

**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, et. al**  
Of a Rate Increase )

**STAFF’S BRIEF**

**COMES NOW** the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and for its post-hearing *Brief*, states as follows:

**Introduction**

This case was initiated as a small company rate increase request, pursuant to Commission Rule 4 CSR 240-3.050. Lincoln County Sewer & Water, LLC (“Lincoln County” or “the Company”) is a small water and sewer company serving 122 customers in two subdivisions, Rockport and Bennington.<sup>1</sup> The primary driver for Lincoln County’s rate increase request was its investment in automated meter reading (“AMR”) technology.<sup>2</sup> The Company requested that it be granted an increase of \$13,382 in its annual sewer system operating revenues and an increase of \$7,569 in its annual water system operating revenues.<sup>3</sup>

Lincoln County’s most recent cases before the Commission were Case No. WA-2012-0018, a case in which Lincoln County was granted a certificate to operate as a regulated utility, and Case No. WC-2011-0253, a complaint case Staff brought against the Company alleging Lincoln County was operating as a public utility without a certificate. The certificate case was resolved by stipulation of the parties; a certificate

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<sup>1</sup> Transcript 3:102.

<sup>2</sup> Kallash Rebuttal, p. 4.

<sup>3</sup> Hanneken Direct, p. 3.

was granted to the Company and regulated rates were set by Order of the Commission effective on July 6, 2012. Staff dismissed the complaint case shortly after the Commission granted Lincoln County its certificate.

In the present case, Staff conducted an audit of Lincoln County and determined the Company's annual water and sewer service revenues should decrease by an overall amount of  $-\$8,598$ .<sup>4</sup> Lincoln County did not agree with Staff's analysis and, because Staff and the Company could not reach an agreement resolving the case, in whole or in part, Staff requested that the case be resolved through contested case procedures, as allowed by the small company rule.

Through the course of testimony, Staff, the Office of the Public Counsel ("Public Counsel" or "OPC"), and the Company refined their positions on the issues as much as possible with the information available to the parties at different stages of the case,<sup>5</sup> and as of the hearing, Staff had reached a position that Lincoln County's annual water and sewer system operating revenues should decrease by an overall amount of  $-\$145$ . This amount represents an increase in annual water system revenues of  $\$4,614$  and a decrease in annual sewer system revenues of  $-\$4,759$ , and this includes consideration for the Company's investment in AMR technology as well as Staff's calculation of rate case expense up to October 29, 2013.<sup>6</sup>

Staff's audit consisted of a thorough review of the Company's books and records, its general business and customer service practices, its facilities, its operations, and its

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<sup>4</sup> *Id.* at 6.

<sup>5</sup> The Company provided Staff new information for consideration as late as the day before Surrebuttal Testimony was filed, including information that had been sought from the beginning of the case, and even right up until the day before the hearing. Tr. 3:108-10, 182, 256.

<sup>6</sup> Revised – Post-Surrebuttal Staff Accounting Schedules.

tariff, which is standard practice for any rate increase request. The results of this whole system audit represent Staff's position of how best to balance the very serious needs and concerns of the Company with the customers' very real interest in affordable rates.<sup>7</sup>

### **Argument**

The parties have presented twenty-one issues, some with several sub-issues, for the Commission's determination. While most small company rate increase requests are settled at least partially and do not require a contested case to resolve, the parties in this case were unable to reach even a partial settlement. That said, four of the issues discussed below were no longer contested as of the day of the hearing and were removed from the list of issues to cover during the hearing. These issues were: Land Ownership and Valuation (Issue 3), Property/Liability Insurance (Issue 11), Electricity Expense (Issue 20), and Engineering and Management Services Unit ("EMSU") Issues (Issue 21). It is Staff's understanding that, by not contesting these issues in the hearing, the Company accepted Staff's positions on these matters as laid out in Staff's Position Statements.

#### **Issue 1: Meters/Meter Reading**

**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?**

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<sup>7</sup> "Ratemaking is a balancing process. Although there are general guidelines and restrictions placed upon a regulatory body's discretion concerning rates, that discretion is very broad within those perimeters." *State ex rel. Union Elec. Co. v. Pub. Serv. Comm'n of State of Mo.*, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

**Facts:**

1. Lincoln County is a small water and sewer company that serves 122 customers in two subdivisions.<sup>8</sup>
2. Since its 2012 certificate cases, the Company installed an automated meter read system (“AMR”) at both its Bennington and Rockport systems.<sup>9</sup> This AMR system is by far the most expensive capital investment completed by the Company for both its Bennington and Rockport systems.<sup>10</sup> The meter installations at the Bennington system cost \$46,142, while the meter installation at Rockport cost \$25,516.<sup>11</sup> Additionally, the AMR meters require a meter reading device that cost \$9,438 and training regarding the use of the device that cost \$1,500.<sup>12</sup>
3. The AMR system installed by Lincoln County is significantly more expensive than standard meters.<sup>13</sup> This system includes meters with radio transponder capability that allow reading from a remote location such as from a vehicle on the street, sometimes referred to as “radio read meters,” a handheld receiver, software, and training.<sup>14</sup>
4. The estimated cost of standard meters, including installation, is \$35,800.<sup>15</sup>

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<sup>8</sup> Tr. 3:102; 111.

<sup>9</sup> Ferguson Rebuttal, p. 2.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> Johansen Direct, p. 6.

<sup>13</sup> *Id.*, pp. 2-3; Hanneken Surrebuttal, p. 9.

<sup>14</sup> Ferguson, *supra*.

<sup>15</sup> Addo Surrebuttal, pp. 3-4.

5. Staff is concerned about the economic cost of the meters considering the small size of the Company's customer base.<sup>16</sup>
6. There are certain operational benefits associated with use of AMR, and some larger regulated water utilities in Missouri currently utilize AMR technology.<sup>17</sup> For example, the remote reading capability of the AMR meters can be a time-saving tool available to the utility in managing its obligation to read every water meter each billing period.<sup>18</sup> Other benefits include the ability to determine whether there is unusual customer usage (either continuous or intermittent) such as might be caused by a leak on customer facilities; the ability to identify backflow through the meter; the ability to produce a 96-day record of customer usage; and the ability to identify days during which a customer had zero usage.<sup>19</sup> These features can result in savings to customers.<sup>20</sup>
7. In its certificate cases, LCSW agreed to put a few meters in place annually.<sup>21</sup> For this reason, the rates established in those cases included both a metered rate and an unmetered rate.<sup>22</sup> However, Mr. Kallash decided to install all of the meters at once.<sup>23</sup>

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<sup>16</sup> Tr. 3:103.

<sup>17</sup> Ferguson Rebuttal, at p. 3.

<sup>18</sup> Merciel Rebuttal, pp. 24-25.

<sup>19</sup> Johansen Direct, pp. 4-5.

<sup>20</sup> *Id.*; Tr. 3:82-84.

<sup>21</sup> Tr. 3:90-91.

<sup>22</sup> Tr. 3:100.

<sup>23</sup> Tr. 3:90-96.

8. At the conclusion of the discovery period in this case, the Company submitted to Staff a copy of an invoice for handheld device maintenance.”<sup>24</sup>
9. Staff was not aware until receiving this invoice that any such cost would be forthcoming.<sup>25</sup>
10. Because Staff was unable to conduct discovery on this cost, it could not recommend that the Commission include the cost in rates.<sup>26</sup>
11. The cost to the customers of the new maintenance contract, along with the software maintenance contract received at the same time, would be approximately \$31,000 spread over a ten-year period.<sup>27</sup>
12. Having factored in operational benefits outside of Staff's economic concerns, Staff has included AMR costs in its final recommended customer rates.<sup>28</sup>

***Analysis:***

In any rate case, whether for a large or small company, the Commission must consider all expenses incurred by the Company in providing utility service and must determine whether including those expenses in rates is just and reasonable.<sup>29</sup> Balancing the needs of the Company to recover the cost of its investments with the interest of the customers in affordable rates is one of the most difficult aspects of setting just and reasonable rates. In this case, as in many, the question of balance does not necessarily lead to a clear answer.

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<sup>24</sup> Hanneken Surrebuttal, p. 11.

<sup>25</sup> Tr. 3:108-9.

<sup>26</sup> Hanneken Surrebuttal, p. 12; Tr. 3:108-10.

<sup>27</sup> Tr. 3:112-3.

<sup>28</sup> Ferguson Rebuttal, pp. 2-3; Tr. 3:103, 123-24, 127-30.

<sup>29</sup> Sections 393.150 and 393.230, RSMo.; ***State ex rel. Union Electric Co. v. Public Service Commission***, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

Lincoln County is a small water and sewer company serving 122 customers. This Company made the business decision to purchase, install, and operate automated meters for its water system. In its audit of the Company, Staff was presented with the information that the Company had made this decision and presented with some evidence of the costs the Company incurred for doing so. Setting aside any issues of adequate documentation of the costs for automated meters,<sup>30</sup> the practical application of the company/customer balancing question was quickly apparent to Staff: Should a small system of only 122 customers be required to support the high cost of automated meters when the Company could have chosen to install much less expensive manual read meters as all other systems of similar size currently do?<sup>31</sup>

As was discussed in the hearing, it is not Staff's role to tell a Company owner what business decisions he can make. It is, however, Staff's role to recommend to the Commission what costs related to a business decision should be recovered in rates.<sup>32</sup> The courts have discussed this issue for decades. As early as 1923, the U.S. Supreme Court said, "It must never be forgotten that, while the state may regulate with a view to enforcing reasonable rates and charges, it is not the owner of the property of public utility companies, and is not clothed with the general power of management incident to ownership."<sup>33</sup> This standard, along with the Commission's duty to review a company's

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<sup>30</sup> Staff was able to verify costs in the amount of \$60,718 in plant and \$3,098 in reserve related to the meters and \$10,937 in plant and \$ 1,120 in reserve associated with the handheld meter reading devices. These amounts are used to calculate annual depreciation expense and return on investment associated with both the meters and the handheld devices. Tr. 3:100-02; *Staff's Statement of Position*.

<sup>31</sup> The system currently using AMR technology that is closest in size to Lincoln County is Lake Region Water & Sewer, with 646 customers. See Attachment B to this Brief.

