

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

In the Matter of the Application of Lincoln )  
County Sewer & Water, LLC for Approval ) **File No. SR-2013-0321**  
Of a Rate Increase )

**STAFF’S STATEMENT OF POSITION**

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and for its *Statement of Position* concerning the issues identified in the *Joint List of Issues, Order of Witnesses, Order of Cross-Examination, and Order of Opening Statements* filed on October 25, 2013, states as follows:

**1. Meters/Meter Reading**

- a. What is the appropriate amount, if any, to include in rates for the purchase, installation, and operation and maintenance of the Company’s automated meters?

**STAFF’S POSITION:** Staff has included \$60,718 in plant and \$3,098 in reserve related to the meters. This equates to \$2,810 in annual depreciation expense and \$3,872 of annual return on investment associated with this plant. Additionally, Staff is proposing to include \$10,937 in plant and \$ 1,120 in reserve associated with the related handheld reader devices. This equates to \$2,188 in annual depreciation expense and \$660 of annual return on investment associated with the devices. While Staff has concerns regarding the economics of the use of the AMR system in small water systems versus manual read meters, Staff’s inclusion of these costs in this case takes into account the non-quantifiable intangible benefits associated with use of AMRs.

- b. If the automated meter costs are not included in rates, what amount of non-automated meter purchase, installation, and operation and maintenance costs should be included in rates?

**STAFF’S POSITION:** Should the AMR meters not be included in rates, Staff proposes to include \$35,800 in plant and \$1,012 in reserve related to manual read meters. This equates to \$1,673 in annual depreciation expense and \$2,338 of annual return on investment associate with these meters.

- c. If the automated meter costs are not included in rates, what amount of meter reading costs should be included in rates?

**STAFF'S POSITION:** Should the AMR meters not be included in rates, Staff proposes including \$2,196 in expense to account for a meter reader at a rate of \$1.50 per meter/per month.

## **2. Billing Program & Billing Expenses**

- a. What is the appropriate amount to include in rates for the Company's billing program?

**STAFF'S POSITION:** Staff has included \$3,745 in plant and \$480 in reserve related to the billing program costs associated with AMR meters. This equates to \$749 in annual depreciation expense and \$219 of return on investment. Should the AMR meters be included in rates, Staff believes that the costs associated with the software required to convert the AMR data into billing data and process the customer's bills should be included.

- b. If the billing program is not included in rates, should additional payroll expenses be included for billing and related activities?

**STAFF'S POSITION:** Staff was unable to quantify the amount of costs to be included in rates for billing program costs associated with manual read meters in the event the billing program is not included in rates. However, Staff believes a lower cost manual read billing program to address the billing needs of a company of LCSW's size should be included in rates. These programs generally range in price depending on the number of customers served and whether or not the program is strictly billing software or also includes the ability to act as business software that produces financial statements. In general, the cost of these programs start at \$250 for utilities with around 100 customers, therefore, \$250 is a reasonable amount to include for a billing program associated with manual read meters.

## **3. Land Ownership and Valuation**

- a. Should the value of the land on which the Company's facilities are situated be included in rate base for the Company?

**STAFF'S POSITION:** The value of the land on which the Bennington and Rockport sewer treatment plants are situated should be included in rates if LCSW shows the actual amount of its investment in the land, which it has not yet done at the level of confidence desired by Staff. If the Company can do this, it would then also need to answer whether or not some portion of the asserted value of the land should appropriately be treated as Contributions in Aid of Construction (CIAC). If the entire amount of investment is treated as CIAC, then the inclusion of the land would have no net effect on rate base.

- b. If so, what is the value of that land?

**STAFF'S POSITION:** Staff has not been provided sufficient documentation to determine the value of the Company's land or the Company's actual investment in these properties. With no basis on which to determine the value, Staff cannot recommend that any particular amount be included in rates.

#### 4. Rate Base

What are the appropriate beginning balances for the Company's rate base?

**STAFF'S POSITION:** Staff believes the appropriate beginning balances are those agreed upon by all parties and ordered by the Commission in LCSW's prior certificate cases, Nos. WA-2012-0018 and SA-2012-0019.

#### 5. Capacity Adjustments (Rockport)

What should be the adjustment to rate base for excess capacity in the Company's Rockport facilities?

