, and  
18 incorporated herein by reference.

19          Q.     Please describe how Staff's position on rate base was determined?

20          A.     Staff quantified a level of rate base that reflects the capital cost of the well,  
21 water storage tank, and sewage treatment facility, which includes associated real estate,  
22 structures and mechanical and electrical parts. These are the components that are generally  
23 included in the rate base of most water and sewer utilities. Original cost information is not

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1 available and verifiable for all plant that is in service for the Saddlebrooke system however, so  
2 using its experience with multiple CCN cases, Staff studied the cost information that was  
3 available by memorandums and correspondence between the subdivision developer and  
4 suppliers or contractors, and also estimated costs of some plant items. Then, appropriate  
5 depreciation was applied to the estimated original costs of the above described facilities in  
6 order to determine rate base.

7 Notably, the existing water and sewer systems have some deficiencies for which  
8 improvements must be undertaken for safe, reliable continued operations, and compliance  
9 with environmental regulations. The plant additions necessary to address the deficiencies  
10 include security fencing for the water well and tank site, a spare well pump to be available  
11 quickly for replacement when that becomes necessary, security fencing for the sewage  
12 treatment facility site, and an additional groundwater monitoring well for the sewage effluent  
13 land application area. The monitoring well and security fencing are required by the Missouri  
14 Department of Natural Resources (DNR), and an available spare pump is good practice, and  
15 necessary for reliability of continued water service. These plant additions were also described  
16 in detail in the Company's *Application* and in the Staff Recommendation filed on January 6,  
17 2012. The estimated capital cost for these items is \$31,000. Staff included the estimated  
18 costs of these necessary improvements in its rate calculation, and also continues to  
19 recommend that the Company be subject to reporting back to the Commission with regard to  
20 the improvements being undertaken and the new plant items being placed into service.  
21 Whether or not Staff includes this amount for the proposed regulated entity, these plant  
22 additions would still be required immediately, or the owner of the system could face  
23 violations and possible penalties from DNR if the deficiencies are not corrected.

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1 Q. Do these plant additions that will cost an estimated \$31,000 exist at  
2 Saddlebrooke, and are they in service today?

3 A. No, these plant additions do not exist and are not in service. However, the  
4 Company proposes in its *Application* to undertake construction of fencing and the monitoring  
5 well, and acquire the spare pump, immediately after acquisition of the systems.

6 Q. Is it typical to include such proposed plant additions in rate base and the rate  
7 calculation in a CCN case?

8 A. Yes, it is quite common, and in fact consideration of a substantial amount of  
9 plant that is under construction, or has yet to be constructed, as well as estimated expenses, is  
10 inherent with many CCN cases.

11 Q. Why is plant that is not yet in service be included in rates in CCN cases?

12 A. A CCN case involves a proposal of a utility company, whether it is a new  
13 company or an existing company, to provide service in a newly proposed service area. Some  
14 CCN cases involve new utility systems that are either not yet constructed, or are not  
15 completed, and may or may not be constructed by the utility proposing to provide service.  
16 Others may involve existing systems, not yet owned by the proposed regulated utility, and it is  
17 also common for existing systems that are not properly under regulation to apply for a CCN.  
18 Some such systems often need immediate upgrading if the Commission is expected to  
19 approve a utility to provide safe and adequate service. If a CCN case involves the acquisition  
20 of an existing system, then the proposed utility is not in a position to undertake improvements  
21 to the system because that utility does not own it, and thus cannot perform work or undertake  
22 improvements. As a result, proposed plant additions that are not yet in service and estimated  
23 costs are necessary in determining adequate and appropriate rates for systems not yet



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1 regulated. For these reasons, feasibility studies are required to be included with CCN  
2 applications, to show expectations of how safe and adequate service will be provided. Such is  
3 the case with Saddlebrooke.

4 Q. Is it common to estimate expenses in a CCN case?

5 A. Similar to some of the above points about future plant, CCN cases generally  
6 require that some expenses, if not all, be estimated, because the utility proposing to provide  
7 the service usually is not yet incurring any expenses. Even if it is acquiring an existing  
8 unregulated operation where expenses can be identified, at least some expenses of the new  
9 regulated utility are going to be different than existing expenses. Future expenses that will be  
10 incurred, but must be estimated, are required to be addressed in feasibility studies submitted  
11 in CCN cases. This is much different than studying existing but changing expenses of an  
12 established utility in a rate case.

13 Q. Are estimated expenses involved in this Saddlebrooke case?

14 A. Yes, some expenses for Saddlebrooke that are used in Staff's Cost of Service  
15 are estimated. These expenses include, but are not limited to, chemical expense for which  
16 existing records were not clear; property taxes, which the existing Saddlebrooke operation did  
17 not incur but the Company will incur; and relatively small miscellaneous repair and  
18 maintenance expense which utilities experience from time to time.

19 Q. Did Staff exclude any capital costs from rate base?

20 A. Yes. The capital costs of new water distribution mains and collecting sewers  
21 are typically considered "contributed plant" and excluded from utility rate base. That  
22 exclusion was done in Staff's proposed Saddlebrooke rate base and rate calculation. In  
23 addition, certain components of the water system are operating at approximately one-fourth to

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1 one-half of the design capacity at the current customer level, and the sewage treatment plant is  
2 operating at about one-half of its design capacity at the current customer level. As a result of  
3 the extra capacity, Staff applied a disallowance of some capital cost and associated  
4 depreciation expense and reserve for the rate calculation. This was outlined in detail in the  
5 Staff Recommendation. The Company will be able to more fully recover the costs of these  
6 plant items as additional customers connect to the water and sewer systems.

7 Q. Is there anything in the Direct Testimony of Company witness Brian W.  
8 LaGrand, and attachments to his testimony that you want to respond to in your Rebuttal  
9 Testimony?

10 A. Yes, in reviewing Mr. LaGrand's testimony, it appears that the Company's  
11 position on rate base and disallowance is very similar to Staff's recommendations on those  
12 matters.

13 **Rates, Rate Design and Consolidated Rates**

14 Q. Do you have a recommendation on monthly rates to be approved for water and  
15 sewer service?

16 A. Yes. Staff calculated "stand-alone" monthly rates to be approved in its  
17 Recommendation. "Stand-alone" means that the rates are designed specifically for the  
18 Saddlebrooke service area using costs and customer water and sewer usage data that are  
19 specific to Saddlebrooke, as opposed to applying rates combining Saddlebrooke with other  
20 service areas, sometimes referred to as consolidated rates.