<sup>32</sup> Tr. 3:332.

<sup>33</sup> ***State of Missouri ex rel. Southwestern Bell Tel. Co. v. Pub. Serv. Comm'n of Missouri***, 262 U.S. 276, 289, 43 S. Ct. 544, 547 (1923).

decisions for prudence,<sup>34</sup> forms the parameters of responsibility in which the Commission answers questions such as the one presented here.

In its consideration of whether to recommend that a Company's costs be disallowed from the calculation of rates, Staff must determine that the decision to incur those costs was imprudent and that it harmed the ratepayers.<sup>35</sup> One possible harm to ratepayers Staff must consider is the effect of passing along to customers unjustifiably higher costs than could have been incurred by making different decisions.<sup>36</sup> This is the basis for Staff's decision process that began with a determination that the costs the Company incurred for its AMR technology was excessive and that the costs outweighed the economic savings the technology might produce. For months, this was the only verifiable conclusion Staff could make. However, as Staff learned more about the less quantifiable benefits the Company's AMR technology can provide<sup>37</sup> and it became more clear that the AMR costs could be passed on to customers in this case without significantly higher rates,<sup>38</sup> the verifiable harm to the ratepayers of the Company's decision to incur the higher costs of AMR technology diminished. As the verifiable harm diminished, the conclusion that the Company's decision was imprudent became less

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<sup>34</sup> This duty stems from the Commission's statutory mandate to determine whether rates charged are just and reasonable. 393.150 and 393.130, RSMo.

<sup>35</sup> In discussing this standard as applied to a gas company's gas purchasing practices, the Missouri Court of Appeals said, "It would be beyond this statutory authority for the PSC to make a decision on the recoverability of costs, based upon a prudence analysis of gas purchasing practices, without reference to any detrimental impact of those practices on ANG's charges to its customers, such as evidence that the costs which ANG is seeking to pass on to its customers are unjustifiably higher than if different purchasing practices had been employed." **State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n of State of Mo.**, 954 S.W.2d 520, 530 (Mo. App., W.D. 1997).

<sup>36</sup> *Id.*

<sup>37</sup> As discussed earlier, some of those less quantifiable benefits include the ability to record daily or hourly water flow, which assists in determining whether there is a leak in the customer's home or some other unusual event. This ability also assists with customer Complaints about high bills that Staff must investigate. Tr. 3:123-24, 127-30.

<sup>38</sup> Ferguson Rebuttal, p. 3.



certain, and it became more possible that disallowing AMR costs would be substituting Staff's judgment for that of the Company owners.<sup>39</sup> For these reasons, Staff's final calculation of customer rates for this Company accounts for AMR technology costs.

What Staff's calculation of customer rates does not include is any expense for the new maintenance contract about which Staff was not aware until the close of discovery. Staff has not been able to review or analyze the maintenance contract, the potential total expense of the contract, or even its necessity. The only information Staff has is the cost of the initial contract, which appears to add a significant financial burden for the customer with no evidence that it is a reasonable burden for the customers to bear. For this item, the Company has not met its burden to show that the proposed amount of costs it wants included in rates is just and reasonable.<sup>40</sup>

Finally, for the Commission's consideration and at the Commission's request, Staff has included with this Brief a comparison of the rates Lincoln County's customers would pay under Staff's position with and without the costs for AMR technology. Further discussion regarding this comparison can be found below in the Special Issues section of this Brief.

**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?**

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<sup>39</sup> The Commission has never ruled on what size company may recover AMR costs in rates. Lincoln County would not have had access to any Order from the Commission alerting the Company to the possibility that AMR technology costs would be disallowed by definition. Tr. 3:135.

<sup>40</sup> Section 393.150(2).

**Facts:**

1. The Company has presented no evidence showing what amount of cost it would propose for this Issue.<sup>41</sup>
2. The appropriate amount of expense to include in rates for non-automated meters is \$35,800, with associated reserve, depreciation expense and return.<sup>42</sup>

**Analysis:**

Should the costs for 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,<sup>43</sup> which is based on Staff's determination of the costs associated with manual read meters.

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

**Facts:**

1. The Company sought and received only one bid for the cost of meter reading for its system.<sup>44</sup>
2. The bid the Company received was from a professional meter reader.<sup>45</sup>
3. Staff recommends an estimated cost for meter-reading of \$1.50 per meter/per month.<sup>46</sup>

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<sup>41</sup> Tr. 3:79.

<sup>42</sup> Tr. 3:101-02; *Staff's Position Statement*; *Staff Accounting Schedules*.

<sup>43</sup> Tr. 3:101-02; *Staff's Position Statement*; *Staff Accounting Schedules*. This equates to \$1,673 in annual depreciation expense and \$2,338 of annual return on investment associate with these meters. Tr. 3:101-02; *Staff's Position Statement*.

<sup>44</sup> Tr. 3:79-80.

<sup>45</sup> Tr. 3:77.

4. Staff's estimated cost is based on its experience with and comparison to other similar companies.<sup>47</sup>

**Analysis:**

Should the AMR meters not be included in rates, Staff proposes including \$2,196 (\$900 for the Bennington system and \$1,296 for the Rockport system) in expense to account for a meter reader at a rate of \$1.50 per meter/per month. The bid the Company cites for its cost is not a reasonable basis for estimating the cost the Company should incur for this expense as it is abnormally high, and the Company sought no other bids. Staff's recommended rate for meter reading is based on the analysis it did in the Company's certificate case. Staff's experience with and knowledge of other companies, some of which have much lower costs (\$.75 per meter for 140 customers) or much more difficult meter reading to accomplish (traveling by ATV through hilly terrain), indicates the Company's one bid from a professional meter reader was not representative of a reasonable cost for meter reading for a Company of Lincoln County's size and situation.<sup>48</sup>

**Issue 2: Billing Program & Billing Expenses**

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

**Facts:**

1. The cost of the Company's billing program was \$3,745.<sup>49</sup>

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<sup>46</sup> Tr. 3:110-11.

<sup>47</sup> Tr. 3:110-11.

<sup>48</sup> Tr. 3:110-11.

<sup>49</sup> Hanneken Surrebuttal, p. 11; Johansen Direct, p. 7.

2. If the Company's costs for AMR meters are included in rates, the Commission should also include the cost for the billing program.<sup>50</sup>
3. At the conclusion of the discovery period in this case, the Company submitted to Staff a copy of an invoice for billing program maintenance."<sup>51</sup>
4. Staff was not aware until receiving this invoice that any such cost would be forthcoming.<sup>52</sup>
5. Because Staff was unable to conduct discovery on this cost, it could not recommend that the Commission include the cost in rates.<sup>53</sup>
6. The cost to the customers of the new maintenance contract, along with the AMR handheld device maintenance contract received at the same time, would be approximately \$31,000 spread over a ten-year period.<sup>54</sup>

**Analysis:**

The Commission must consider all expenses incurred by the Company in providing utility service and must determine whether including those expenses in rates is just and reasonable.<sup>55</sup> If the Commission allows the cost of the Company's AMR technology, it should also allow the cost of the related billing program, which is \$3,745, with associated reserve, depreciation expense, and return.<sup>56</sup> It is reasonable to include

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<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> Tr. 3: 108-09.

<sup>53</sup> Hanneken Surrebuttal, p. 12; Tr. 3:108-110.

<sup>54</sup> Tr. 3:112-3.

<sup>55</sup> Sections 393.150 and 393.230, RSMo.; ***State ex rel. Union Electric Co. v. Public Service Commission***, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

<sup>56</sup> Staff has included \$480 in reserve related to the billing program costs associated with AMR meters. The associated annual depreciation expense and return are \$749 and \$219, respectively.

this cost with other AMR costs since this billing program is required to convert the AMR data into billing data and process the customers' bills.

However, Staff cannot say the same for the new maintenance contract for which the Company provided an invoice at the end of the time period during which Staff could have investigated the cost. As such, Staff has not been able to review or analyze the maintenance contract, the potential total expense of the contract, or even its necessity. The only information Staff has is the cost of the initial contract, which appears to add a significant financial burden for the customer with no evidence that it is a reasonable burden for the customers to bear. For this item, the Company has not met its burden to show that the proposed amount of costs it wants included in rates is just and reasonable.<sup>57</sup>

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

***Facts:***

1. The Company proposes that twelve additional labor hours be included in rates if the Company's billing program expenses are disallowed.<sup>58</sup>
2. The Company has not provided any documentation showing how it arrived at the conclusion that twelve additional labor hours would be necessary.<sup>59</sup>
3. If the expense for AMR meters is not included in rates, Staff recommends the expense of an alternative, more cost-effective billing program be included.<sup>60</sup>

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<sup>57</sup> Section 393.150(2).

<sup>58</sup> Tr. 3:146.

<sup>59</sup> Tr. 3:152.

<sup>60</sup> Tr. 3:151-52.

4. After reviewing several alternative software programs, Staff determined an appropriate cost for such a program is \$250.
5. The Company's position does not take into account the \$250 Staff proposes to include in rates for the cost of an alternative billing program if the Company's actual cost is disallowed.<sup>61</sup>
6. The Company has offered no testimony or evidence that additional labor hours would be necessary under Staff's position.
7. Staff's salary calculations for the Company include reasonable leeway for any extra labor that would be necessary with an alternative billing program.<sup>62</sup>

***Analysis:***

The Commission must consider all expenses incurred by the Company in providing utility service and must determine whether including those expenses in rates is just and reasonable.<sup>63</sup> However, costs that are proposed without support should not be considered for inclusion in the calculation of rates. Because the Company provided no documentation showing how it arrived at its proposal of twelve additional labor hours if billing program costs are disallowed, the Commission should not consider that theoretical expense.

Instead, the Commission should allow the Company a reasonable cost for an alternative billing program, which Staff recommends is \$250 based on its review of available systems and the needs of a utility of Lincoln County's size, and then consider whether additional labor hours should also be included. Staff believes any additional

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<sup>61</sup> Tr. 3:146-47.

<sup>62</sup> Tr. 3:152.

<sup>63</sup> Sections 393.150 and 393.230, RSMo.; ***State ex rel. Union Electric Co. v. Public Service Commission***, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

labor that would be required with an alternative billing program would still fall within Staff's recommendations for salary expense. The Company has not offered testimony or evidence regarding whether additional labor hours should be included in addition to Staff's proposed allowance of \$250 for an alternative billing program.

