

FILED  
January 13, 2011  
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Missouri Public  
Service Commission

Exhibit No.: \_\_\_\_\_

Witness: Derek Sherry

Type of Exhibit: Surrebuttal Testimony

Issues: Compensation/Time Sheets/Overtime; Rate Case  
Expenses; Alternative Energy Gas Well Cost Recovery; PSC  
Assessment; Contingency/Emergency Repair Fund

Sponsoring Party: Timber Creek Sewer Company

Case No.: SR-2010-0320

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY DIVISION

TIMBER CREEK SEWER COMPANY

CASE NO. SR-2010-0320

SURREBUTTAL TESTIMONY OF

DEREK SHERRY

DECEMBER 28, 2010

Exhibit No. 6  
Date 1-5-11 Reporter TR  
File No. SR-2010-0320

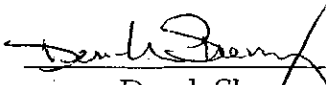
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the matter of Small Company Rate Increase )  
Of Timber Creek Sewer Company ) Case No. SR-2010-0320

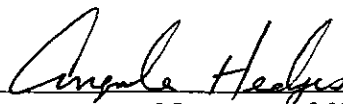
AFFIDAVIT OF DEREK SHERRY

STATE OF MISSOURI )  
 ) ss  
COUNTY OF JACKSON )

Derek Sherry, of lawful age, on his oath states: That he has reviewed the attached written testimony in question and answer form, all to be presented in the above cases, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.

  
Derek Sherry

Subscribed and sworn to before me this 28th day of December, 2010.

  
Notary Public

[SEAL]

My Commission expires: 9-22-2013

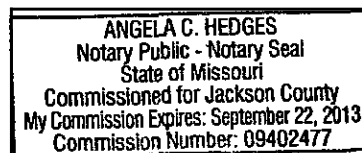


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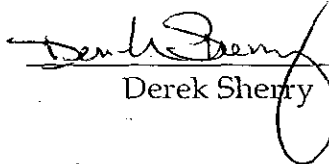
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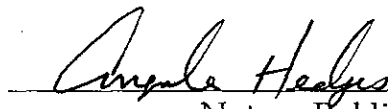
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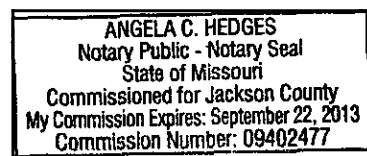
  
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Notary Public

[SEAL]

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**TIMBER CREEK SEWER COMPANY**

**SR-2010-0320**

**SURREBUTTAL TESTIMONY OF DEREK SHERRY**

1Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2A. My name is Derek Sherry. My business address is 18305 Cable  
3 Bridge Road, Platte City, MO 64079.

4

5Q. **ARE YOU THE SAME DEREK SHERRY WHO HAS PREVIOUSLY FILED**  
6 **TESTIMONY IN THIS PROCEEDING?**

7A. Yes. I have previously filed direct and rebuttal testimony  
8 in this proceeding.

9

10Q. **WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11A. The purpose of my Surrebuttal Testimony is to respond to  
12 rebuttal testimony of certain witnesses of the Staff and the  
13 Office of Public Counsel on the issues of payroll, rate case  
14 expense and PSC Assessment.

15

16Q. **WOULD YOU RESPOND TO PSC STAFF WITNESS BRETT G. PRENGER'S**  
17 **METHOD OF SALARY COMPARISONS TO DIFFERENT WATER AND**  
18 **WASTEWATER UTILITIES?**

1A. In the Rebuttal Testimony of Bret G. Prenger, Mr. Prenger  
utilizes an "individual salary cost per customer" model in  
an attempt to compare position salaries across different  
wastewater utilities. This model is flawed as it does not  
represent the total cost of labor for the utility and take  
into account an adequate division of labor to run utilities  
of different size and scale.