21 Q. Has Staff's recommendation on monthly rates changed since the Staff  
22 Recommendation was filed on January 6, 2012?

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1           A.     Yes, after further review, Staff updated some expense information in its Cost of  
2 Service study which had a minor impact upon the monthly rates previously filed in the Staff  
3 Recommendation.

4           Q.     What rates does Staff recommend?

5           A.     The updated rates Staff recommends are included in this Rebuttal Testimony as  
6 Schedule JAM 4, and incorporated herein by reference. The Staff proposed rates are:

7           Water service           Customer Charge -- \$14.62 per month

8                                   Commodity Charge -- \$2.73 per 1,000 gallons usage

9           Sewer service           Customer Charge -- \$13.76 per month

10                                  Commodity Charge -- \$4.59 per 1,000 gallons monthly usage

11                                  based on usage during the months of December, January, and

12                                  February

13           Q.     Does Staff agree to rates as proposed by the Company in Mr. Dennis R.  
14 Williams' Direct Testimony at on page7, lines 1 thru 10?

15           A.     No. Mr. Williams proposes applying a "hybrid district rate" for water service  
16 to Saddlebrooke, and the same rate for sewer service as now exists in the Company's  
17 Stonebridge service district, formerly served by Roark Water and Sewer, Inc. and sometimes  
18 referred to as the Roark service area, which is near Branson, Missouri.

19           Q.     What is a "hybrid district rate"?

20           A.     This is a term that was used in the Company's recent rate case. A district is a  
21 common term used to refer to each of MAWC's separate municipalities or subdivisions that  
22 comprise each of the service areas in which MAWC operates a water or sewer system and  
23 provides service. Previously, each of the Company's districts had separate approved rates. A

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1 hybrid district is a collection of several, somewhat similar, individual districts, for which one  
2 rate is set to apply to all of the districts within the hybrid district based on the costs incurred in  
3 those districts. This is an alternative to setting separate stand-alone rates for each service  
4 district, and also to setting one “consolidated rate” for all of the Company’s service areas.

5 Q. Would you explain why the Staff does not agree to a hybrid district rate for  
6 Saddlebrooke, and consolidation of a sewer rate with the Company’s Stonebridge service  
7 district sewer rate at this time?

8 A. Yes. The primary reason is that Staff determined that the rates it recommends  
9 are reasonable to allow the Company to earn a reasonable return while still providing safe and  
10 adequate service to the customers of Saddlebrooke. Another factor was the timing of the  
11 CCN case. The Company filed its most recent rate case on June 20, 2011. This CCN case  
12 for Saddlebrooke was filed on August 26, 2011. The Saddlebrooke residents, not yet  
13 Company customers, were not a part of the rate case process, and therefore should not be part  
14 of the result of that rate case, Case No. WR-2011-0337. Additionally, it was Staff’s  
15 understanding that the subdivision developer, who is the owner of the Saddlebrooke water and  
16 sewer system, and the Company had a goal to finalize the Saddlebrooke CCN case and close  
17 on the assets in a relatively short time frame, by the end of the year 2011. However, the rate  
18 case was expected to be completed substantially later, in April or May 2012. Staff did not  
19 agree with applying whatever rate decisions in the then-pending rate case, uncertain and  
20 unknown at the time, to Saddlebrooke customers. So, as a result, after conversations and  
21 meetings, Staff and the Company worked together to develop the stand-alone rates specific to  
22 the Saddlebrooke service area, which were filed in the Staff Recommendation on January 6,  
23 2012. Subsequently, this CCN case has been prolonged past any original expected

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1 completion of the CCN case, but Staff remains an advocate for stand-alone Saddlebrooke  
2 rates subject to updated expense information.

3 Q. Is there any difference between rates the Staff recommends and rates the  
4 Company recommends?

5 A. Yes, there is some difference in the rates. Attached to this Rebuttal Testimony  
6 is a rate comparison worksheet showing rates, and bill amounts calculated for several example  
7 water and sewer usages, for 1) the existing developer's rates that Saddlebrooke residents are  
8 paying presently; 2) Staff proposed rates as updated from its January 6, 2012  
9 Recommendation; and, 3) existing Company rates for certain other service areas as proposed  
10 by Mr. Williams on page 7, lines 1 through 10 of his Direct Testimony. The bill comparison is  
11 shown below as various examples of monthly water use and sewer billing, and is also  
12 included in this Rebuttal Testimony as Schedule JAM 5, and incorporated herein by reference.

example bill comparisons		Staff updated proposed Saddlebrooke			Existing Saddlebrooke developer rates			Company proposed (Williams Direct) New MO Am Roark rates		
water use	sewer billing	water	sewer	Total	water	sewer	Total	waterAB	sewer B	Total
4000	4000	\$25.56	\$32.11	\$57.67	\$9.66	\$55.00	\$64.66	\$31.54	\$64.92	\$96.46
6000	4000	\$31.02	\$2.11	\$63.14	\$12.82	\$55.00	\$67.82	\$36.28	\$64.92	\$101.20
8000	6000	\$36.49	\$41.29	\$77.78	\$15.98	\$55.00	\$70.98	\$41.02	\$76.98	\$118.00
12000	8000	\$47.43	\$50.46	\$97.89	\$22.30	\$55.00	\$77.30	\$50.50	\$89.05	\$139.55
18000	10000	\$63.83	\$59.64	\$123.47	\$31.78	\$55.00	\$86.78	\$64.72	\$101.11	\$165.83

13 **Other Matters**

14 Q. Are there fees, besides the monthly rates applicable to Saddlebrooke, that the  
15 Company will need to include for its Saddlebrooke service area?