### **Issue 3: Land Ownership and Valuation**

The Company withdrew this issue at the opening of the hearing.<sup>64</sup>

### **Issue 4: Rate Base**

**What should be the beginning balances for the Company's rate base?**

***Facts:***

1. The Commission adopted rate base values in Lincoln County's certification cases, Nos. WA-2012-0018 and SA-2012-0019, which were agreed to by all parties, including the Company, as a part of a *Unanimous Stipulation and Agreement*.<sup>65</sup>
2. Dean Cooper, Lincoln County's attorney in the present cases and the certificate cases, executed the *Unanimous Stipulation and Agreement* on behalf of the Company.<sup>66</sup>
3. Staff used these values, the sum of which is \$245,957, as its starting balances in this case.<sup>67</sup>
4. The Company alleges that certain items were improperly excluded from those values.<sup>68</sup>

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<sup>64</sup> Tr. 3:45-6.

<sup>65</sup> Ferguson Rebuttal, p. 15.

<sup>66</sup> Tr. 3:162-63.

<sup>67</sup> Ferguson Rebuttal, p. 14; Tr. 3:160.

<sup>68</sup> Johansen Direct, p. 14; Tr. 3:155-56, 160.

5. Company witness Dale Johansen testified that the allegedly excluded items were worth between \$75,000 and \$100,000.<sup>69</sup>
6. All of the items allegedly excluded from rate base in the certification cases existed at that time and were known to Mr. Kallash.<sup>70</sup>
7. The Company has not provided any supporting documentation or workpapers to Staff that support adjusting the starting balances to reflect the allegedly excluded rate base items.<sup>71</sup>

**Analysis:**

“Rate base” refers to the utility property dedicated to the public service.<sup>72</sup> The Commission is required to consider all relevant factors when setting utility rates.<sup>73</sup> This includes determining the value of utility property, the appropriate depreciation rates and reserve, and the appropriate rate of return used to calculate a fair return on the net value of the rate base.<sup>74</sup>

Staff appropriately utilized the ordered rate base values from Lincoln County’s prior certification cases, Nos. WA-2012-0018 and SA-2012-0019, as a starting balance.<sup>75</sup> These amounts were based on all existing documentation provided to Staff at that time, as well as extensive discussions and negotiations between Lincoln County,

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<sup>69</sup> *Id.*

<sup>70</sup> Tr. 3:156.

<sup>71</sup> Hanneken Surrebuttal, p. 16; Tr. 3:157, 178.

<sup>72</sup> ***State ex rel. Laclede Gas Company v. Public Service Commission***, 328 S.W.3d 316, 317 (Mo. App., W.D. 2010); ***State ex rel. Union Electric Co. v. Public Service Commission***, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

<sup>73</sup> Section 393.270(4), RSMo.; ***State ex rel. Utility Consumers' Council of Missouri, Inc. v. P.S.C.***, 585 S.W.2d 41, 49, 56 (Mo. banc 1979) (“**UCCM**”); ***State ex rel. Missouri Water Co. v. P.S.C.***, 308 S.W.2d 704, 718-19, 720 (Mo.1957).

<sup>74</sup> Sections 393.230 and 393.240, RSMo.; ***Laclede***, *supra*; ***Union Electric***, *supra*.

<sup>75</sup> Ferguson Rebuttal, p. 14.



OPC and Staff as a part of the certificate cases.<sup>76</sup> These rate base amounts were agreed to by all parties, including the Company, as a part of the *Unanimous Stipulation and Agreement* from those certificate cases and were subsequently ordered by the Commission.<sup>77</sup>

The Company suggests that the starting balances used by Staff are inappropriate because they did not include all of the costs associated with the original construction of the Company's facilities.<sup>78</sup> In particular, the Company's witness referenced (1) engineering fees; (2) the structures that house the wells and/or storage tanks; (3) the structures that house the sewage treatment plant blowers; and (4) the base rock and concrete pads for the water storage tanks.<sup>79</sup> Despite the agreement of all the parties to these figures in the certificate cases and the Commission's subsequent adoption of them, the Company asserts that "it is important from a regulatory viewpoint and a fairness viewpoint to ensure that the plant and rate base balances are accurately stated[.]"<sup>80</sup>

Staff has not been able to determine the value of the allegedly excluded rate base items.<sup>81</sup> Staff admits that they have some value, but does not know, for example, whether they were contributed by customers rather than paid for by the proprietor.<sup>82</sup> Certainly, Company witness Johansen's unsupported guess of \$75,000 to \$100,000

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<sup>76</sup> *Id.* at 14-15.

<sup>77</sup> *Id.* at 15.

<sup>78</sup> Johansen Direct, p. 14.

<sup>79</sup> *Id.*

<sup>80</sup> Johansen Surrebuttal, p. 12.

<sup>81</sup> Hanneken Surrebuttal, p. 16.

<sup>82</sup> Tr. 3:180-81. Contributed items are referred to as Contributions in Aid of Construction ("CIAC"). Contributed items are not appropriate to include in rate base because it is unfair to provide a return to the shareholders on items they did not pay for.

should not be accepted.<sup>83</sup> The Company has not provided any supporting documentation or workpapers to Staff for these items.<sup>84</sup> Consequently, Staff contends it would be unfair to Lincoln County's ratepayers to include these items in rate base. Additionally, Staff contends that the Company is bound by the *Unanimous Stipulation and Agreement* it executed in the certificate cases in view of the fact that all of these items were known to Mr. Kallash at the time.<sup>85</sup>

### **Issue 5: Capacity Adjustments (Rockport)**

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

***Facts:***

1. The Company agrees with Staff that there should be an adjustment to rate base for excess capacity at the Rockport facilities; the dispute among the parties is regarding methodology for the adjustment.<sup>86</sup>
2. The need for a capacity adjustment is based on the fact that the Rockport facilities were built to serve many more customers than are currently using those facilities.<sup>87</sup>
3. Considering known water usage levels, on the default values in the Design Guide for Community Water Systems, a publication by the Missouri Department of Natural Resources (which are not hard and fast numbers), and

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<sup>83</sup> Tr. 3:160. Staff witness Hanneken testified that she had asked for a valuation of the excluded items during the audit but never received one. Tr. 3:185.

<sup>84</sup> *Id.*; Tr. 3:157.

<sup>85</sup> Tr. 3:156.

<sup>86</sup> Tr. 3:341.

<sup>87</sup> Tr. 3:345-46.

on comparable subdivisions (such as Bennington), Staff concludes that the developer of Rockport constructed more capacity than was necessary to serve Rockport.<sup>88</sup>

4. Customers should not pay for capacity that is not necessary to serve them.<sup>89</sup>
5. Staff's capacity adjustments allow for the Company to grow into the capacity at Rockport in that there are additional lots to sell as well as additional service area beyond the planned 210 lots.<sup>90</sup>

***Analysis:***

The Commission must consider all expenses incurred by the Company in providing utility service and must determine whether including those expenses in rates is just and reasonable.<sup>91</sup> As has been discussed, inherent in the determination of just and reasonable rates is an effort to balance the needs of the Company with the interest of the customers. In this case, the Company has invested in what turned out to be excess capacity for the customers it serves, and the Company has a natural interest in fully recovering its investment. The customers, on the other hand, have an interest in paying only for the system capacity necessary to serve them.

The Company would argue that it is not just and reasonable to make the Company bear the extra cost for constructing capacity it did not foresee would be more than actual usage amounts. While it is true adjusting for actual customer usage may result in the Company never recovering some portion of its investment, the alternative is

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<sup>88</sup> Tr. 3:347.

<sup>89</sup> Tr. 3: 346.

<sup>90</sup> Tr. 3:350.

<sup>91</sup> Sections 393.150 and 393.230, RSMo.; ***State ex rel. Union Electric Co. v. Public Service Commission***, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

the customers pay for capacity that is not necessary to serve them. This happens to be one circumstance where a true balance of interests is difficult or even impossible to determine based on the facts. Therefore, Staff urges the Commission to decide this issue in favor of the customers as the Company was the entity with the power of making the original decision that eventually resulted in the need to decide who should bear extra cost.

The capacity adjustment that is fair for the customers and which still allows the Company an opportunity to recover most, if not all, of its investment eventually is Staff's recommended adjustment. Specifically, 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.

#### **Issue 6: Plant Held for Future Use**

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

***Facts:***

1. The Company proposes that excess capacity at the Rockport facilities should be accounted for as Plant Held for Future Use under the Uniform System of Accounts (USOA).<sup>92</sup>

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<sup>92</sup> Johansen Direct, p. 15.

2. Company witness Johansen has provided no authority for the Company's position that capacity adjustments are appropriately accounted for as Plant Held for Future Use.<sup>93</sup>
3. Mr. Johansen is not an accountant.<sup>94</sup>
4. Staff witness Ferguson is an accountant.<sup>95</sup>
5. Ms. Ferguson testified that the amount of capacity adjustments made to rate base should not be recorded in the USOA Plant Held for Future Use accounts (105 for sewer and 394 for water).<sup>96</sup>
6. The USOA description of that account says, "Materials and supplies, and meters held in reserve, and normal spare capacity of plant in service shall not be included in this account."<sup>97</sup>
7. Instead, the total amount of the Company's plant and associated reserve should be entered into a Plant in Service Accounting Schedule, and then the amounts associated with excess capacity should be removed through an adjustment.<sup>98</sup>
8. This approach is in accordance with the USOA.<sup>99</sup>
9. Company witness Johansen testified that the effect of treating capacity adjustments as Plant Held for Future Use would be that those amounts would

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<sup>93</sup> Ferguson Rebuttal, p. 17.

<sup>94</sup> Tr. 3:189.

<sup>95</sup> Ferguson Rebuttal, Schedule LMF-1, p. 1.

<sup>96</sup> *Id.* at 16-17.

<sup>97</sup> *Id.* at 16.

<sup>98</sup> *Id.* at 17.

<sup>99</sup> *Id.* at 16-17.