As an example, Mr. Prenger discusses in his rebuttal  
testimony that Johnson County Wastewater serves 133,000  
customers and has 218 employees. With these facts and using  
the individual salary cost per customer model, Johnson  
County Wastewater General Manager's salary calculates to be  
\$0.76 to \$1.10 per customer as compared to Timber Creek  
General Manager's salary at a current \$50 per customer or  
proposed \$62 per customer, as stated in Mr. Prenger's  
rebuttal testimony. The results of this model might lead  
one to the conclusion that Timber Creek's cost of labor is  
extremely excessive. However, **Schedule DS-10** is Johnson  
County's Wastewater Personnel Expenses for 2009 presented  
May 6<sup>th</sup>, 2010 to the Johnson County Board of County  
Commissioners which indicates on the pie chart on page 6  
that 41% of Johnson County Wastewater's \$32.6 million dollar  
operations and maintenance costs are personnel. In  
comparison, Timber Creek's current personnel costs are 38%

1 (including benefits) of revenue. Timber Creek's salaries  
2 as part of this case will put personnel costs at 40%  
3 (including benefits and \$10k OT). This would indicate that  
4 Timber Creek is more in line with labor expenditures as  
5 compared to a wastewater utility much larger in scale.  
6

7 Another example used by Mr. Prenger is Platte County  
8 Regional Sewer District (PCSRD) with 3200 customers and 10  
9 employees as compared to Timber Creek's 1526 customers in  
10 Platte County and 4 employees. PCSRD has 209% more  
11 customers and 250% more staff than Timber Creek. If Timber  
12 Creek had twice as many customers (209%), Timber Creek's  
13 staff count might double from 4 to 8. Since PCSRD has 10  
14 employees, it's safe to assume that Timber Creek's personnel  
15 costs are comparable or more competitive than PCSRD.  
16

17 **Q. WHAT ABOUT THE COMPARISON TO LAKE REGION?**

18 **A.** Lake Region is a shared staff model, where three separate  
19 legal entities are served by the same staff. Lake Region's  
20 organization design and employment arrangements are not a  
21 similar business structure as with Timber Creek positions.  
22 Additionally, Lake Region is considered outside the Kansas  
23 City metro employment market area.  
24

1 **Q. WHAT ABOUT MR. PRENGER'S STATEMENT THAT THE GENERAL MANAGER**  
2 **DOES NOT HAVE THE NECESSARY CREDENTIALS TO OPERATE TIMBER**  
3 **CREEK?**

4 A. The General Manager's position is far broader than being the  
5 'certified operator' for the Company as Mr. Prenger  
6 indicates on page 5 of his rebuttal testimony. One of the  
7 many General Manager's duties is to ensure effective  
8 operations, including qualified, certified operators meet  
9 Company and DNR requirements, goals and expectations. The  
10 General Manager decides how to best source this expertise,  
11 which may take the form of an employee, contractor, or a  
12 contract with a service company to provide certified  
13 operators.  
14

15 **Q. WHAT DOES THE PUBLIC COUNSEL SUGGEST FOR TIMBER CREEK'S**  
16 **ANNUAL SALARY?**

17 A: Mr. Robertson suggests \$190,543 annually, which is a  
18 reduction of \$41,896 from current salaries. The Public  
19 Counsel's proposed salary represents 28% of the company's  
20 revenues. As indicated earlier in this testimony, Johnson  
21 County Wastewater personnel expenditures are 41% with a  
22 utility much greater in size and scale than Timber Creek.  
23 It is the Company's opinion that the Public Counsel's salary  
24 level would represent an uninformed and irresponsible



1 allocation of personnel cost to attract and retain qualified  
2 personnel to run a competent wastewater utility in the  
3 Kansas City area.

4  
5 **Q: CAN YOU RESPOND TO STAFF WITNESS MR. HARRIS CLAIMS REGARDING**  
6 **STATEMENTS THAT TIMBER CREEK HAS EARNED \$472,779 SINCE 2007?**

7 **A:** Mr. Harris uses a model in his Rebuttal Testimony, depicted  
8 on page 6, that utilizes "rate \$" as a constant for revenue  
9 and for expenses to indicate how much Timber Creek has  
10 earned from 2007 thru 2010. Timber Creek's accountant and  
11 staff are unaware of this accounting practice or PSC  
12 accounting method to determine earnings. Timber Creek  
13 utilizes the standard accounting practice of Revenue minus  
14 Expenses to determine how much money the Company earns.  
15 Similarly, the accounting method of Revenue - Expense is  
16 used in the PSC Annual Report that is required by the  
17 Company to submit. According to the Company's annual  
18 reports for 2007, 2008, and 2009 filed with the PSC, net  
19 income (Revenue - Expense) is on page S-1 at the bottom of  
20 the pages (see **Schedule DS-11**).  
21 The Company's annual reports filed with the PSC for 2007,  
22 2008, and 2009, indicate that the total net income for these  
23 years was a net loss of \$42,431. Timber Creek has not filed  
24 an annual report for 2010 but is confident it will not make