16 A. Yes. The service charges depicted on Sheet No. 2 of the Company's water  
17 tariff, and Sheet No. 2 on the sewer tariff may be applied to Saddlebrooke. A water

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1 “connection fee,” presently \$300 in the Company’s existing tariff, should apply to  
2 Saddlebrooke to offset the Company’s cost of connecting the customer’s water service line to  
3 the distribution system. In addition, the Company proposed that it will collect a one-time  
4 \$2,800 charge when a new water connection is made and a one-time \$2,800 charge when a  
5 new sewer connection is made, with the collected funds to be refunded to the developer in  
6 consideration of the cost of constructing the water distribution and collecting sewer pipelines.  
7 These charges would apply to the next 200 new customers, and expire in ten (10) years. Staff  
8 discussed this issue in the Staff Recommendation, and agrees with this practice. Mr. Williams  
9 also discusses this issue in his Direct Testimony beginning on page 7, line 12 and through  
10 page 9, line 1. Mr. Williams refers to these charges as “connection fees” however Staff  
11 asserts that those charges should be referred to as “Contribution in aid of Construction”  
12 (CIAC) fees, and should be called such on tariff sheets. Mr. Williams states on page 8, line 17  
13 that the total amount collected and passed along to the developer would be a maximum of  
14 \$761,600, however Staff asserts that the correct amount is \$1,120,000 (\$2,800 times two  
15 representing both water and sewer, for a total per customer of \$5,600, times 200 customers, is  
16 \$1,120,000). The developer has collected CIAC fees in the past from existing residents,  
17 however considering past collections and the maximum future collections, Staff agrees with  
18 Mr. Williams when he states in his Direct Testimony on page 8, line 14 that the developer will  
19 not realize full recovery of the cost of the pipelines.

20 Q. Mr. Williams states beginning on page 3, line 18 through page 4, line 5 of his  
21 Direct Testimony that the Company had agreed with a Staff request to revise its requested  
22 water service area to match that of its requested sewer service area. Do you agree with this  
23 statement?

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1           A.     Yes. This change was discussed between Staff and the Company in a meeting  
2 prior to Staff filings its Staff Recommendation. Originally, in its *Application*, the Company  
3 chose to describe the proposed water service area by survey sections, but described the sewer  
4 service area on a geographic watershed. The reason the water and sewer service areas should  
5 be the same is simply because it is unlikely that someone would request water service but not  
6 sewer service, or vice-versa. So, Staff and the Company agreed to use the watershed-based  
7 service area for both water and sewer service area descriptions.

8           Q.     Will the Company need to file any tariffs or modify any existing tariff sheets?

9           A.     Yes. The Company proposed, and Staff agrees, that the rules in the Company's  
10 existing tariffs presently applying to its Stone and Taney Counties service areas could  
11 reasonably apply for Saddlebrooke. These are the Company's tariff Nos. 15 for water and 14  
12 for sewer in the Commission's Electronic Filing Information System (EFIS). Staff has  
13 recommended some modifications to those tariffs, which include incorporating the  
14 Saddlebrooke service area maps and descriptions, rates that apply to Saddlebrooke, and  
15 certain changes to the sewer rules to accommodate differences in the maintenance  
16 responsibility of sewer pump units. Pump units are owned by the Company in its Stonebridge  
17 service area, but are proposed to be owned and maintained by the customers in Saddlebrooke.  
18 The tariffs also need to include Christian County in its area heading. Mr. Williams, in his  
19 Direct Testimony, proposed and included complete revised water and sewer tariffs.

20           Q.     Have you reviewed the draft tariffs included in Mr. Williams' Direct  
21 Testimony?

22           A.     Yes. I reviewed the draft tariffs, and the draft sewer tariff incorporates all of  
23 the suggested rule changes that Staff recommended in the Staff Recommendation filed on

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1 January 6, 2012. All other rules for both water and sewer should be identical to the existing  
2 rules. Although in Mr. Williams' draft there are some relatively minor typographical errors,  
3 clarifications of which charges apply to the various service districts might be beneficial, and  
4 the Stonebridge service area description needs to be included, these draft tariffs appear to be  
5 substantially representative of what is needed in order to include the Saddlebrooke service  
6 district. To the extent corrections or improvements are needed, I am confident that Staff and  
7 the Company will be able to work together and finalize the tariffs for filing and approval.

8 Q. On page 1, line 15 of the Direct Testimony of AGP witness Donald E.  
9 Johnstone has an issue as to whether this CCN case involves a new certificate or should be  
10 considered an acquisition case. Would you explain how acquisition relates to a CCN case?

11 A. Yes. While this Saddlebrooke case could be termed an "acquisition" case, it is  
12 properly classified as a CCN case. The acquisition is only one component in the Company's  
13 authority to provide service, and the authority for the Company to acquire the system comes  
14 along with other authority including the authorization to construct and install utility systems,  
15 and to provide service and charge customers for the service. This authority is dependent upon  
16 the Commission granting a CCN to the Company. What Mr. Johnstone deems an "acquisition  
17 case" could also be what is commonly called a "transfer case" or sometimes a "sale case," in  
18 which an existing regulated utility must obtain authority to sell assets under statute. Such a  
19 sale may or may not involve a buyer that is a utility subject to regulation. If the buyer is or  
20 will be indeed subject to regulation, and the system is not in an authorized service area, then  
21 that case would likely involve issuing a certificate to that utility, along with the authorizations  
22 from the Commission that comes with a certificate. The need to set rates is inherent in a CCN  
23 case, and setting rates for a regulated utility that is acquiring assets of a previously regulated



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1 utility is also accomplished in a transfer case, but often the Commission-approved rates of a  
2 selling regulated utility are adopted by the buyer because doing so makes the case simpler.  
3 This case was filed by the Company seeking authorization “to Install, Own, Acquire,  
4 Construct, Operate, Control, Manage and Maintain Water and Sewer Systems,” to quote a  
5 portion of the case style, with no previously certificated utility seeking authority to transfer  
6 assets to the Company; so this case therefore is properly classified as a CCN case. The  
7 importance of this is that the various scenarios in that can exist in these types of utility cases  
8 makes a difference in what can and should be reasonably required of a buyer and seller,  
9 including whether or not pro-forma capital and expenses should be considered in a case.

10 Q. Beginning on page 2, line 9 and continuing through page 3, line 21 of his  
11 Direct Testimony, Mr. Johnstone summarizes his testimony by stating that utility rates set in  
12 this case should represent the cost of service only for providing service in the Saddlebrooke  
13 service area. Do you agree or disagree with his points?