- be removed from plant in service before the plant depreciation reserve calculation was done.<sup>100</sup>
10. Ms. Ferguson testified that, pursuant to the USOA, Plant Held for Future Use “shall be classified according to the detailed accounts prescribed for utility plant in service and the account shall be maintained in such detail as though the property were in service.”<sup>101</sup>
  11. Even if capacity adjustments were incorrectly accounted for as Plant Held for Future Use, the plant would still be treated as plant in service and depreciated as normal.<sup>102</sup>
  12. The Stipulation and Agreement from the Company’s certificate case includes an agreement that “LCSW shall use a total rate base of \$245,957, as specified by each system in Appendix B attached and incorporate by reference herein, in establishing its initial plant account balances.”
  13. The Stipulation also included a footnote stating that “The Rockport water and sewer rate base numbers contemplate capacity adjustment [sic] that result in \$153,160 of water plant and \$93,410 of sewer plant being recorded as plant held in [sic] future use at a customer level of sixty-two (62) residential customers.”
  14. Appendix B shows that the total specified rate base included account balances that used capacity adjustments as Staff recommends, not as the footnote describes.<sup>103</sup>

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<sup>100</sup> Johansen Direct, p. 15; Ferguson Rebuttal, p. 17.

<sup>101</sup> Ferguson Rebuttal, p. 17.

<sup>102</sup> *Id.*

***Analysis:***

The Company has not cited any authority for its proposition that capacity adjustments should be treated under the USOA as Plant Held for Future Use. In contrast, Staff's accountant cites the USOA itself to show that such treatment goes directly against the USOA. Furthermore, even if capacity adjustments were accounted for as the Company suggests, this would not have the effect the Company witness alleges. Staff's accountant explains that incorrectly accounting for capacity adjustments as the Company argues should be done would have the same effect as accounting for those amounts appropriately.

The Company argues that the footnote in its certificate case Stipulation dictates capacity adjustments should be treated as Plant Held For Future Use. It is clear that this footnote does not describe the correct accounting for capacity adjustments. What is also fairly certain is that it does not even describe what was agreed to, as the Rate Base paragraph cites Appendix B for initial plant account balances, and Staff testifies that those account balances result from the appropriate treatment of capacity adjustments, not the incorrect treatment and effect the Company proposes. Even if the Commission finds the footnote is controlling, this particular footnote only inaccurately describes how capacity adjustments were treated and does not direct how they should be treated in the future. Since treating these amounts incorrectly actually has the same effect as treating them correctly, Staff proposes that the Commission order that these amounts be accounted for as Staff and the USOA describe from this case forward.

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<sup>103</sup> Ferguson Rebuttal, p. 15.

## Issue 7: Depreciation Rates

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

***Facts:***

1. Public Counsel witness Addo testified that Staff improperly included depreciation expense of \$3,935.60 in its revenue requirement recommendation because the submersible pump in the Bennington water system was fully depreciated as of May 30, 2010.<sup>104</sup>
2. OPC witness Addo is not an engineer and has never conducted a depreciation study.<sup>105</sup>
3. Lincoln County's plant account 325.1 (Submersible Pumping Equipment), includes not just the Bennington submersible pump, but also associated equipment at the Bennington well and the pump and associated equipment at the Rockport well.<sup>106</sup> The account includes the Rockport pumping equipment as well as the Bennington pumping equipment, including the piping through to the discharge or to the distribution system, valves, flow measurement, pressure transmission or pressure transmitter, and associated electrical equipment, all the way back to the transformer for both the Bennington and the Rockport systems.<sup>107</sup> The depreciation expense for account 325.1 is

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<sup>104</sup> Addo Rebuttal, pp. 37-40.

<sup>105</sup> Tr. 3:239.

<sup>106</sup> Rice Surrebuttal, p. 7; Tr. 3:228.

<sup>107</sup> *Id.*



- intended to reflect the average annual consumption of all of the dollars in the account.<sup>108</sup>
4. Staff uses standard depreciation rates for small water and sewer companies because of the lack sufficient recorded data to support a depreciation study.<sup>109</sup> These rates were developed decades ago by engineering experts in the Staff water and sewer unit using depreciation studies of large water and sewer companies in St. Louis, Kansas City, and St. Joseph, and subsequently modified based on observation and experience.<sup>110</sup> Staff conducts periodic reviews of these rates, most recently in March 2013.<sup>111</sup>
  5. The standard rate that Staff uses for account 325.1 is 10%, with net salvage of -20%. However, this rate resulted in an over-accrual for that account, as evidenced by the fact that as of December 31, 2012, Lincoln County's total company depreciation reserve accrual was at 36%, while account 325.1 was at 77%.<sup>112</sup> The value of account 325.1 was approximately \$101,000, while the associated reserve account balance was approximately \$84,000.<sup>113</sup>
  6. Staff recommends that the depreciation rate for Lincoln County's account 325.1 be reduced from 10% to 6.6% in order to more accurately

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<sup>108</sup> Tr. 3:235.

<sup>109</sup> Rice Surrebuttal, pp. 3-4; Tr. 3:328.

<sup>110</sup> *Id.*

<sup>111</sup> *Id.*

<sup>112</sup> *Id.*

<sup>113</sup> Tr. 3:232.

represent Lincoln County's actual consumption rate.<sup>114</sup>

7. Over-accruals of depreciation benefit ratepayers by reducing rate base in subsequent rate cases.<sup>115</sup>

**Analysis:**

Public Counsel argues that Staff has improperly included depreciation expense of \$3,935.60 in its revenue requirement recommendation although the submersible pump in the Bennington water system was fully depreciated as of May 30, 2010.<sup>116</sup>

In order to compute that May 30, 2010, date, Mr. Addo made two incorrect assumptions regarding the depreciation rate of 10% currently ordered by the Commission for Lincoln County plant account 325.1 (Submersible Pumping Equipment).<sup>117</sup> One incorrect assumption is that the 10% depreciation rate applies to only the Bennington water well.<sup>118</sup> The reality is that the Company's total submersible pumping equipment plant account 325.1 also includes the Rockport well.<sup>119</sup>

Mr. Addo also incorrectly assumed that the net salvage component for account 325.1 is zero.<sup>120</sup> The current ordered depreciation rate schedules for Lincoln County, recorded on June 8, 2012, in Case No. WA-2012-0018 and ordered in the *Report and Order* filed June 27, 2012, show the net salvage for all accounts as blanks.<sup>121</sup>

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<sup>114</sup> *Id.*, at 9; Tr. 3:231.

<sup>115</sup> Rice Surrebuttal, pp. 7-8; Tr. 3:227-28.

<sup>116</sup> Addo Rebuttal, pp. 37-40.

<sup>117</sup> Rice Surrebuttal, p. 7.

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> *Id.*

<sup>121</sup> *Id.*

Mr. Addo assumed that these blanks are equivalent to a zero, but that is incorrect.<sup>122</sup> In fact, Staff's review of its standard small water and sewer company depreciation rates in March 2013 was intended to fill in these blanks.<sup>123</sup> Staff's current standard depreciation schedules for small water and sewer companies shows -20% as net salvage for account 325.1.<sup>124</sup>

Staff does not agree with Public Counsel that the Company has recovered all of its investment in submersible pumping equipment.<sup>125</sup> Lincoln County's account 325.1 will not be fully accrued until October 2014, and the Bennington component of account 325.1 was fully accrued in March 2012.<sup>126</sup> However, the full amount of depreciation expense should continue to be accrued by the Company to record customer-provided funds that are currently included as part of customer rates. The ratepayers will be compensated for any over-accrual as a reduction in rate base in future cases. Customers will receive compensation at the 7% rate of return.<sup>127</sup>

Public Counsel's witness Addo is incorrect in his assertion that regulatory depreciation ends when the utility has fully recovered the original cost of the asset.<sup>128</sup> In fact, it continues in order to account for net salvage and as a component of the total depreciation expense set by the Commission.<sup>129</sup>

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<sup>122</sup> *Id.*

<sup>123</sup> *Id.*

<sup>124</sup> *Id.* at 7-8.

<sup>125</sup> *Id.*; Tr. 3:227-28.

<sup>126</sup> *Id.*

<sup>127</sup> *Id.*

<sup>128</sup> *Id.*, at 11-12.

<sup>129</sup> *Id.*; Tr. 3:235.

As of December 31, 2012, Lincoln County's total company depreciation reserve accrual was at 36%, while account 325.1 was at 77%.<sup>130</sup> The value of account 325.1 was approximately \$101,000, while the associated reserve account balance was approximately \$84,000.<sup>131</sup> It is thus apparent that account 325.1 has been depreciated too quickly.<sup>132</sup> Staff recommends that the depreciation rate for Lincoln County's account 325.1 be reduced from 10% to 6.6%, which more accurately reflects Lincoln County's actual consumption rate.<sup>133</sup>

**Should the Commission order adjustments to the accumulated depreciation for the Bennington submersible pump account?**

***Facts:***

1. Staff depreciation expert Art Rice testified that the adjustment proposed by Public Counsel witness Addo to the depreciation reserve for account 325.1 would result in a windfall for Mr. and Ms. Kallash and an increase in rate base, requiring ratepayers to pay higher rates.<sup>134</sup>
2. During its audit, Staff discovered that the book entries for the replacement of a submersible pump in January of 2010 due to a lighting strike failed to account for cost of removal.<sup>135</sup> The total labor and materials cost of the replacement, \$9,439, was recorded as the new additional plant in service.<sup>136</sup>

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<sup>130</sup> *Id.*

<sup>131</sup> Tr. 3:232.

<sup>132</sup> *Id.*

<sup>133</sup> *Id.*, at 9; Tr. 3:231.

<sup>134</sup> Rice Surrebuttal, p. 12.

<sup>135</sup> *Id.*, at 10.