1 up the loss of \$42,431 for the previous three years and earn  
2 over \$500,000 to come close to earning \$472,779 as claimed  
3 in Mr. Harris' rebuttal testimony.  
4

5**Q: CAN YOU RESPOND TO PUBLIC COUNSEL'S WITNESS MR. ROBERTSON'S**  
6**STATEMENT REGARDING 50% DISALLOWANCE FOR RATE CASE EXPENSES?**

7A. It appears that Mr. Robertson believes that Public Counsel  
8 should determine what should and should not be presented to  
9 the Commission and in what forum it should take. Since  
10 Public Counsel disagrees with Timber Creek on the issues  
11 presented in this case, this statement appears to be  
12 retaliatory in nature under the guise that Public Counsel is  
13 saving ratepayer expense.

14 The Company believes it is following the PSC rules and  
15 processes for rate cases. After all, a utility may not  
16 increase rates with the approval of the Commission and  
17 unless an issue is presented to the Commission during the  
18 course of a rate case, the Commission will not be able to  
19 rule on it one way or the other.  
20

21**Q. CAN YOU COMMENT ON THE PSC STAFF AND PUBLIC COUNSEL POSITION**  
22**THAT THE PSC ASSESSMENT SHOULD NOT BE TREATED AS A**  
23**SURCHARGE?**

24A. Both the Staff and Public Counsel interpret this approach to

1 be considered single-issue rate making or not following  
2 principles of rate-of-return regulation and state that this  
3 is prohibited in the State of Missouri. However, the MoPSC  
4 has approved gross receipts tax and franchise fees as pass-  
5 thru charges to customers for various utilities in Missouri.  
6 The gross receipts tax and franchise fees are  
7 government/public entity type taxes that are separate line  
8 items on utility bills to customers to indicate the specific  
9 charges (pass-thru charges). The gross receipts tax and  
10 franchise fees are calculated as a percentage of the  
11 utilities revenue. The PSC assessment is calculated as a  
12 percentage of the utilities revenue. The PSC Assessment  
13 appears to be akin to the gross receipts and franchise fee  
14 and suitable as a pass-thru item on the utility bill.

15

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

17 **A.** Yes it does.

# **Johnson County Wastewater**

**2011 Preliminary Budget  
O&M and Capital Rates**

**May 6, 2010**

## **User Fee Discussion**

**David Naumann  
Rowe McKinley**

**Black and Veatch**

## **Basis for 2011 Rates**

- Historically would use 2010 budget as starting point for 2011
- Revenue projections may be adjusted as 2010 information is updated
- Due to declining revenues, starting with 2009 actual
  - Adjust for known cost increases
  - Adjust for unsustainable 2009 reductions
  - Adjust growth assumptions

## **Guiding Principles for Recommended Financial Plan**

- Conservative on growth and use assumptions
- Aggressive cost containment
- Maintain minimum reserve balance target of 90 days O&M
- Minimize impact to customer bills
- Prefer to implement regular adjustments and avoid rate shock
- Appropriate management of risks and opportunities

## Significant Pressure in O&M Financials Expected to Continue

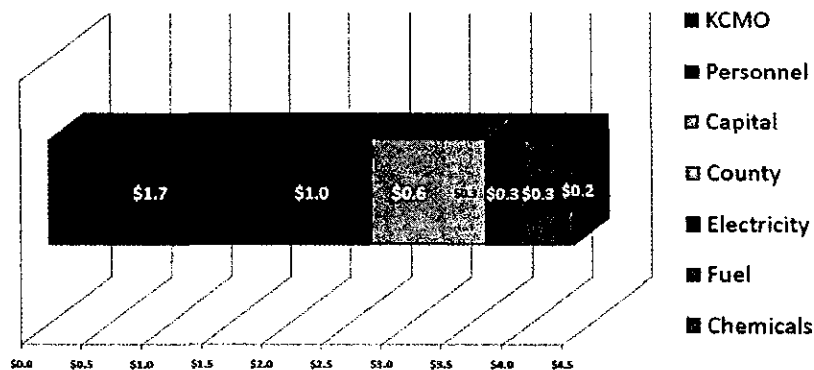
\$ - millions	Actual 2009	Forecasted 2010	2011	Difference	
				2009 to 2010	2010 to 2011
Total Revenues	\$ 32.10	\$ 33.45	\$ 33.13	4.2%	-1.0%
Operating Expenses	\$ 32.64	\$ 35.52	\$ 37.51	8.8%	5.6%
Year-end Balance	\$ (0.54)	\$ (2.07)	\$ (4.38)		
Year-end Balance as % of Revenue	1.8%	6.6%	14.3%		
End of Year Reserves	\$ 13.12	\$ 11.06	\$ 6.67		
Variance to Target	\$ 5.08	\$ 2.42	\$ (2.46)		