14 A. It appears that the points he is making is a general argument that consolidated  
15 rates should not be implemented, however this point is not a subject that should be debated by  
16 the parties in this CCN case. It is more appropriate in a rate case where the entire Company’s  
17 books and records are analyzed to determine appropriate rates for all customers. Further, the  
18 issue has been addressed in other cases involving AGP and the Company, including the  
19 Company’s recent rate case, Case No. WR-2011-0337, in which the Commission approved  
20 specific district rates for some service districts, and hybrid district rates for certain other  
21 service districts.

22 Still, as discussed above in this Rebuttal Testimony, Staff recommends rates that are  
23 designed to recover expenses specific to Saddlebrooke, and the Company is proposing rates

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1 that have been approved for other Company systems as hybrid district rates, and the  
2 Commission may decide which rate design method should apply to Saddlebrooke. Beyond  
3 the argument of whether or not consolidated rates should be approved for Saddlebrooke, Mr.  
4 Johnstone has not identified any specific costs that Staff is recommending with respect to this  
5 CCN case that are causing a problem for other customers.

6 Q. On page 8, lines 12 through 16 of his Direct Testimony, Mr. Johnstone  
7 discusses a need for “resolving excess capacity over time.” Can you discuss resolution of  
8 excess capacity?

9 A. Mr. Johnstone does not adequately support this statement so Staff is unclear  
10 how to address “resolving excess capacity over time” specifically, but would be able to  
11 provide additional support for the capacity adjustment it recommends. In designing rates,  
12 excess capacity exists when a utility’s investment in certain components of a utility system are  
13 designed to provide service to more customers than currently exist, and thus existing  
14 customers should not be required to pay what could be an exorbitant expense to support the  
15 plant components because the plant is capable of supporting more customers. Capacity  
16 disallowances are done frequently in CCN cases, where a water or sewer system for a  
17 subdivision is designed and constructed to serve perhaps several hundred customers, but, for  
18 example, only 10 homes might be constructed in the first year of operation. The disallowance  
19 makes a difference between reasonable rates, and rates that could be totally unaffordable.  
20 Most often, the subdivision developer absorbs the cost impact of a disallowance but  
21 sometimes it is the utility that must absorb the impact. The ideal resolution would be where  
22 customer growth occurs and the excess capacity becomes utilized. However, since that is

Rebuttal Testimony of  
James A. Merciel, Jr.

1 often not the case the existing customers should not be required to support that existing  
2 capacity if it does not occur. Therefore a capacity disallowance is appropriate.

3 Q. Does Staff expect the Company to be able to recover the capacity disallowance  
4 through any subsidization?

5 A. No. Staff does not foresee any outside recovery method such as from the  
6 developer, and Staff does not expect other Company customers to subsidize capacity  
7 disallowance.

8 Q. Can you summarize this Rebuttal Testimony?

9 A. Yes. To summarize this Rebuttal Testimony, Staff recommends the  
10 Commission grant a CCN to the Company for the Saddlebrooke service area, with the  
11 modification of the water service area originally requested by the Company, establishing rate  
12 base as proposed by Staff, and establishing rates as recommended by Staff and updated in  
13 Staff's Rebuttal testimony and shown in Schedule JAM 4, hereto.

14 Q. Does this conclude your Rebuttal Testimony?

15 A. Yes.

WA-2011-0066  
Cases with Testimony by James A. Merciel, Jr. (not all inclusive)  
May 2012

Algonquin Water Resources

WR-2006-0425

Aqua Missouri, Inc.

SC-2007-0044

Big Island – Folsom Ridge

WO-2007-0277

Blue Lagoon, LLC

SO-2008-0358

Camelot Utility Co.

WA-89-1

Capital City Water Co.

WR-94-297

WR-90-118

WO-89-76

WR-88-215

WR-83-165.

Davis Water Company

WC-87-125 and WC-88-288 (including proceeding in the Circuit Court in Wayne County)

Finley Valley Water Company / Public Funding Corporation, City of Ozark

WM-95-423

Gascony Water Company, Inc.

WA-97-510

House Springs Sewer Co.

SC-2008-0409

Lake Region Water and Sewer Co.

SR-2010-0110 and WR-2010-0111

Lake Saint Louis Sewer Co.

SC-78-257

Proceeding in Circuit Court in St. Charles County, approx 1980 or 1981

Merriam Woods Water Company

WC-91-18 and/or WC-91-268

Mill Creek Sewer System, Inc.

Proceeding by MO Attorney General in Circuit court in St. Louis County, Cause No. 611261, 1998

Missouri American Water Company

WR-2011-0337

WR-2008-0311 and SR-2008-0312

WR-2007-0216

WC-2006-0345

WR-2003-0500

WR-2000-281

WR-97-237

WT-97-227 / WA-97-45 / WC-96-441 consolidated cases

WA-2011-0066  
Cases with Testimony by James A. Merciel, Jr. (not all inclusive)  
May 2012

WR-95-205  
WR-95-174  
WR-93-212  
WR-91-211  
WR-89-265  
WR-87-177  
WR-85-16

Missouri Cities Water Company

WR-95-172  
WR-92-207  
Proceeding in Circuit Court in Audrain County, CV192-40SCC approx 1992  
WR-91-172  
WR-90-236  
WR-89-178  
WC-88-280  
WR-86-111  
WC-86-20  
WR-85-157  
WR-84-51  
WR-83-15

North Oak Sewer District, Inc.

SR-2004-0306

Raytown Water Company

WR-92-85 / WR-92-88

Southwest Village Water Company

WO-89-187  
WC-89-138 (included testimony in Circuit Court in Greene County)

St. Louis County Water Company

WR-97-382  
WR-96-263  
WR-95-145  
WR-94-166  
WR-93-204  
WR-91-361  
WR-88-5  
WR-87-2  
WR-85-243  
WC-84-29  
WR-83-264  
WR-82-249  
WC-79-251

Stoddard County Sewer Co.

SO-2008-0289

Suburban Water and Sewer Co.

WA-2011-0066

Cases with Testimony by James A. Merciel, Jr. (not all inclusive)

May 2012

Injunction hearing, Circuit Court in Boone County 07BA-CV02632, June 2007

WC-2007-0452

WC-84-19

United Water Missouri

WR-99-326

Villa Park Heights Water Co.

WA-86-58

Warren County Water and Sewer Co.