<sup>136</sup> *Id.*

Staff recommends a correcting adjustment of \$1,000 to (a) reduce plant in service and (2) reduce accumulated reserves.<sup>137</sup>

***Analysis:***

Public Counsel recommends that the depreciation reserve balance for the Bennington submersible pump be reduced by \$11,356.<sup>138</sup>

Staff does not agree. Lincoln County's customers have continued to pay depreciation expense as a component of their customer rates on the Bennington submersible pump account plantin service. These customer contributions necessarily must be reflected by the Company's accrual of \$11,356 to the reserves.<sup>139</sup> Otherwise, the proprietor will receive a windfall.<sup>140</sup> Additionally, implementing Mr. Addo's recommendation would result in an increase to rate base and higher customer rates in the current rate case.<sup>141</sup>

**Issue 8: Rate Case Expense**

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

***Facts:***

1. Lincoln County has incurred expenses litigating this rate case, including two attorneys, a consultant, and time spent by office personnel and Mr. and Ms. Kallash.<sup>142</sup>

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<sup>137</sup> *Id.*

<sup>138</sup> Addo Rebuttal, pp. 37-40.

<sup>139</sup> *Id.* at 12.

<sup>140</sup> *Id.*

<sup>141</sup> *Id.*

<sup>142</sup> Johansen Direct, pp. 15-16.

2. The full amount of Lincoln County's rate case expenses are not yet known because all invoices have not yet been tendered and paid.<sup>143</sup> The Company has requested a cut-off date one week after post-hearing briefs are filed.<sup>144</sup>
3. Staff witnesses Lisa Ferguson and Lisa Hanneken testified that rate case expenses should be normalized over three years.<sup>145</sup>

***Analysis:***

The Commission must consider all expenses incurred by the Company in providing utility service and must determine whether it should set rates that will recover them.<sup>146</sup> The Company has incurred rate case expenses litigating this case and Staff agrees those are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. Generally, Staff recommends that rate case expenses be normalized over three years, a period that reflects the expected interval between rate cases. However, where the amount of those expenses is so great as to expose the ratepayers to rate shock, Staff will recommend normalization over a longer period in order to reduce the annual impact and mitigate any rate shock.

In the present case, the full amount of the Company's rate case expenses is not yet known and the Company has requested a cut-off date one week after post-hearing briefs are filed.<sup>147</sup> Staff agrees with that proposal. Staff has not taken the position in this case that any of the Company's rate case expenses are unreasonable, unnecessary or imprudent, but is concerned with the Company's use of two separate

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<sup>143</sup> Tr. 3:194.

<sup>144</sup> *Id.*

<sup>145</sup> Ferguson Rebuttal, pp. 11-12; Hanneken Surrebuttal, pp. 12-13.

<sup>146</sup> Sections 393.230 and 393.240, RSMo.; ***Laclede***, *supra*; ***Union Electric***, *supra*.

<sup>147</sup> Tr. 3:

attorneys. Staff reserves the right to assert a definitive position once the actual amount of LCSW's rate case expenses is known.

### **Issue 9: Certificate Case Expense**

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

***Facts:***

1. The Company argued that \$4,810 in "certificate case expenses" should be included in rates in this case.<sup>148</sup>
2. Staff reviewed the work papers from the certificate case and found that the amount of cost built into rates at the time for rate case expense was \$2,275, not the \$4,810 the Company now proposes as certificate case expense.<sup>149</sup>
3. The Company has provided no evidence or testimony to show how Mr. Johansen arrived at his proposed amount of \$4,810.<sup>150</sup>
4. Company witness Johansen testified that, if any portion of his proposed amount includes costs for Staff's Complaint against the Company, that amount should not be included in rates as the Company proposes.<sup>151</sup>
5. Some portion of the Company's costs for its previous cases as already been recovered in rates.<sup>152</sup>

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<sup>148</sup> Tr. 3:195-98.

<sup>149</sup> Hanneken Surrebuttal, p. 13.

<sup>150</sup> *Id.*

<sup>151</sup> Tr. 3:196.

<sup>152</sup> Addo Rebuttal, p.18.

6. It is just and reasonable to treat certificate case expenses as rate case expense, particularly in the case of this company, since Staff conducted a full audit and set rates in the Company's certificate case.<sup>153</sup>
7. It is Staff's standard practice that rate case expenses are normalized for calculating rates.<sup>154</sup>
8. If a cost is amortized, it is also normally tracked in order to determine whether or not the costs were recovered.<sup>155</sup>
9. Company witness Johansen argued that costs from its certificate case should be included in this case as "Intangible Plant," pursuant to the Uniform System of Accounts (USOA).<sup>156</sup>
10. Mr. Johansen is not an accountant.<sup>157</sup>
11. Staff witness Hanneken and Public Counsel witness Addo are accountants.<sup>158</sup>
12. Mr. Addo and Ms. Hanneken testified that the Company's proposed treatment of these costs as "Intangible Plant" is not appropriate under the USOA.<sup>159</sup>
13. Mr. Addo and Ms. Hanneken testified that these expenses should not be included in rates as the Company proposes.<sup>160</sup>

***Analysis:***

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<sup>153</sup> Tr. 3:258-59; Ferguson Rebuttal, p. 13.

<sup>154</sup> Tr. 3:258.

<sup>155</sup> Tr. 3:262.

<sup>156</sup> Tr. 3:195-96.

<sup>157</sup> Tr. 3:189.

<sup>158</sup> Tr. 3:96-97; Hanneken Surrebuttal, Schedule LKH – 2; Tr. 3:239.

<sup>159</sup> Addo Rebuttal, p.17-8; Hanneken Surrebuttal, p. 13.

<sup>160</sup> Tr. 3:258-59; Addo Rebuttal, pp.16-18.



The Commission must consider all expenses incurred by the Company in providing utility service and must determine whether including those expenses in rates is just and reasonable.<sup>161</sup> Staff has not argued that including the type of expenses at issue here would result in unjust and unreasonable rates in all cases. However, including these costs in this case would.

First, the Company has not met its burden to show that the proposed amount of costs it wants included in rates is just and reasonable.<sup>162</sup> The only clue we have to the amount of these costs that were actually incurred by the Company comes from Staff's work papers in the Company's certificate case. The amount that shows up in those work papers is \$2,275. Yet, the Company now alleges it incurred "certificate case expenses" in the amount of \$4,810. The Company has not explained how it calculated that number; it has not explained what activities were performed that resulted in costs in the amount of \$4,810. Even the Company agrees that, if any of its \$4,810 includes amounts not related to the certificate case, those amounts should not be treated as it proposes. Without some evidence of how the Company reached an amount of \$4,810, the Commission cannot determine whether that amount is accurate, prudently incurred, or even an expense that fits within the description the Company has given.

Second, the type of costs the Company proposes to include in rates has already been factored into the rates the Company is currently charging. However, the Company has presented no testimony or evidence regarding how much of the originally incurred costs have been collected in rates so far. Even if the Commission could determine that

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<sup>161</sup> Sections 393.150 and 393.230, RSMo.; *State ex rel. Union Electric Co. v. Public Service Commission*, 765 S.W.2d 618, 622 (Mo. App., W.D. 1988).

<sup>162</sup> Section 393.150(2), RSMo.

\$4,810 is the actual original cost to the Company for its certificate case, the Company has not even begun to show how much of that cost has already been recovered.

The reason the Company has not attempted to show what portion of these costs have been recovered is because it cannot. As is the standard practice, these types of costs are normalized. Despite the Company's suggestion these costs be amortized, amortization treatment is generally reserved for unusual costs incurred less frequently than costs like rate case expense that are normally addressed in rate proceedings. If these costs were of the type to be amortized, they would have also been tracked so that there would be some record of how much had been recovered or was left to be recovered. Because these costs were normalized, as they should be, the Commission did not order the Company to track the costs, as they would have if the costs were appropriate to amortize. Because these costs were not amortized, the Company has no way of showing what amounts were collected for this cost. This is why the Company could not present evidence regarding how much, if any, of its proposed \$4,810 in certificate case costs have already been recovered; this is also why, if \$4,810 is supposedly the remaining cost, the Company could not present evidence regarding how it determined this is the remaining cost.

Finally, Company witness Johansen has proposed that the costs he alleges are certificate case expenses should be included in the USOA account "Intangible Plant." Mr. Johansen, though very experienced in certain areas of operating water and sewer companies, is not an accountant. Public Counsel witness Addo and Staff witness Hanneken are accountants, and they both testify that the Company's suggestion is not an appropriate interpretation of the USOA.

Considering that 1) the Company has not shown from where it drew its proposed amount of expense for this issue, 2) the Company has not even presented evidence on how much of this type of expense has already been recovered in rates, 3) that these costs are usually normalized and were clearly not amortized in the certificate case, and 4) that the Company's proposed treatment of these costs is not an appropriate accounting treatment, Staff recommends the Commission allow no recovery for this issue in rates for this case.

### **Issue 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?**

***Facts:***

1. Lincoln County is a small water and sewer company that serves 122 customers in two subdivisions.<sup>163</sup>
2. The Company currently leases an office building for its utility-related business for \$950 per month.<sup>164</sup>
3. In addition to this monthly rent, the Company is responsible for other expenses under its lease, including homeowners' association fees, water charges, electricity, mowing around the office, and any and all maintenance on the building including heating and cooling repairs.<sup>165</sup>

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<sup>163</sup> Tr. 3:102; 111.

<sup>164</sup> Tr. 3:199.

<sup>165</sup> *Id.*

4. The cost to the Company for all of its responsibilities under the lease could be approximately \$17,000 per year, or \$1400 per month.<sup>166</sup>
5. Company witness Johansen testified it is not normal for a utility with only about 120 customers to rent a space for basic office activities that costs approximately \$1400 per month.<sup>167</sup>
6. Pursuant to a Contract for Deed between the Lincoln County's owner and another individual, it is apparent Lincoln County's owner is also still the owner of the office building for which he negotiated a lease on behalf of the utility.<sup>168</sup>
7. The Company's acceptance of this excessive financial cost for office space indicates the transaction of this lease may not have been an arms-length transaction.<sup>169</sup>
8. The Company owner's negotiation of a lease with another individual for a building the Company owner actually still owns indicates the transaction of this lease may not have been an arms-length transaction.<sup>170</sup>
9. Staff has determined a total of \$8,100 (including \$900 for utilities) is a reasonable annual cost for Lincoln County's office rent expense in this case based on Staff's analysis of available office space in the Company's area.<sup>171</sup>

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<sup>166</sup> Boateng Surrebuttal, p. 3.

<sup>167</sup> Tr. 3:199-200.

<sup>168</sup> Tr. 3:314-18.

<sup>169</sup> Tr. 3:306-08.