- Forecasted 2010 user charges up only 4.2% percent after implementing a 7 percent increase as flows decline more than anticipated
- Expenses for KCMO, electricity, merit/grid maintenance increasing
- O&M budgeted expense for 2010 is over \$37M. Implemented cost reductions are mitigating impact.
- Without further action 90 day reserve target is at risk in 2011.

## 2009 to 2011 Expense Drivers

2009 Expenses	\$32.6
2011 Expenses	\$37.0
Difference	\$ 4.4

Increased 2011 Expense Over 2009 Actual



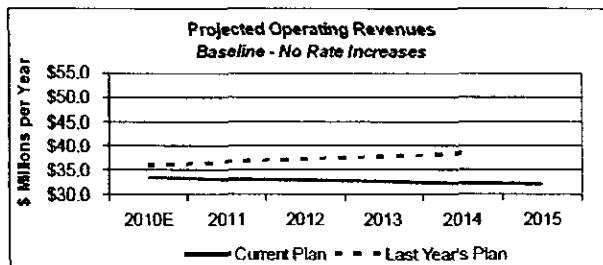
## Key Assumptions

Note: Assumptions subject to change through July 1 as budget-setting process concludes

### • Revenues

- Currently assuming an average decline in O&M revenues of about 1 percent due to
  - Lower use per customer
  - Offset by slight growth in accounts beginning in 2012
- Other revenues consistent with 2009 levels except for assumed increases in
  - Septic receiving fees
  - FOG receipts

## Revenues under Existing Rates



Forecasted revenue is lower than last year's plan by about \$2.5M per year in 2010, up to \$6.0M less in 2014

Revenue is projected to decrease about 0.9% per year due to projected reductions in billable flow

	Projected Operating Revenues		Total Operating Revenues
	User Charge	Misc. Income	
2010E	\$ 31.1	\$ 2.4	\$ 33.5
2011	\$ 30.7	\$ 2.4	\$ 33.1
2012	\$ 30.4	\$ 2.4	\$ 32.8
2013	\$ 30.2	\$ 2.4	\$ 32.5
2014	\$ 29.9	\$ 2.4	\$ 32.3
2015	\$ 29.6	\$ 2.4	\$ 32.0

## Key Assumptions

Note: Assumptions subject to change through July 1 as budget-setting process concludes

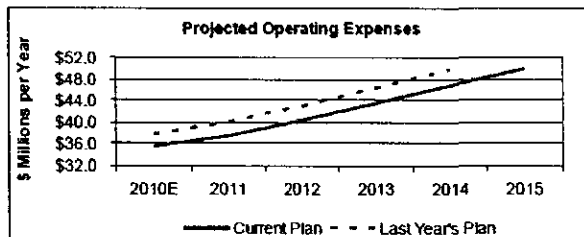
### • Expenses

- Starting with 2009 actual expenses
- Assumes 2009 cost cuts are permanent
- 2011 personnel costs assume increases of 3% for salaries and wages, 1% for grid maintenance and 6% for benefits
- No FTE-RARs throughout the 5 year planning period
- No non-personal RAR's for 2011

## Revenue Requirements

Forecasted expense is lower than last year's plan by about \$2.0M to \$2.8M per year