Circuit court case in Warren County CV597-134CC, September 1997

West Elm Place Corporation

Circuit court lawsuit case in Jefferson County, approx 1988



December 19, 2011 Staff filed a second *Motion for Extension of Time* due to some newly available information regarding this case. On December 20, 2011 the Commission issued an *Order Granting Staff's Motion for Extension of Time*, extending the date by which Staff must file its Recommendation to January 6, 2012. On December 22, 2011 MAWC submitted a *Supplement to Application* which addressed some of the new information.

## **STAFF'S INVESTIGATION, FINDINGS, AND CONCLUSIONS**

### **COMPANY AND SYSTEM BACKGROUND**

MAWC is a regulated water and sewer utility serving more than 450,000 customers throughout the state. It has been in business for many years, and over the years it has acquired some of its systems, both large and small, through various mergers and acquisitions.

In a previous case, Case No. WO-2011-0213, MAWC acquired the Stonebridge water and sewer utility assets from Roark Water and Sewer, Inc. (Roark) with the approval of the Commission, and adopted Roark's effective tariffs. This area is referred to herein as MAWC's "Stone and Taney Counties Service District." Saddlebrooke is located in the general vicinity of the Stonebridge Village development. For Saddlebrooke, MAWC proposed in its *Application* to adopt the existing water and sewer "Rate B" rates, along with the water and sewer rules currently applicable to the Stone and Taney Counties Service District. MAWC's proposal would include tariff rules and monthly rates, applicable to the former Roark systems. However, Staff's recommendation includes some proposed modifications to sewer tariff rules different from those that existed for the former Roark systems, rates calculated specifically for Saddlebrooke rather than adopting other existing rates, and a water connection fee of \$300 to pay for the service connection pipeline and meter setting at each lot, and service charges for various activities including turn-on and turn-off of service as discussed further herein.

Currently, the water and sewer utility systems in the village of Saddlebrooke are owned and operated by Saddlebrooke Water and Sewer Infrastructure, LLC or Saddlebrooke West, Inc. (referred to hereafter as the Developer's Companies), both of which are companies founded by the developer of the area. The developer's long-term plan for Saddlebrooke is for the development to include a total of approximately 1,100 residential lots along with associated subdivision amenities including an office building and park areas. At present, water and sewer pipelines have been constructed to serve 565 lots. Construction of residential homes has taken place on 81 of those developed lots, including

# NP

APPENDIX A



a subdivision sales office, all of which are connected to the water and sewer systems. The water system consists of a single deep well with a 600 gallon-per-minute pump, a 250,000 gallon storage tank, and a distribution system that is capable of providing domestic water service and residential-level fire protection. The water system has sufficient capacity to serve more than the existing 565 developed lots.

The sewer system consists of septic tanks with effluent pumps at each residence for which maintenance responsibility lies with customers, a pressurized collection system, and a 50,000 gallon-per-day recirculating textile filter treatment facility along with acreage for land application of the treatment facility effluent. The sewage treatment facility has sufficient treatment capacity to serve approximately 200 residential customers.

Although Saddlebrooke is an incorporated village, MAWC requests a water service area that is based on United States Geological Survey (USGS) sections, and a sewer service area that is based on a watershed. The requested service areas are different, but each includes the entire Saddlebrooke development. Staff prefers that the water service area and sewer service area be the same because it is likely that any customer requesting one service would also request the other. MAWC expressed its agreement with the Staff on this point. Staff thus recommends that the service area for sewer service requested by MAWC in its *Application* also become the service area for water service.

Staff reviewed MAWC's *Application*, supporting documents, and other available information during its investigation. Staff is unable to obtain complete records for the original construction of the utility systems and recent operations expenses from the Developer's Companies because the records no longer exist. Despite the unavailability of these records, Staff was able to determine a reasonable approximation of plant in service and expenses by using the information that was available, documentation of the developer's activities, and estimates of the cost of existing plant.

#### **CAPITAL COSTS, CONTRIBUTION-IN-AID-OF-CONSTRUCTION, AND CAPACITY ADJUSTMENT**

MAWC proposed in its *Application* to file tariff sheets that would require new customers connecting to the existing water and sewer pipelines to pay \*\* \_\_\_\_ \*\* as a contribution-in-aid-of-construction (CIAC) fee for each connection to the water system and each connection to the sewer system. Staff understands, based on its investigation, that the Developer's Companies have these CIAC fees in place at present and are charging new customers these same fees. Thus, MAWC would be continuing with these existing charges. \*\* \_\_\_\_\_

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**APPENDIX A**

**Schedule JAM 2**



to estimate that total plant in service, excepting distribution mains and collecting sewers, is \$878,460, and current rate base considering depreciation reserve at the time of acquisition would be approximately \$693,167. In consideration of the capacity adjustments, current customers should only be supporting approximately \$414,628 in rate base. These amounts may be compared to the Company's purchase price of \*\* \_\_\_\_\_ \*\*.

Staff will work with MAWC, in future rate cases, to refine proper levels of plant in service values, to determine what amounts should be included in future rates, and to determine proper treatment of any future CIAC fees. Staff notes that MAWC will expend capital funds for improvements upon acquisition in the estimated amount of \$31,000 which is included in proposed rates on a pro-forma basis, both for safety, security and reliability, and to correct construction and operating shortcomings as required by the Missouri Department of Natural Resources (MDNR).

**OPERATING EXPENSES AND MONTHLY RATES**

Based upon its investigation, which included estimating expenses and its calculation of net plant in service adjusted for capacity in use, Staff recommends that new rates be developed specifically for Saddlebrooke, instead of utilizing the existing water Rate B and sewer Rate B currently effective in MAWC's Stone and Taney Counties Service District, formerly Roark, as was requested in the *Application*. Rates recommended by Staff for residential service in Saddlebrooke, using a 5/8 inch water meter, are as follows:

Water	Customer Charge -- \$15.30 per month
	Commodity Charge -- \$2.83 per 1,000 gallons usage
Sewer	Customer Charge -- \$12.57 per month
	Commodity Charge -- \$4.32 per 1,000 gallons. For residential customers, this charge shall be applied to the average water usage during the months of December, January and February, and that amount will be included for billings for each of the following twelve (12) months.

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**APPENDIX A**

The Staff's workpaper calculating these rates, using the estimated expenses, is included and incorporated herein by reference as Attachment D. In studying billing amounts for various usages, Staff's proposal of rates to apply to Saddlebrooke are comparable to billing amounts customers currently receive from the Developer's Companies.

