

Exhibit No.:	
Issue(s):	Management Fees
Witness:	Ted Robertson
Type of Exhibit:	Rebuttal
Sponsoring Party:	Public Counsel
Case Numbers:	SR-2010-0110 & WR-2010-0111
Date Testimony Prepared:	February 19, 2010

REBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of
the Office of the Public Counsel

LAKE REGION WATER & SEWER COMPANY

Case Nos. SR-2010-0110 & WR-2010-0111

February 19, 2010

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

In the Matter of Lake Region Water & Sewer)
Company's Application to Implement a General)
Rate Increase in Water & Sewer Service.)

File No. SR-2010-0110

In the Matter of Lake Region Water & Sewer)
Company's Application to Implement a General)
Rate Increase in Water & Sewer Service.)


File No. WR-2010-0111

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 19th day of February 2010.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2013.

REBUTTAL TESTIMONY
OF
TED ROBERTSON

LAKE REGION WATER AND SEWER CO.
CASE NO. SR-2010-0110
CASE NO. WR-2010-0111

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED
DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this Rebuttal Testimony is to address the Management Fees
position expressed in the Direct Testimony of Missouri Public Service Commission
("MPSC") Staff auditor Mr. V. William Harris.

Q. WHAT IS THE MPSC STAFF'S POSITION?

A. Staff prepared an analysis that included the following Management Fees cost in its
proposed cost of service for the Lake Region regulated utilities:

1.	Compensation	\$36,734
2.	Lodging	\$ 4,140
3,	Meals	\$ 1,728
4.	Auto Travel	\$ 2,400
5.	Air Travel/Parking	\$ 4,800
6.	Corporate Office Rent	\$ 4,800
7.	Communication	<u>\$ 1,200</u>
	Totals	\$55,802

The total was then allocated 50%/50% between the Lake Region and Ozark

Shores utilities. The Lake Region portion was then further allocated as:

1.	Horseshoe Bend Sewer	47.68%	\$13,303
2.	Shawnee Bend Water	25.52%	\$ 7,120
3.	Shawnee Bend Sewer	<u>26.79%</u>	<u>\$ 7,475</u>
	Totals	100.00%	\$27,898*

*Rounding difference

Q. DID STAFF PROVIDE TESTIMONY AS TO WHY IT BELIEVES ITS POSITIONS
ARE APPROPRIATE?

A. Yes. On page 27 of the MPSC Staff's *Cost of Service Report* it states:

Staff has made adjustments to the proposed amounts based on two general functions of the executive management group (operational and accounting/tax/finance) and included costs for travel and office rental. Staff has allocated the executive management costs between Lake Region and Ozark Shores.

Staff also added in its Direct Testimony that the executive management group, consisting of Mr. Vernon Stump, Mr. Robert Schwermann and Mr. Brian Schwermann are generally responsible for :

1. Preparation and participation of Board of Directors meetings of Lake Region and Ozark Shores.
2. Budget development and approval for the operational activities and the capital improvements of Lake Region and Ozark Shores.
3. Capital Improvement Projects – decision making regarding analysis of new capital improvements, identifying the engineering concepts to develop

the capital improvements, working with engineering firm to identify the plans for these capital projects and the final engineering review and oversight of the capital projects, financing of capital projects and on-going operations, and approvals of construction projects. Oversight of the implementation and completion of the capital improvement projects.

In addition, Staff states that the executive management group also attends the monthly meetings of the Public Water Supply District Number Four of Camden County ("District") which has been contracted by the owners of the regulated utility to operate and maintain the facilities, reviews the proposed labor contracts annually and determines appropriate costs for handling the workload at Lake Region and Ozark Shores, has significant input into the District's decisions on hiring, benefits and pay increases, provides guidance and expertise on a variety of other technical issues that exist with the ongoing operations of the two regulated utilities, maintains ongoing relationships with banks and lending institutions on financing matters and with the outside accountant on maintaining the books and records, tax matters and preparing the audited financial statements for the banks and makes the regulatory decisions such as when to file a rate case.

Q. DOES PUBLIC COUNSEL AGREE WITH STAFF'S CONCLUSIONS OR COST OF SERVICE POSITIONS?

A. No.

1 Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES STAFF'S POSITIONS
2 ARE NOT APPROPRIATE OR REASONABLE.

3 A. Public Counsel believes that the Staff's positions are not appropriate because the
4 activities of the executive management group, as described by Staff in its Direct
5 Testimony, are more conducive to activities effectuated by a company's board of
6 directors; particularly, in this case, since the District is contracted to provide all
7 activities associated with the actual operation and maintenance of the regulated
8 utilities. They are also not reasonable because, if management fees are
9 determined to be appropriate (though I believe they are not in this case), the
10 amounts determined by Staff are grossly in excess of what would be a proper
11 amount to include in the Company's cost of service.