**STAFF'S POSITION:** The Rockport facilities are built to serve many more customers than are currently using those facilities. It would not be appropriate for the current customers to pay for capacity that is not necessary to serve them. Therefore, in order to account for the excess capacity at the Rockport facilities, it is appropriate to exclude from rate base 70% of the Rockport storage tank's cost, 87% of the Rockport well pump's cost, and 77% of the Rockport sewage treatment facility's cost.

#### 6. Plant Held for Future Use

Should the capacity adjustment to rate base be recorded as plant held for future use?

**STAFF'S POSITION:** The amount of capacity adjustments made to rate base should not be recorded in the Uniform System of Accounts (USOA) Account Plant Held for Future Use accounts (105 for sewer and 394 for water), the USOA description of which state that, "Materials and supplies, and meters held in reserve, and normal spare capacity of plant in service shall not be included in this account."<sup>1</sup> However, should the capacity adjustment be included in Plant Held for Future Use, the USOA account directions are clear that these Plant Held for Future Use accounts "shall be maintained in such detail as though the property were in service." Therefore, while depreciation expense would continue to accrue on such accounts, the plant, reserve, and depreciation expense would not be included for regulatory ratemaking until such time as those items of plant become used and useful.

#### 7. Depreciation Rates

a. What is the appropriate depreciation rate for the Company's submersible pumping equipment account on the Bennington system?

**STAFF'S POSITION:** LCSW's submersible pumping equipment account is over accrued for depreciation but not fully accrued. Staff calculated a depreciation rate of 6.6% to slow down the accruals to a rate of consumption observed for LCSW.

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<sup>1</sup> Underlining added for emphasis.

- b. Should the Commission order adjustments to the accumulated depreciation for the Bennington submersible pump account?

**STAFF'S POSITION:** No. Accumulated depreciation reserves should not be adjusted for this rate case.

**8. Rate Case Expense**

What is the appropriate amount of rate case expense to include in the Company's rates?

**STAFF'S POSITION:** As of Surrebuttal testimony, the appropriate amount to include in rates on an annual basis was \$3,917. However, as Staff has acknowledged, LCSW is likely to continue incurring these types of expenses throughout the rate case. Therefore, as Staff is presented with additional documentation, Staff will consider such expenditures for inclusion in its rate recommendation prior to the calculation of final rates until it is no longer feasible to do so.

**9. Certificate Case Expense**

What is the appropriate amount of costs related the Company's certificate cases to include in the Company's rates?

**STAFF'S POSITION:** Currently, LCSW's rates include an annual level of recovery for these items of \$2,275, which was a normalized expense ordered by the Commission in the Company's certificate case. It is Staff's standard practice that normalized rate case expenses not be included in calculating rates in subsequent rate cases, no matter how often a Company chooses to file for rate increases, and this is also the treatment most frequently ordered by the Commission for such expenses.

**10. Office Rent/Office Utilities**

What is the appropriate amount of expense to include in rates for the Company's office space, including rent and utilities?

**STAFF'S POSITION:** A total of \$8,100 (including \$900 for utilities) in annual cost is the appropriate amount of office rent to include in LCSW's cost of service calculation. LCSW's current lease structure, which could amount to as much as \$17,000 annually when ancillary expenses are included, is an inappropriate financial burden for the Company's customers to bear in rates for office space expenses.

**11. Property/Liability Insurance**

What is the appropriate amount of expense to include in rates for property or liability insurance?

**STAFF'S POSITION:** The appropriate amount of expense related to property/liability insurance for LCSW is \$630, which is the amount LCSW currently pays annually to insure its property. It is not appropriate to include in customers' rates

the amount of a property/liability insurance policy related to LCSW's rented office space. This policy is not owned by LCSW, and any insurance proceeds due to a loss claim would not be paid to LCSW.

## **12. Income Taxes**

Is it appropriate to include income tax expense in the Company's cost of service?

**STAFF'S POSITION:** No. As an LLC, LCSW has elected to be treated in the manner of an "S-Corp" for income tax purposes, which mean LCSW has no direct income tax liability. Instead, any profit or loss of the Company is recorded on the owner's personal tax return and will be potentially offset by the tax results for any other businesses owned by Mr. Kallash that may also be recorded on his personal tax return. Under this type of tax structure, any payment to or refund from Federal or State taxing authorities are the owner's responsibility and will not impact LCSW. Even if it were appropriate to include income taxes expense in rates for this company, LCSW has not provided Staff with the owner's personal income tax returns to allow for review of the actual treatment of LCSW income on those documents. Thus, income tax expense should not be included in rates for this case.