MAWC has a pending rate case, Case No WR-2011-0337. Staff recommends that the rates developed for Saddlebrooke in this case **should not be subject to change as a result of MAWC's pending rate case.** Staff also recommends that the rates developed and adopted in this case not be consolidated with any other system as a result of MAWC's pending rate case. The rates approved in this CCN case would be subject to change when MAWC files its next company-wide request for a rate increase with the Commission. Due to the uncertainty of current operating expenses, customer revenues, other revenues that might be forthcoming, and estimates of rate base, Staff will review Saddlebrooke rates in the context of actual operating historical records, in any future rate case.

Upon acquisition, MAWC must include the Saddlebrooke system expenses into its books and records in accordance with the Uniform System of Accounts, including recording in the Company's ledger adjustments for new capital items placed into service and recording the cost of removal and gross salvage for all replaced or retired plant. MAWC also must utilize a work order system to track material, labor, and overhead costs for this acquired system.

Staff recommends that MAWC adopt the existing depreciation rate schedule that is presently approved for MAWC water systems as ordered in Case No. WR-2010-0131, and the generic depreciation rates for small sewer companies presently approved for MAWC's other existing sewer systems. For clarification, copies of the depreciation schedules Staff proposes for water and sewer are included as Attachments B and C to this memorandum and incorporated herein.

Staff understands that the Developer's Companies are becoming less able to continue operation of the water and sewer systems, and there is a need for transfer of ownership. Based on its familiarity with MAWC and its existing operations, Staff determines that MAWC has adequate technical, managerial, and financial capacity to own and operate the water and sewer systems in Saddlebrooke.

### **CUSTOMER SERVICE AND BILLING ISSUES**

In recent MAWC acquisition cases, customer service and billing issues were stipulated in order to ensure: 1) transparency to the former customers during the transition period, 2) that the Company's

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billing information was accurate, 3) the former customers were being properly billed, and 4) that the Company adhered to applicable rules and regulations and its tariffs.

In the context of the past acquisitions cases, Staff has monitored customer billing statements for several months. Some of the issues noted during the monitoring of these customer billing statements included: 1) inaccurate customer water charge on some customers' billing statements, 2) some customers were not being charged the customer charge for wastewater, 3) proration of customer charges, water usage charges and primacy fees due to customers being billed for more than 35 days or less than 26 days of service, and 4) identifying customers that were not being monthly billed by the Company. Staff also noted that there were numerous credit and debit adjustments on the customer billing statements, and that some billing statements lacked the notation of the billing period and the meter readings. After the first month's review, Staff broadened its request for copies of billing statements. Staff made the Company aware of the errors on the billing statements and worked closely with the Company to ensure all billing errors were corrected.

Staff wants to ensure that the Saddlebrooke customers are accurately billed by the Company and includes its specific requests for information in Staff's Recommendations below. MAWC should provide bills to the customers within a 26-35 day service billing period, beginning upon the effective date of rate tariff sheets to be approved for Saddlebrooke. MAWC should further distribute an informational brochure to Saddlebrooke customers within twenty (20) days after closing of the assets, detailing the rights and responsibilities of the utility and its customers. The informational brochure shall adhere to Commission Rule 4 CSR 240-13.040(3).

MAWC is currently providing monthly reporting regarding its call center activity to the EMSU staff, which was developed over the course of several past cases. The reporting items include 1) Average Abandoned Call Rate, 2) Average Speed of Answer, 3) 1<sup>st</sup> Call effectiveness and 4) Average Customer Response Time, which were approved in the Stipulation and Agreement between the parties in Case No. WM-2001-309; 5) Call Volumes, 6) CSC staffing, 7) CSC staffing levels, including job titles and the number of people employed in each category, which were approved in the Stipulation and Agreement between the parties in Case No. WR-2003-0500; and 8) the number of actual monthly meter reads in total and by district, 9) the number of monthly estimated meter reads, 10) the number of consecutive estimated reads, and 11) the meter reader staffing levels, which were approved in the Stipulation and Agreement between the parties in Case No. WR-2007-0216. Staff proposes no changes to the current reporting except that activity with respect to newly acquired Saddlebrooke customers be included in the call center activity reporting.

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Additionally, Staff has ongoing concerns with MAWC regarding billing issues and practices. As with other newly acquired systems, the EMSU Staff recommends that MAWC provide adequate training to all customer service representatives with respect to Saddlebrooke rates and rules, prior to the Saddlebrooke customers receiving their first bill from MAWC. EMSU Staff recommends that MAWC provide, on a monthly basis, a listing of the Saddlebrooke customers that were issued bills for greater than 35 days of service. Further, MAWC should provide a sample of ten (10) billing statements of its first month bills issued to the Saddlebrooke customers, in order to check for accuracy.

Staff noted during its review of customer billing statements that billing errors happened due to meter changes occurring close to the meter read date. To assist the Company and the customers in its billing of customer with meter changes during the month, Staff recommends the Company implement immediately its current meter exchange blackout policy and procedure in the Saddlebrooke development.

### **OTHER MATTERS**

Staff recommends some modifications, described in Attachment E, to the existing tariffs that MAWC proposes apply to Saddlebrooke. The water tariff and sewer tariff will each need new pages with written descriptions and maps of the service area. Additionally, each tariff will need a new rate sheet, with monthly rates to be included in those tariffs, and CIAC fees with the limitation conditions, as described herein. Due to operational differences between MAWC's existing sewer system in its Stone and Taney Counties Service District and the Saddlebrooke sewer system, specifically that involving septic tanks and septic tank effluent pumps within customers' lots, some definitions and rules will need to be modified. Specifically Rules 1 d., e. and f., and Rule 5 i. should be modified in order to fit both the Stonebridge and Saddlebrooke situations. In addition to those modifications, new rules regarding septic tank and effluent pump installation and maintenance need to be added to Rule 5. Staff's proposed changes to MAWC's tariff rules are included and incorporated by reference herein as Attachment E. Staff will assist MAWC in making these changes. Since MAWC will begin operating the water and sewer system immediately upon closing of assets, the Company may seek expedited treatment of the tariff sheets.