<sup>170</sup> Tr. 3:314-18.

<sup>171</sup> Boateng Surrebuttal, p. 5.

***Analysis:***

The Commission is required to consider all relevant factors when setting utility rates.<sup>172</sup> One factor the Commission must consider in this case is whether the Company's lease for its office building was negotiated at arms-length. It is clear from the record that this is most likely not the case. As with any business, an arms-length transaction ensures a utility receives a competitive price for whatever transaction is being negotiated.<sup>173</sup> Unlike in any other business, a utility can ask that others (ratepayers) bear the cost the utility negotiates. Therefore, it is even more important to determine if a cost a utility incurs was negotiated as an arms-length transaction.

Because it is evident the Company's lease was most likely not negotiated at arms-length, the Commission cannot rely on the costs agreed to in that lease for the purposes of ratemaking. With that in mind, Staff included in its calculation of rates an estimate of reasonable office space expense for a company of Lincoln County's size in Lincoln County's area. That reasonable cost is \$600 per month plus utilities of \$75 per month.

**Issue 11: Property/Liability Insurance**

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

The Company withdrew this issue at the opening of the hearing.<sup>174</sup>

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<sup>172</sup> Section 393.270(4), RSMo; *UCCM*, *supra*.

<sup>173</sup> Tr. 3:308.

<sup>174</sup> Tr. 3:45-6.

## Issue 12: Income Taxes

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

### ***Facts:***

1. Lincoln County is a limited liability corporation and, for tax purposes, an S-Corporation.<sup>175</sup>
2. Lincoln County pays no income taxes and does not file an income tax return.<sup>176</sup>
3. Any profit or loss from Lincoln County's operations appears on the income tax return of its proprietors.<sup>177</sup>
4. The tax benefit conferred by the S-Corporation election is that earnings are taxed only to the members; whereas, with a C-Corporation, earnings are taxed to the corporation and again upon distribution to the shareholders.<sup>178</sup>

### ***Analysis:***

The Commission is required to consider all relevant factors when setting utility rates.<sup>179</sup> This includes determining the amount of allowable operating expenses.<sup>180</sup>

Taxpayers may organize their affairs in any lawful manner in order to minimize their tax liability.<sup>181</sup> Because of the S-Corporation election, Lincoln County's earnings are taxed as income to the proprietors, Mr. and Ms. Kallash, but not to the corporation

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<sup>175</sup> Ferguson Rebuttal, pp. 24-25.

<sup>176</sup> *Id.*; Tr. 3:266-67.

<sup>177</sup> Tr. 3:266-67, 271.

<sup>178</sup> Tr. 3:271-72.

<sup>179</sup> Section 393.270(4), RSMo.; ***UCCM***, *supra*.

<sup>180</sup> ***Union Electric***, *supra*.

<sup>181</sup> Tr. 3:204.

itself.<sup>182</sup> Because Lincoln County incurs no income tax liability, Staff does not include any allowance for income taxes in revenue requirement or rates.<sup>183</sup> Staff urges the Commission to deny Lincoln County's request for an allowance for income taxes as they are not part of Lincoln County's operating expenses.

### **Issue 13: Salaries – Dennis and Toni Kallash**

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

***Facts:***

1. Lincoln County has never provided documentation to Staff<sup>184</sup> or Public Counsel<sup>185</sup> sufficient to support the salary it proposes for Mr. Kallash.
2. In the absence of this information, Staff relied upon its position in the Company's previous case as a starting point for this case.<sup>186</sup>
3. Staff updated its previous position for one additional task Mr. Kallash is performing now that he was not performing at the time of the certificate case, which is water testing.<sup>187</sup>
4. Through this analysis, Staff determined an annual amount of \$7,860 is an appropriate level of salary for Mr. Kallash's utility-related duties.<sup>188</sup>
5. The Company does not pay payroll taxes for Mr. Kallash, as he is not paid as an employee of the Company.<sup>189</sup>

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<sup>182</sup> Tr. 3:204, 271-72.

<sup>183</sup> Tr. 3:269-70.

<sup>184</sup> Tr. 3:286-87.

<sup>185</sup> Tr. 3:249.

<sup>186</sup> Tr. 3:287-88.

<sup>187</sup> Tr. 3:288.

<sup>188</sup> Hanneken Surrebuttal, p. 18.

***Analysis:***

The Commission is required to consider all relevant factors when setting utility rates.<sup>190</sup> This includes determining the amount of allowable operating expenses.<sup>191</sup>

The Company's actual expenses for salaries to its members are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. Staff has included in its calculation of the Company's operating expenses a reasonable level of salary for Mr. Kallash. Because the Company did not provide documentation sufficient to construct any reasonable estimation of Mr. Kallash's activities for the utility, how long he spent accomplishing those activities, or even on what days he performed those activities to know whether the activity fell within the test year,<sup>192</sup> Staff had to determine what level of salary would be appropriate for Mr. Kallash through some other means.

In this instance, Staff was able to carry forward an appropriate salary level from the Company's certificate case. Since Staff analyzed this issue so recently, and there was no indication that the amount Staff set during the certificate case was unjust, Staff updated that amount for the one activity it knew Mr. Kallash now performs that he did not during the certificate case. The result was an annual salary of \$7,860 for Mr. Kallash's utility-related duties.

Finally, the Company proposes to include in salary for Mr. Kallash an amount for payroll taxes the Company would pay if Mr. Kallash were treated as an employee for tax

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<sup>189</sup> Tr. 3:252-3, 274-5.

<sup>190</sup> Section 393.270(4), RSMo; *UCCM*, *supra*

<sup>191</sup> *Union Electric*, *supra*.

<sup>192</sup> Tr 3:286.



purposes. Mr. Kallash is not paid as an employee. It would be inappropriate to include in rates an extra expense the Company simply does not incur.

Asking the ratepayers to pay for tax expenses that are not incurred by the Company and salary levels that have not been supported by evidence would be unjust and inappropriate.

### **What is the appropriate level of salary to include in rates for Toni Kallash?**

#### ***Facts:***

1. As documentation of Ms. Kallash's time spent on utility activities, Lincoln County provided to Staff a monthly calendar on which Ms. Kallash noted her activities and hours.<sup>193</sup>
2. This calendar did not provide all the information Staff would have normally used to construct an appropriate salary for Ms. Kallash.<sup>194</sup>
3. Staff was able to work with the data provided, based on what was known of Ms. Kallash's responsibilities, to determine an appropriate salary.<sup>195</sup>
4. Staff determined an annual amount of \$10,562 is an appropriate level of salary for Ms. Kallash's utility-related duties.<sup>196</sup>
5. The Company does not pay payroll taxes for Ms. Kallash, as she is not paid as an employee of the Company.<sup>197</sup>

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<sup>193</sup> Tr. 3:290.

<sup>194</sup> *Id.*

<sup>195</sup> Tr. 3:290-91.

<sup>196</sup> Staff Accounting Schedules; Addo Rebuttal, p. 21.

<sup>197</sup> Tr. 3:252-53, 274-75

***Analysis:***

The Commission is required to consider all relevant factors when setting utility rates.<sup>198</sup> This includes determining the amount of allowable operating expenses.<sup>199</sup>

The Company's actual expenses for salaries to its members are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. Staff has included in its calculation of the Company's operating expenses a reasonable level of salary for Ms. Kallash. Although the Company provided documentation sufficient to construct a reasonable estimation of Ms. Kallash's activities for the utility, it is an estimate. Public Counsel and Lincoln County argue that the Commission should accept estimates lower and higher, respectively, than Staff's, based on their adjustments of the same information Staff used. However, Staff's method of averaging several months of available data is the only method of ensuring any variances in hours were taken into account. Picking and choosing which variances to include in a calculation would not result in a reasonable estimate. Using its methodology, Staff determined an annual salary of \$10,562 is appropriate for Ms. Kallash's utility-related duties.

Finally, the Company proposes to include in salary for Ms. Kallash an amount for payroll taxes the Company would pay if Ms. Kallash were treated as an employee for tax purposes. Ms. Kallash is not paid as an employee. It would be inappropriate to include in rates an extra expense the Company simply does not incur.

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<sup>198</sup> Section 393.270(4), RSMo; *UCCM, supra*.

<sup>199</sup> *Union Electric, supra*.

Asking the ratepayers to pay for tax expenses that are not incurred by the Company and salary levels that have not been supported by evidence would be unjust and inappropriate.

#### **Issue 14: Mileage**

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

***Facts:***

1. Company witness Johansen calculated that the Company is incurring business-related vehicle expense in the amount of \$504, for Ms. Kallash, and \$2,572, for Mr. Kallash, on an annual basis.<sup>200</sup> For Ms. Kallash's mileage, the Company's position is based on the number of "bank" trips identified by the Staff and the round trip mileage from the Company's office to the bank. For Mr. Kallash's mileage, the Company's position is based on the minimum number of trips Mr. Kallash makes to the systems on a routine basis and the relevant mileage for such trips identified by the Staff.<sup>201</sup>
2. Although Lincoln County agreed to maintain detailed vehicle logs in the *Unanimous Stipulation and Agreement* that resolved its certificate cases, Case Nos. WA-2012-0018 and SA-2012-0019, it has not done so.<sup>202</sup>
3. Mr. and Ms. Kallash use their personal vehicles for utility-business-related travel.<sup>203</sup>

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<sup>200</sup> Johansen Direct, pp. 16-17; Johansen Surrebuttal, pp. 13-14.

<sup>201</sup> *Id.*

<sup>202</sup> Ferguson Rebuttal, pp. 21-22.

<sup>203</sup> *Id.*

4. In the absence of vehicle logs, Staff calculated an annualized amount of vehicle expense to be included in its cost of service using other data and known mileage for certain activities and the current Internal Revenue Service federal reimbursement rate.<sup>204</sup> Staff included a total of \$1,931 for vehicle expense in its cost of service calculation.<sup>205</sup> This consists of \$1,778 for Mr. Kallash and \$153 for Ms. Kallash.<sup>206</sup>

**Analysis:**

The Commission is required to consider all relevant factors when setting utility rates.<sup>207</sup> This includes determining the amount of allowable operating expenses.<sup>208</sup>

The Company's actual expenses for mileage are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. The expenses must also be measureable and incurred for a business purpose. For vehicle use, particularly where, as here, the vehicles are personal vehicles that are also used for non-business purposes, detailed written logbooks are required. Unfortunately, Lincoln County did not maintain detailed vehicle logs.<sup>209</sup>

Staff recognizes that Lincoln County incurs vehicle expense in the course of its business activities. Without detailed vehicle logs, Staff calculated an annualized amount of vehicle expense to be included in its cost of service using other data and known mileage for certain activities and the current Internal Revenue Service federal

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<sup>204</sup> *Id.*; Hanneken Surrebuttal, pp. 19-21.