## **13. Salaries – Dennis and Toni Kallash**

a. What is the appropriate level of salary to include in rates for Dennis Kallash?

**STAFF'S POSITION:** An annual amount of \$7,860 is an appropriate level of salary for Mr. Kallash's utility duties, based upon the level included in LCSW's prior certificate cases and increased in consideration of additional duties performed now.

b. What is the appropriate level of salary to include in rates for Toni Kallash?

**STAFF'S POSITION:** An annual amount of \$10,562 is an appropriate level of salary for Mrs. Kallash's utility duties, based on the information provided by LCSW.

## **14. Mileage**

What is the appropriate amount of expense to include in rates for vehicle mileage?

**STAFF'S POSITION:** An annual amount of \$1,931 is an appropriate level of mileage expense to be included in rates based on available data.

## **15. Testing**

What is the appropriate amount of expense to include in rates for water testing?

**STAFF'S POSITION:** An amount of \$200 for each water system is an appropriate level of expense for water testing, which represents costs payable to the Missouri Department of Nature Resources. In addition to this amount, it is appropriate to include water testing labor costs in the amount of \$360, which is based on Staff's best estimate of the costs associated with a reasonable number of water testing trips for this Company.

**16. Sludge Hauling**

What is the appropriate amount of expense to include in rates for sludge hauling?

**STAFF'S POSITION:** An appropriate amount of expense for this item is \$2,958, which is based on a three-year average of the Company's historical sludge hauling expenses. It is not appropriate to include costs for a sludge hauling program the Company may implement in the future as these cost are not known and measurable.

**17. Office Supplies and Postage (Mailing of Consumer Confidence Report)**

What is the appropriate amount of expense to include in rates for office supplies and postage in regard to the mailing of the Consumer Confidence Report?

**STAFF'S POSITION:** An appropriate level of expense for this item is \$114, which is sufficient for the paper and ink to print the three-page Consumer Confidence Report (CCR) provided by the Missouri Department of Natural Resources and which must be made available to each of LCSW's water customers. Cost for special envelopes or additional postage is not necessary because this report can be included with customer bills in June of each year.

**18. Late Fees**

What is the appropriate amount of revenue to include in rates for late fees?

**STAFF'S POSITION:** The appropriate amount of revenue for late fees is \$252 for each system in the Bennington subdivision (\$504 total). The appropriate amount of revenue for late fees is \$816 for each system in the Rockport subdivision (\$1,632 total). These amounts are based upon historical levels of revenue during the test year of 12-months ending December 2012.

**19. Telephone and Internet**

What is the appropriate amount of expense to include in rates for telephone and internet usage?

**STAFF'S POSITION:** The appropriate amount of expense for telephone and internet usage is \$1,452, based on information obtained from the Company's service providers as the basic phone service plan for small businesses. The unlimited business bundle service plan LCSW currently uses is an excessive expense the customers should not have to bear in rates.

**20. Electricity Expense (Operations)**

What is the appropriate amount of expense to include in rates for electricity related to the Rockport well and sewage treatment plant?

**STAFF'S POSITION:** Staff's recommended annualized electricity expense was developed based on a summary of historical bills (in the absence of actual bill statements) it received from the Company, but this information did not contain all the

data included on actual electricity bills that Staff needs to develop an ongoing level of expense. Subsequent to filing surrebuttal testimony, the Company provided Staff with copies of its actual electricity bills. At this time, Staff is reviewing these documents for its analysis of this issue and may revise its position on this issue upon completion of this new analysis.

**21. EMSU Staff Recommendations**

Should the Company continue to implement the recommendations of Staff’s EMSU unit regarding time sheets, vehicle logs, estimation procedures, after-hours availability, and distribution of customer rights information?

**STAFF’S POSITION:** Yes the Company should continue to implement all the recommendations made by the EMSU staff including those regarding usage of adequate time sheets, maintenance of adequate vehicle logs, development of estimation procedures, provision of appropriate contact information during normal business hours as well as after hours, and distribution of information specifying the rights and responsibilities of the company and its customers.

**WHEREFORE,** Staff respectfully requests the Commission accept this *Statement of Position* concerning the issues identified in the *Joint List of Issues, Order of Witnesses, Order of Cross-Examination, and Order of Opening Statements* filed on October 25, 2013.

/s/ Amy E. Moore  
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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed with first-class postage, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 30<sup>th</sup> day of October, 2013.

/s/ Amy E. Moore