There are several issues with respect to requirements set by the MDNR. Some of the issues the system faces involve past deficiencies with respect to sampling, testing, reporting, and emergency

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planning, which are ongoing operational activities. MAWC will be able to comply with these requirements on a going forward basis after acquisition, just as it complies with these requirements with respect to its other utility systems. Some deficiencies require construction or minor modifications to the sewer system, such as adequate fencing to protect the sewage treatment facility, and a groundwater monitoring well within the treatment facility effluent irrigation field. MAWC also desires to construct adequate fencing at the water supply and storage facilities, and keep a spare pump for the single well. Staff understands that MAWC intends to undertake the necessary improvements immediately after acquisition and deems this reasonable action for the benefit of the customers and the system. Staff has included the capital costs for these items, and recommends this specific purchase of the spare pump and construction of fencing and the monitoring well be undertaken as a condition of approving the CCN.

As previously stated, MAWC has a pending rate case before the Commission, Case No. WR-2011-0337. The acquisition of the Saddlebrooke systems will have no impact upon this pending case. Staff recommends that the rates authorized in the pending rate case should not be applied to Saddlebrooke; therefore, the pending rate case would have no direct impact upon this CCN case. MAWC also has another acquisition case, SO-2012-0091, in which it seeks to acquire the assets of Meramec Sewer Co., a regulated sewer utility in Fenton, Missouri. That case likewise will have no impact on the Saddlebrooke acquisition, nor will this matter affect that pending case.

MAWC has no issues with respect to the submission of annual reports and assessments to the Commission. It has filed annual reports, as shown on the Commission's Electronic Filing and Information System (EFIS), through calendar year 2010, and is current on its quarterly payments for the annual assessment through the 2<sup>nd</sup> quarter of fiscal year 2012.

### **THE TARTAN ENERGY CRITERIA**

As is customary with most cases involving a CCN, the Staff is using criteria similar to that which was studied by the Commission in a past CCN case that was filed by the Tartan Energy Company to justify granting a CCN, as follows:

#### **Is there a need for service?**

Yes, there is a need for service, in that residential customers desire and need water and sewer service. Additionally, water and sewer systems are necessary in order for this development to exist and be in compliance with drinking water and water pollution control regulations.

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**Is the Company qualified to provide the service?**

Yes, MAWC is qualified to provide the service, as is demonstrated by its providing the same or similar service in other areas of Missouri. Staff has determined that MAWC is able to assume operations of the existing systems, and is capable of undertaking necessary improvements for continued operations of those systems.

**Does the Company have the financial ability to provide the service?**

Yes, MAWC has demonstrated that it has sufficient financial resources, and is able to evaluate the costs of alternatives for operations and capital improvements.

**Is the Company's proposal economically feasible?**

Yes, the proposal is economically feasible based on Staff's overall evaluation and MAWC's ability to combine the proposed operation into its existing operations.

**Does the Company's proposal promote the public interest?**

Yes, MAWC's proposal to acquire the responsibility from current owners and provide future service promotes the public interest.

**Could the service be provided by another entity?**

No, there are no other entities readily available to provide service. The current owner desires that the systems be transferred to MAWC; and neither the village of Saddlebrooke, nor any organization of the homeowners or property owners appear willing to acquire and operate this system. There are no other privately-owned utilities in a position to acquire these systems at this time.

**STAFF'S RECOMMENDATIONS**

Staff recommends the Commission approve MAWC's *Application* and its Amendment for a CCN for water and sewer service and acquisition of water and sewer utility assets. Staff specifically recommends the Commission issue an order that includes the following:

1. Grants a Certificate of Convenience and Necessity to MAWC for water and sewer service, and that the service area requested by the Company for sewer service be applicable to both water and sewer service areas.

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2. Requires MAWC to notify the Commission when it has closed on the Saddlebrooke assets within five (5) business days after such closing has occurred. If closing has not occurred within thirty (30) days after the effective date of the Order approving this Application, require MAWC to file a status report on the status of the sale and file a status report every thirty (30) days thereafter until the closing has occurred.
3. Authorizes MAWC to file water and sewer tariff sheets as thirty (30) day filings in its existing Stone and Taney Counties Service District water and sewer tariffs, depicting the service areas to apply to Saddlebrooke, and that contain monthly rates as described herein in each tariff, the existing \$300 water connection fee, and CIAC fees of \*\* \_\_\_\_\_ \*\* in each tariff applying to new residential customers connecting to existing water mains and existing collecting sewers \*\* \_\_\_\_\_ \*\*, with a limitation of 200 customers or ten (10) years, whichever occurs first. Such rate sheets should be filed as soon as practical to coincide with the date of closing, but no later than ten (10) days after closing has occurred
4. Rates, CIAC fees, expenses and total revenue for Saddlebrooke shall be subject to review by the next company-wide rate case filed by MAWC, as well as in subsequent rate cases; but such rates that result from this matter shall not be subject to change as a result of MAWC's pending rate case, Case Nos. WR-2011-0337 and SR-2011-0338.
5. Requires MAWC to file sewer tariff sheets, with modifications and additions to sewer tariff rules as discussed herein, to be filed as thirty (30)-day tariff filings, in MAWC's Stone and Taney Counties water and sewer tariffs, within twenty (20) days after closing of the assets as contemplated by recommendation number 2, above. Such tariff sheets may be filed separately from rate sheets, as contemplated by recommendation number 3, above, in order to allow time for MAWC and the Staff to agree on the exact wording on such tariff sheets.
6. Requires MAWC to complete the proposed system improvements, specifically fencing for the water storage tank and well, fencing for the sewage treatment facility, acquisition of a spare well pump, and construction of the sewer effluent field monitoring well, to the satisfaction of DNR as necessary, by June 30, 2012, with notification of completion of each item sent to the Manager of the Water and Sewer Department within five (5) business days of completion. For any item not completed by June 30, 2012, MAWC shall file a status

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report in this case by July 6, 2012 stating the status of the project, and expected date completion is expected.