12
13 Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES THE ACTIVITIES OF
14 THE EXECUTIVE GROUP ARE NOT CONDUSIVE TO THOSE OF AN ACTIVE
15 EXECUTIVE MANAGEMENT TEAM.

16 A. As I stated earlier in my Direct Testimony, neither of the Schwermanns is an
17 executive of the Lake Region regulated utilities. Mr. Robert Schwermann was until
18 recently President of Lake Region, but Mr. Stump has taken over the position and
19 title while Mr. Robert Schwermann, to my knowledge, currently holds no official
20 position, but is merely an owner via an investment vehicle his family owns.
21 Furthermore, Mr. Brian Schwermann 's position within the Company is identified
22 only as Secretary of the Lake Region board of directors. He apparently holds no
23 other title or position within the Company.

1
2 The only person that could be construed to be an executive of the Company is Mr.
3 Stump; however, my review of the activities of these parties indicates that the actual
4 operation of the regulated utilities is the responsibility and duty of the District and
5 the contracted manager, Mr. John Summers. Any communications which occur
6 between these parties appears to be those analogous to activities that normally
7 occur between management (Mr. Summers) and a company's board of directors.
8 That is, as issues of policy or operation arise the board of directors are apprised
9 and they make any necessary final decisions which the District and Mr. Summer's
10 then implement. Thus, it is Public Counsel's belief that the management fees the
11 Staff proposes are inappropriate because they are duplicative and excessive due to
12 the fact that they are not representative of the actual management structure of Lake
13 Region. However, it is also the Public Counsel's position, as explained in my Direct
14 Testimony, that costs related to the activities of the Company's board of directors
15 should be included in the Company's cost of service at a reasonable level.
16

17 Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES STAFF'S PROPOSED
18 MANAGEMENT FEES AMOUNTS ARE UNREASONABLE.

19 A. Primarily, Public Counsel believes the costs, as determined by Staff, to be
20 unreasonable because they too are both duplicative and unnecessary. For
21 example, as stated earlier in this testimony, neither Robert or Brian Schwermann
22 are executives of the utility. Robert was until recently President of Lake Region, but
23 that position is now held by Mr. Stump while the only position Brian Schwermann

1 holds is that of Secretary of the Lake Region board of directors. However, Staff's
2 proposals provide for compensation to both Mr. Vernon Stump and Mr.
3 Robert/Brian (one or the other, but not both) Schwermann at the subjective rate of
4 \$63.77 per hour for three days per month. Thus, Public Counsel believes the
5 Staff's proposed compensation to be unreasonable and duplicative because there
6 is no evidence, other than that they attend the District's monthly board meetings, that
7 would substantiate the parties involvement in the utilities operations in any capacity
8 other than those associated with the activities of a member of a regulated utility's
9 board of directors. Furthermore, the hourly rate chosen by the Staff is a subjective
10 amount derived apparently from an *American Water Works Association 2008 Water*
11 *Utility Compensation Survey* for executive salaries. Which of course is excessive
12 because it fits neither of the Schwermanns positions with the Company.

13
14 In addition, Staff's proposals also include 24 days lodging and meals to each of the
15 parties along with auto travel (for the parties together) and air travel/parking (for Mr.
16 Vernon Stump to travel from Texas to Missouri) presumably so that they can attend
17 each of the District's monthly board meetings at the Lake of the Ozarks. In this day
18 and age the ability and variety of communications available to the parties does not
19 require that they be afforded these mini-vacations particularly when they have a
20 contracted onsite manager which I'm relatively sure can update them continuously,
21 and much more prudently cost wise, on any activities requiring their input.
22 Furthermore, the fact that Staff has included round trip airfare and parking fees for
23 the benefit of Mr. Stump to travel back and forth from the State of Texas on a

1 monthly basis is in my opinion a very unreasonable and excessive cost for
2 ratepayers of a utility this size to bear.

3
4 Lastly, Staff's calculation includes costs for rent of office space which is apparently
5 located at the Schwermann's financial services business location and
6 communications expense for email, fax and two cell phones. While Public Counsel
7 views the inclusion of a reasonable level of actual communications cost in the cost
8 of service of the regulated utilities to be appropriate, Staff's proposal seems
9 excessive because it appears to be based on nothing more than a subjective
10 amount since actual costs incurred have apparently not been identified or
11 proposed. As for the rental subsidization of the Schwermann's private business
12 location, the costs are excessive and should be disallowed because
13 communications between the Lake Region parties very likely occur on an
14 intermittent basis, thus, they do not require the use or incurrence of costs for an
15 ongoing office rental. In addition, the board of director's meetings only occur once
16 per year and from my review of Company's board minutes these take a limited
17 amount of time so that the need for an ongoing office should not be required.

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19 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

20 A. Yes, it does.
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