Annual increase in total O&M expected to be 5.6% to 7.9%

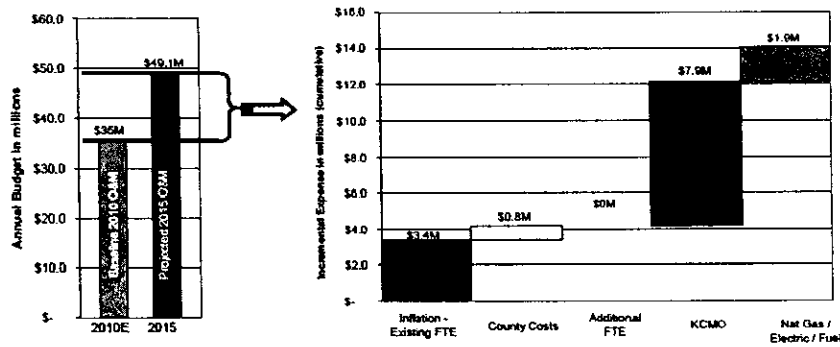


	O&M	Transfers *	Other **	Total	Annual Increase
2010E	\$ 31.4	\$ 3.0	\$ 1.1	\$ 35.5	n/a
2011	\$ 33.3	\$ 3.1	\$ 1.1	\$ 37.5	5.6%
2012	\$ 36.0	\$ 3.3	\$ 1.1	\$ 40.4	7.6%
2013	\$ 38.9	\$ 3.5	\$ 1.1	\$ 43.4	7.6%
2014	\$ 42.1	\$ 3.7	\$ 1.1	\$ 46.8	7.9%
2015	\$ 44.9	\$ 3.9	\$ 1.1	\$ 49.8	6.3%

\* Transfers include cost allocation, risk management  
 \*\* Other includes Routine Capital and Uncollectibles

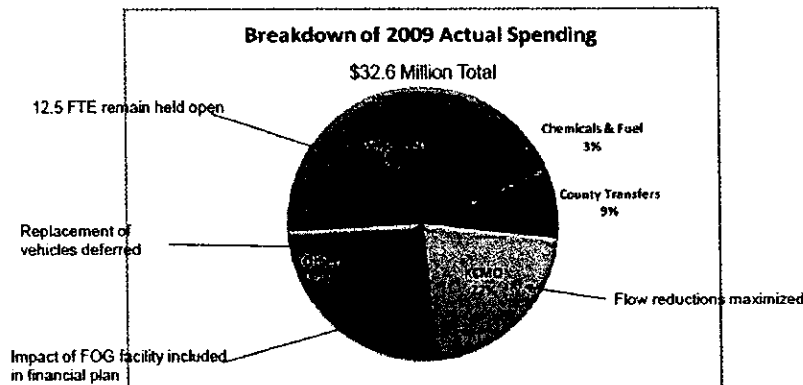


## O&M Expense Drivers - 2010 to 2015



- KCMO is the most significant increase in incremental O&M expense and is the most volatile cost.

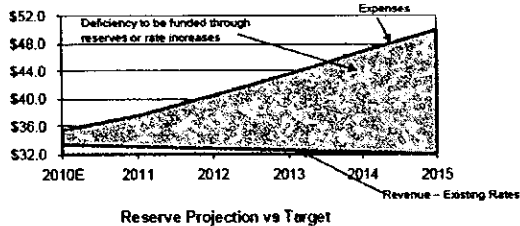
## 2009 Cost Structure Implications



Most of the costs within JCW's control are related to Personnel.

## Comparison of Revenues Under Existing Rates and Expenses

Comparing Operating Revenues under Existing Rates and Expenses



- Projected operating expenses exceed projected revenues under existing rates

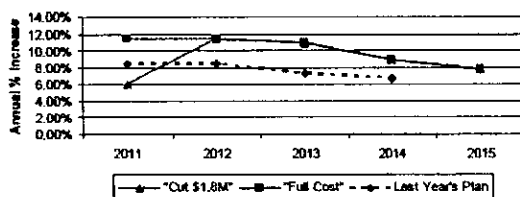
Reserve Projection vs Target



- Reduction in operating balance leads to reserves below target in 2011 and negative balances in 2012 through 2015

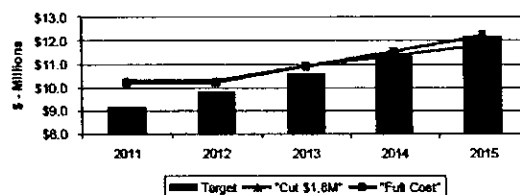
## Options for Revenue Increases

Projected Annual Revenue Adjustments



- 2011 Revenue Increases
  - Option 1: 11.5%
  - Option 2: 6.0%
    - Requires 2011 cost cut of \$1.8M

Projected End of Year Reserve Balance



- Compared to last year's plan, recommended increases are higher throughout the planning period