<sup>205</sup> *Id.*

<sup>206</sup> *Id.*

<sup>207</sup> Section 393.270(4), RSMo.; **UCCM**, *supra*.

<sup>208</sup> **Union Electric**, *supra*.

<sup>209</sup> Tr. 3:254.

reimbursement rate.<sup>210</sup> Staff included a total of \$1,931 for vehicle expense in its cost of service calculation.<sup>211</sup> This consists of \$1,778 for Mr. Kallash and \$153 for Ms. Kallash.<sup>212</sup> Lincoln County's purely anecdotal evidence does not support a need for more.

## **Issue 15: Testing**

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

1. Lincoln County is required to pay an annual fee to the Missouri Department of Natural Resources ("DNR") to cover water testing expenses for each of its water systems.<sup>213</sup>
2. Staff has included in its cost of service calculations the DNR annual fee amount of \$200 for each of Lincoln County's water systems.<sup>214</sup>
3. 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.<sup>215</sup>

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<sup>210</sup> Ferguson Rebuttal, pp. 21-22; Hanneken Surrebuttal, pp. 19-21.

<sup>211</sup> *Id.*

<sup>212</sup> *Id.*

<sup>213</sup> Ferguson Rebuttal, pp. 22-23; Hanneken Surrebuttal, pp. 21-22.

<sup>214</sup> *Id.*

<sup>215</sup> *Id.*

***Analysis:***

The Commission is required to consider all relevant factors when setting utility rates.<sup>216</sup> This includes determining the amount of allowable operating expenses.<sup>217</sup>

The Company's actual expenses for water testing are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. Staff has allowed amounts representing DNR fees and a fair estimate of the Company's associated labor costs. Lincoln County has not produced documentation supporting any more than the amounts Staff is willing to allow. The Company's position is that this expense item should be increased by \$1,504 annually to reflect the incremental expenses involved preparing the site and gathering the sample, two hours of travel per test to deliver the sample, and associated paperwork.<sup>218</sup> However, Lincoln County has produced no documentation of these so-called "incremental" expenses, and Staff therefore believes that it would be grossly unfair to the ratepayers to allow them.

**Issue 16: Sludge Hauling**

**What is the appropriate amount of expense to include in rates for the Company's sludge hauling?**

***Facts:***

1. Lincoln County has incurred expenses for sludge hauling.<sup>219</sup>

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<sup>216</sup> Section 393.270(4), RSMo.; *UCCM, supra*.

<sup>217</sup> *Union Electric, supra*.

<sup>218</sup> Tr. 3:207-08.

<sup>219</sup> Ferguson Rebuttal, pp. 20-21; Hanneken Surrebuttal, pp. 18-19.

2. Staff developed a 3-year average of gallons hauled and applied the \$0.14 per gallon price asserted by Lincoln County for an annual sludge hauling expense allowance of \$2,958.<sup>220</sup>

**Analysis:**

The Commission is required to consider all relevant factors when setting utility rates.<sup>221</sup> This includes determining the amount of allowable operating expenses.<sup>222</sup>

The Company's actual expenses for sludge hauling are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. Staff has allowed amounts representing a 3-year average of gallons hauled and applied the \$0.14 per gallon price asserted by Lincoln County to develop an annual sludge hauling expense allowance of \$2,958.<sup>223</sup> Company witness Johansen testified that this expense should be based on the latest year's actual expenses of \$4,005, plus another \$4,895 for a new method recently adopted by the Company that requires monthly pumping of the clarifiers.<sup>224</sup> Staff states that Lincoln County has not produced documentation supporting any more than the amounts Staff is willing to allow.

**Issue 17: Office Supplies and Postage**

**What is the appropriate amount of expense to include in rates for office supplies and postage?**

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<sup>220</sup> *Id.*

<sup>221</sup> Section 393.270(4), RSMo.; *UCCM, supra.*

<sup>222</sup> *Union Electric, supra.*

<sup>223</sup> Ferguson Rebuttal, pp. 20-21; Hanneken Surrebuttal, pp. 18-19.

<sup>224</sup> Johansen Direct, pp. 11-12; Johansen Surrebuttal, pp. 9-10; Tr. 3:209.

**Facts:**

1. Lincoln County is required by the Department of Natural Resources (“DNR”) to make an annual consumer confidence report (“CCR”) available to customers.<sup>225</sup>
2. Mr. Kallash testified that Lincoln County can’t fit the report in its regular billing envelope and the report is not always received from DNR in conjunction with the Company’s billing cycle.<sup>226</sup>
3. Lincoln County has chosen to provide the report to its customers by a separate mailing.<sup>227</sup> Mr. Johansen testified that this activity is a beneficial customer service.<sup>228</sup>
4. Mr. Johansen testified that the Company’s cost of service should include the costs associated with this separate mailing (\$217 - \$56 for supplies and \$161 for postage).<sup>229</sup>
5. Staff has analyzed the needs of each subdivision in regards to the CCR and concluded that, in addition to the office supplies already included in the cost of service, the Company should recover the cost of paper and ink incurred for the CCR.<sup>230</sup> This provides for a total of \$192 in total office supplies.<sup>231</sup>

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<sup>225</sup> Ferguson Rebuttal, pp. 27-28; Tr. 3:211.

<sup>226</sup> Kallash Surrebuttal, pp. 16-17; Tr. 3:212.

<sup>227</sup> Ferguson Rebuttal, pp. 27-28; Tr. 3:211.

<sup>228</sup> Tr. 3:213.

<sup>229</sup> Johansen Direct, p. 18.

<sup>230</sup> Ferguson Rebuttal, pp. 27-8.

<sup>231</sup> *Id.*



6. Each monthly bill for service is one single sheet of paper mailed to the customer.<sup>232</sup> Each subdivision's CCR is three pages in length.<sup>233</sup> Four regular size pages do not require additional postage.<sup>234</sup>
7. Mr. Johansen admitted that Lincoln County should select the least costly way to make the CCR available to its customers.<sup>235</sup>

***Analysis:***

The Commission is required to consider all relevant factors when setting utility rates.<sup>236</sup> This includes determining the amount of allowable operating expenses.<sup>237</sup> The Company's actual expenses for postage and office supplies are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. The expenses must also be measureable and incurred for a business purpose.

Lincoln County could, in fact, mail the CCR to its customers in the regular billing envelopes for no extra postage at all. Four regular sheets of paper cost the same to mail as one.<sup>238</sup> Therefore, there is no need for the Company to incur costs for oversize envelopes and additional postage for special mailing of this document that could be mailed with the regular monthly bill. For this reason, the additional expense sought by Lincoln County for postage is unreasonable and unnecessary and should not be charged to the ratepayers.

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<sup>232</sup> *Id.*

<sup>233</sup> *Id.*

<sup>234</sup> *Id.*

<sup>235</sup> Tr. 3:211.

<sup>236</sup> Section 393.270(4), RSMo.; ***UCCM***, *supra*.

<sup>237</sup> ***Union Electric***, *supra*.

<sup>238</sup> Ferguson Rebuttal, *supra*.

## Issue 18: Late Fees

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

#### **Facts:**

1. Company witness Johansen testified that, based upon recent and known upcoming customer changes, Staff's miscellaneous revenues related to late fees is overstated for both systems and both services (by 11 accounts for Rockport and by 3 accounts for Bennington).<sup>239</sup>
2. The Company's tariff states that when customers are late in paying their bills, the Company can assess the greater of \$5 or 3% of the overdue bill in late fees to the customers.<sup>240</sup>
3. Staff reviewed the Company's billing register and determined how many times late fees had been incurred by customers for both the Rockport and Bennington systems.<sup>241</sup> Staff was provided with only five months of data pertaining to late fees for the test year.<sup>242</sup> Staff counted the number of occurrences of late fees within the five months of data that was provided by the Company and then divided that amount by five in order to determine the average number of late fee occurrences by month.<sup>243</sup> That result was then multiplied by twelve to determine the number of occurrences for a full year;

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<sup>239</sup> Johansen Direct, p. 16.

<sup>240</sup> Ferguson Rebuttal, pp. 25-7.

<sup>241</sup> *Id.*

<sup>242</sup> *Id.*

<sup>243</sup> *Id.*

finally, this number was then multiplied by \$5 in order to annualize these late fee revenues.<sup>244</sup>

4. Staff utilized the same methodology for each of Rockport and Bennington's water and sewer systems, which yielded annualized late fee revenues of \$252 for water and \$252 for sewer for Rockport and \$816 for water and \$816 for sewer for Bennington.<sup>245</sup>

**Analysis:**

The Commission is required to consider all relevant factors when setting utility rates.<sup>246</sup> This includes determining the amount of miscellaneous revenues.<sup>247</sup> The Company's projected income from late fees is a reduction from revenue requirement.<sup>248</sup>

Staff calculated Lincoln County's expected late fee revenue based on the historical data available.<sup>249</sup> Company witness Johansen asserts that Staff has overstated this revenue.<sup>250</sup> But Mr. Johansen failed to provide any documentation supporting his assertion that Staff overstated late fee revenues.<sup>251</sup> The Company should have been able to provide data through March 2013, but did not.<sup>252</sup> Mr. Johansen does not discuss what the upcoming customer changes consist of; he

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<sup>244</sup> *Id.*

<sup>245</sup> *Id.*

<sup>246</sup> Section 393.270(4), RSMo.; **UCCM**, *supra*.

<sup>247</sup> **Union Electric**, *supra*.

<sup>248</sup> Tr. 3:219.

<sup>249</sup> Ferguson Rebuttal, pp. 25-7.

<sup>250</sup> Johansen Direct, p. 16; Tr. 3:214-15.