7. Requires MAWC to apply the depreciation schedules presently approved for MAWC for its existing service areas, as shown in Attachments B and C, attached and incorporated by reference herein.
8. Requires MAWC to maintain utility plant records and customer account records, and to keep all books and records, including plant property records, in accordance with the Uniform System of Accounts, version 1973 and revised in 1976 for water, and version 1976 for sewer, as described in this memorandum.
9. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the certificate, including future expenditures by MAWC, in any later proceeding.
10. MAWC shall ensure adherence to Commission Rule 4 CSR 240-13.020(1) regarding the production of customer bills within a 26-35 days of service billing period beginning upon the effective date of tariff sheets with Saddlebrooke rates.
11. MAWC shall distribute to Saddlebrooke customers an informational brochure detailing the rights and responsibilities of the utility and its customers within twenty (20) days after closing of the assets. The informational brochure shall adhere to Commission Rule 4 CSR 240-13.040(3).
12. MAWC's current monthly reporting of call center activity to EMSU staff shall include Saddlebrooke customers on a going forward basis.
13. MAWC shall provide adequate training to all customer service representatives with respect to Saddlebrooke rates and rules prior to the Saddlebrooke customers receiving their first bill from MAWC.
14. MAWC shall provide to the EMSU staff on a quarterly basis a document detailing the bills to Saddlebrooke customers that were issued for greater than thirty-five (35) days of service.

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15. MAWC shall provide to the EMSU staff a sample of ten (10) billing statements of its first month bills issued to the Saddlebrooke customers, in order to check for accuracy, within ten (10) days of issuance of those bills.
16. MAWC shall implement immediately upon acquisition its current meter exchange blackout policy and procedure in the Saddlebrooke service area.

Attachment: A – EMS run  
B – Water Depreciation Schedule  
C – Sewer Depreciation Schedule  
D – Rate Design Workpaper  
E -- Draft Sewer Tariff Rule Modifications

**NP**

**APPENDIX A**

**Schedule JAM 2**

WA-2012-0066

MO American Saddlebrooke plant

**water**

**sewer**

customer level	80		
total present plant		2,121,872	2,256,588
pipelines		1,645,000	1,855,000
developer ciac past collection		61,550	61,550
future ciac pd to developer (\$2,800)		560,000	560,000
max 200 customers			1,120,000
unrecovered		1,023,450	1,233,450

**total w & S**

plant in service minus pipelines	476,872	878,460	401,588
depr reserve - no pipelines	78,321		106,972
current plant	398,551	693,167	294,616
current plant adjusted for capacity	295,026	514,409	219,383
allowable depr reserve adjusted for capacity	45,365	99,781	54,416
current rate base adj for capacity	249,661	\$ 414,628	164,967
immediate plant additions	17,000	31,000	14,000
rate base with additions	266,661	\$ 445,628	178,967
total plant for ccn case	493,872	909,460	415,588
rate base per customer	\$ 3,333		\$ 2,237

Schedule JAM 3

<b>Updated 4/30</b>	Weighted Rate								
	of Return W/IT	7.58%	8.60%	Income Tax					
				1.02%					
			water	customer	comm		sewer	customer	comm
depreciation			\$ 6,206	\$ 2,069	\$ 4,137		\$ 7,127	\$ 2,376	\$ 4,751
return			\$ 20,213	\$ 6,738	\$ 13,475		\$ 13,566	\$ 4,522	\$ 9,044
income tax			\$ 2,720	\$ 907	\$ 1,813		\$ 1,825	\$ 608	\$ 1,217
labor -operations			\$ 6,075	\$ 2,025	\$ 4,050		\$ 6,075	\$ 2,025	\$ 4,050
chemicals			\$ 900		\$ 900				
testing			\$ 5,832	\$ -	\$ 5,832		\$ 5,832	\$ -	\$ 5,832
corp allocations			\$ 1,620	\$ 810	\$ 810		\$ 1,620	\$ 810	\$ 810
property taxes			\$ 3,644	\$ 1,215	\$ 2,429		\$ 3,076	\$ 1,025	\$ 2,051
<b>PSC Assessment</b>			\$ 352	\$ 117	\$ 235		\$ 5,031	\$ 1,677	\$ 3,354
electric			\$ 14,350		\$ 14,350		\$ 2,484		\$ 2,484
other maintenance			\$ 648	\$ 333	\$ 315		\$ 648	\$ 333	\$ 315

		water	customer	commodity		sewer	customer	commodity
Totals		\$ 62,560	\$ 14,213	\$ 48,347		\$ 47,284	\$ 13,376	\$ 33,908

<b>81 customers</b>	<b>per month</b>		<b>\$ 14.62</b>	<b>\$ 2.73</b>		<b>\$ 13.76</b>	<b>\$ 4.59</b>
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18195 **17,686** kgal annual water commodity 250 **7,391** billed sewer commodity

Rate comparison Merciel Rebuttal Testimony WA-2012-0066

	Water	Sewer
Staff updated		
Proposed Saddlebrooke Rates	\$ 14.62 \$ 2.73 per 1,000	\$ 13.76 \$ 4.59 dec, jan feb usage
Existing Saddlebrooke	\$ 6.50 2000 gal \$ 1.58 per 1,000	\$ 55.00 flat
WR-2011-0337 New Roark rates	\$ 22.06 customer \$ 2.37 per 1000	\$ 40.79 customer \$ 6.03 dec jan feb

+++++

example bill comparisons	Staff updated			Existing Saddlebrooke developer rates			Company proposed (Williams Direct)			
	water use	sewer billing	Staff proposed Saddlebrooke	water	sewer	total	New MO Am Roark rates	water AB	sewer B	total
4000	4000	\$ 25.56	\$ 32.11	\$ 57.67	\$ 9.66	\$ 55.00	\$ 64.66	\$ 31.54	\$ 64.92	\$ 96.46
6000	4000	\$ 31.02	\$ 32.11	\$ 63.14	\$ 12.82	\$ 55.00	\$ 67.82	\$ 36.28	\$ 64.92	\$ 101.20
8000	6000	\$ 36.49	\$ 41.29	\$ 77.78	\$ 15.98	\$ 55.00	\$ 70.98	\$ 41.02	\$ 76.98	\$ 118.00
12000	8000	\$ 47.43	\$ 50.46	\$ 97.89	\$ 22.30	\$ 55.00	\$ 77.30	\$ 50.50	\$ 89.05	\$ 139.55
18000	10000	\$ 63.83	\$ 59.64	\$ 123.47	\$ 31.78	\$ 55.00	\$ 86.78	\$ 64.72	\$ 101.11	\$ 165.83