1

For the calendar year of January 1 - December 31, 2007

2 Company Name: Timber Creek Sewer Company, Inc.**SEWER OPERATING REVENUES, EXPENSES AND STATISTICS**

	Amount (b)
3 Total Operating Revenues (From Page S-2)	\$ 511,286.59
<u>Operating Expenses</u>	
4 Salaries & Wages (From Page 7)	\$ 173,012.74
5 Employee Pensions and Benefits	
6 Purchased Water	
7 Plant Operations Expenses (From Page S-3)	\$ 123,894.27
8 Billing Expenses	\$ 5,292.64
9 Supplies and Expenses	\$ 10,399.27
10 Transportation Expenses	\$ 4,817.93
11 Rent Expense *	
12 Insurance Expense	\$ 31,359.09
13 Outside Services Employed (i.e., Legal, Accounting, etc.) (From Page 8)	\$ 33,340.86
14 Regulatory Commission Expenses	\$ 29,164.13
16 Uncollectible Expenses (From Page 8)	\$ 104.87
16 Depreciation Expense (From Page S-5)	\$ 131,584.55
17 Amortization of Contributions in Aid of Construction (Page 9)	\$ (117,420.16)
18 Amortization Expense	
19 Tax Expenses (From Page S-3)	\$ 18,500.57
20 Interest Expense (From Page 10)	\$ 89,647.19
21 Other Expenses *	\$ 4,013.65
22 Total Operating Expenses	\$ 537,681.40
23 Net Income (Loss)	\$ (26,404.81)

\* Please attach a detailed explanation for these items.

Indicates link to another worksheet within workbook

Indicate formula cells

For the calendar year of January 1 - December 31, 2008

2 Company Name: Timber Creek Sewer Company, Inc.

**SEWER OPERATING REVENUES, EXPENSES AND STATISTICS**

	Amount (b)
3 Total Operating Revenues (From Page S-2)	\$ 662,693.23
<u>Operating Expenses</u>	
4 Salaries & Wages (From Page 7)	\$ 234,216.70
5 Employee Pensions and Benefits	
6 Purchased Water	
7 Plant Operations Expenses (From Page S-3)	\$ 148,568.78
8 Billing Expenses	\$ 23,175.40
9 Supplies and Expenses	\$ 1,875.98
10 Transportation Expenses	
11 Rent Expense *	
12 Insurance Expense	\$ 27,258.54
13 Outside Services Employed (i.e., Legal, Accounting, etc.) (From Page 8)	\$ 11,872.74
14 Regulatory Commission Expenses	\$ 43,366.37
15 Uncollectible Expenses (From Page 8)	\$ 526.80
16 Depreciation Expense (From Page S-5)	\$ 131,594.54
17 Amortization of Contributions in Aid of Construction (Page 8)	\$ (120,649.14)
18 Amortization Expense	
19 Tax Expenses (From Page S-3)	\$ 53,285.95
20 Interest Expense (From Page 10)	\$ 58,559.44
21 Other Expenses *	\$ 33,207.60
22 Total Operating Expenses	\$ 646,659.71
23 Net Income (Loss)	\$ 16,033.52

\* Please attach a detailed explanation for these items.

Indicates link to another worksheet within workbook

Indicate formula cells

Schedule DS-11

p. 2 of 3

For the calendar year of January 1 - December 31, 2009

2 Company Name: Timber Creek Sewer Company, Inc.

**SEWER OPERATING REVENUES, EXPENSES AND STATISTICS**

	Amount
(a)	(b)
3 Total Operating Revenues (From Page S-2)	\$ 669,940.59
<u>Operating Expenses</u>	
4 Salaries & Wages (From Page 7)	\$ 232,439.00
5 Employee Pensions and Benefits	\$ 20,980.94
6 Purchased Water	
7 Plant Operations Expenses (From Page S-3)	\$ 190,049.61
8 Billing Expenses	\$ 8,536.21
9 Supplies and Expenses	\$ 35,817.86
10 Transportation Expenses	\$ 18,564.58
11 Rent Expense *	
12 Insurance Expense	\$ 10,402.18
13 Outside Services Employed (i.e., Legal, Accounting, etc.) (From Page 8)	\$ 21,885.17
14 Regulatory Commission Expenses	\$ 67,632.82
15 Uncollectible Expenses (From Page 6)	\$ 789.95
16 Depreciation Expense (From Page S-5)	\$ 128,187.04
17 Amortization of Contributions in Aid of Construction (Page 9)	\$ (116,068.59)
18 Amortization Expense	
19 Tax Expenses (From Page S-3)	\$ 23,208.38
20 Interest Expense (From Page 10)	\$ 55,532.02
21 Other Expenses *	\$ 4,043.47
22 Total Operating Expenses	\$ 702,000.64
23 Net Income (Loss)	\$ (32,060.05)

\* Please attach a detailed explanation for these items.

14 - Regulatory Commission Expense includes \$12,000 DNR permitting fees