<sup>251</sup> *Id.*; Tr. 3:215-16.

<sup>252</sup> Ferguson Rebuttal, *supra*.

provided no workpapers, calculations or support to Staff in explaining this portion of his direct testimony.<sup>253</sup> Company witness Johansen does not explain what these alleged customer changes are, how far in the future these changes are expected to occur, or how they are known and measureable.<sup>254</sup> To the extent that he explained himself at all, he testified:

[W]hat I've not been able to be do is based on the way that Staff annualized those revenues, is identify where those revenues came from on an account-by-account basis. So that's why we don't have an exact number to say, well, these five accounts, those people -- those late payers no longer live there. We don't have sufficient detail, quite honestly, to be able to do that.<sup>255</sup>

By Mr. Johansen's own admission, he is unable to support his assertion that Staff's calculation is incorrect.

#### **Issue 19: Telephone and Internet**

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

***Facts:***

1. Lincoln County incurs telephone expense and internet expense in the course of its operations amounting to \$95 monthly plus surcharges, taxes and fees amounting to an additional \$33.65 monthly, for an annual total of \$1,543.80.<sup>256</sup>
2. Lincoln County receives telecommunication services from two (2) service providers, namely CenturyLink and U.S. Cellular. CenturyLink provides basic

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<sup>253</sup> *Id.*

<sup>254</sup> *Id.*

<sup>255</sup> Tr. 3:219.

<sup>256</sup> Johansen Direct p. 19; Tr. 3:220-21.

landline phone service and business unlimited primary line bundle services such as unlimited long distance, 3-way calling, caller ID, etc. CenturyLink also provides the Company its internet service. Cell phone service which has nation-wide access is provided by U.S. Cellular, and charges are billed to Lincoln County through Toni Kallash, Lincoln County's administrative assistant.<sup>257</sup>

3. Staff has included in its calculations an annual expense of \$899 for this item based upon information obtained from the Company's service providers as to the cost of the basic phone service plan for small businesses.<sup>258</sup>

**Analysis:**

The Commission is required to consider all relevant factors when setting utility rates.<sup>259</sup> This includes determining the amount of allowable operating expenses.<sup>260</sup>

The Company's actual expenses for telecommunications services are recoverable in rates as a cost of doing business to the extent that they are reasonable, necessary and prudent. Staff does not believe that Lincoln County's actual telecommunications expenses are reasonable, necessary and prudent and so has allowed a lesser amount, reflecting the reasonable amount that ratepayers should have to pay.<sup>261</sup> Lincoln County's indulgence in more telecommunications services than it actually needs should be borne by its proprietors.

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<sup>257</sup> Addo Rebuttal, p. 37; Ferguson Rebuttal, pp. 23-24.

<sup>258</sup> *Id.*

<sup>259</sup> Section 393.270(4), RSMo.; **UCCM**, *supra*.

<sup>260</sup> **Union Electric**, *supra*.

<sup>261</sup> Tr. 3:310-11.

## **Issue 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?**

The Company announced that this was no longer a “live” issue during the hearing.<sup>262</sup>

## **Issue 21: EMSU Issues**

The Company withdrew this issue at the opening of the hearing.<sup>263</sup>

## **Special Issues**

At the conclusion of the hearing on the above matters, the Commission requested that the parties address several additional matters in their Briefs. First, the Commission requested that each party calculate what customer rates would be under their positions with and without AMR costs. Second, the Commission directed the parties to address how long it would take for customers to pay for those AMR costs if the costs are included in rates. Third, the Commission directed the parties to point out how the positions of their opposing parties are inconsistent with the stipulation and agreement from the Company’s certificate case. Finally, the Commission asked Staff to assemble an exhaustive list of water companies that are using AMR technology.

For the first additional matter, Staff has calculated customers rates under its position, with and without what Staff believes are the includable AMR costs, and attached its comparison to this Brief as Attachment A. There are two points about Staff’s calculation the Commission should take into consideration. First, Staff’s calculation of AMR costs does not include the maintenance contracts that were first brought to Staff’s

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<sup>262</sup> Tr. 3:312.

<sup>263</sup> Tr. 3:46.

attention after the time period for discovery was over. Without an opportunity to review costs associated with the maintenance contract, Staff cannot include them in its recommended rates. If those contracts are factored into rates, there would be approximately \$31,000 additional cost to include for recovery over the course of ten years. Second, calculating the difference in rates based on one position does not show the Commission how the rate difference will be affected if the Commission chooses to accept some of Staff's positions on the issues, some of OPC's positions, and some of the Company's positions. Because of the multitude of factors that go into calculating customer rates, choosing what appears to be a higher or lower cost position on an issue will not necessarily have a direct up or down correlation to rates.

For the second additional matter, Staff's position is that AMR costs should be spread out over a ten-year average service life. This ten-year window for recuperating costs stems from Commission Rule 4 CSR 240-10.030(38), which dictates that residential meters (5/8") should be removed, inspected and tested every ten years. This window of time also determines Staff's position on depreciation rates for meters. So, to answer the Commission's question, the rates Staff recommends assume that, in theory, customers would pay for AMR costs over a period of ten years. The important point to note here is that, the higher the costs for meters, the higher rates will be, as the ten-year period for recovery of meter costs in depreciation expense does not change with whether the meters are associated with a manual metering system or an automated meter reading system.

For the third additional matter, Staff believes the Company's position on rate base directly contradicts the Unanimous Stipulation and Agreement in

Case No. WA-2012-0018. The Commission ordered certain rate base values for the Company, based on the parties' Stipulation, and Staff used those values as beginning balances for rate base in this case. The Company argues that the rate base values agreed to in the Stipulation were incorrect, although it has not provided any support for the amounts by which it believes the numbers are off. This is not a situation where the Stipulation contradicts itself or is ambiguous and must be interpreted.<sup>264</sup> Even if the Company could support its estimates of what it believes should have been included in the last case, the numbers agreed to and ordered by the Commission are clear and are the only numbers appropriate for beginning balances in this case. There are several other issues Staff believes contradict the underlying calculations of rates in the certificate case. However, as the calculations of the agreed-to rates were not specifically laid out in the Stipulation, Staff addressed these concerns in the sections of this Brief that deal with those matters.

For the fourth and final additional matter, Staff contacted every regulated utility in the state to gather information about each utility's meters and meter reading. The results of that investigation show that seven regulated utilities in Missouri are currently using some level of automation in their metering processes. A list of these companies and the details of their level of automation are attached to this Brief as Attachment B.

### **Conclusion**

**WHEREFORE**, based on the foregoing, Staff prays the Commission will resolve each issue in this case as recommended by Staff.

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<sup>264</sup> See discussion above on the issue of Plant Held for Future Use for an instance where the Stipulation contradicts itself.



Respectfully submitted,

**/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 26th day of November, 2013.

**/s/ Amy E. Moore**

Lincoln County Sewer & Water, LLC  
 Rate Comparison Worksheet-Water

<b>Base Rate-Monthly</b>				
	Without AMR		With AMR	
	Customer Charge	Commodity	Customer Charge	Commodity
Rockport	\$13.10	\$5.25	\$14.09	\$5.64
Bennington	\$16.13	\$3.68	\$18.60	\$4.25

<b>Typical Customer based on 6,000 gallons usage-Monthly</b>						
	Without AMR			With AMR		
	Customer Charge	Commodity	Total	Customer Charge	Commodity	Total
Rockport	\$13.10	\$31.50	\$44.60	\$14.08	\$33.84	\$47.92
Bennington	\$16.13	\$22.08	\$38.21	\$18.60	\$25.50	\$44.10

<u>COMPANIES</u>	<u>Type of Meter Reading</u>	<u>Customers</u>
Argyle Estates	Manual Reads	52
Bilyeu	Manual Reads	54
Brandco	Manual Reads	190
Emerald Point Utility	Manual Reads	380
Empire District Electric	Manual Read with Handheld (Touch) Device*	4,613
Environmental Utilities	Manual Reads	21
Evergreen Lake Water	Manual Reads	60
Foxfire	Manual Reads	310
Franklin County	Manual Reads	184
Gascony Water	No Meters	170
Gladlo Water & Sewer	Manual Reads	63
Hickory Hills Water & Sewer	Manual Reads	49
Highway H Utilities	Manual Reads	539
IH Utilities	Manual Reads	708
Kimberling City	Manual Reads	94
Lake Northwoods Utility	Manual Reads	20
Lake Region Water & Sewer	95% Radio Reads	646
Lakeland Heights	Manual Reads	105
Liberty - Algonquin, Noel, KMB	Remote, Touch and Radio**	2,112
Lincoln County Sewer and Water	Radio Reads	112
Middle Fork	Manual Reads (wholesale only)	2
Midland	Manual Reads	96
Missouri Utilities	Manual Reads	155
Missouri-American	Touch and Radio Reads***	450,000
Moore Bend	Manual Reads	88
Oakbrier	Manual Reads	60
Osage	Manual Reads	418
Ozark Shores	95% Radio Reads	1,856
Peaceful Valley	Manual Reads	166
Port Perry	Manual Reads	292
Public Funding Corporation	Could not Contact	216
Raytown	Manual and Radio	6,508
Rex Deffenderfer Enterprises	Manual Reads	1,102
Riverfork	Manual Reads	143
Rogue Creek Utilities	Manual Reads	98
Roy-L Utilities	Manual Reads****	62
Seges Partners	No Meters	59
SK&M Water & Sewer	Manual Reads	276
Smithview H2O	Manual Reads	153
Southtown Utilities	Manual Reads	108
Spokane Highlands	Manual Reads	48
Stockton Hills	Manual Reads	161
Taney County Water	Manual Reads	476
Terre du Lac Utilities	Manual Reads	1,261
Valley Woods	Manual Reads	40
Village Greens	Manual Reads	60
Whispering Hills	Manual Reads	41
Whiteside Hidden Acres	No Meters	39
Willows Utility	Manual Reads	181
Woodland Manor	Manual Reads	163

\*"Touch," "Remote," and "Radio" indicate various levels of automation

\*\*Plans to upgrade to all remote reads

\*\*\*Converting to all Radio Reads

\*\*\*\*Radio Read capable meters are purchased but not installed.