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January 6, 1999

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DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. WA-97-510

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and the appropriate number of conformed copies of the **TESTIMONY IN SUPPORT OF STIPULATION AND AGREEMENT OF STAFF WITNESS JAMES A. MERCIEL, JR.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

William K. Haas
Senior Counsel
(573) 751-7510
(573) 751-9285 (Fax)

WKH:sw
Enclosure
cc: Counsel of Record

FILED

JAN - 6 1999

Missouri Public
Service Commission

**SERVICE LIST FOR
CASE NO. WA-97-510
January 6, 1999**

**Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102**

**Robert C. Johnson/Frances L. Goetz
Peper, Martin, Jensen Maichel & Hetlage
720 Olive Street, Suite 2400
St. Louis, MO 63101**

Exhibit No.:
Issues: *Stipulation and Agreement*
Witness: *Merciel*
Type of Exhibit: *Testimony in Support of*
Stipulation and Agreement
Sponsoring Party: *MO PSC Staff*
Case No.: *WA-97-510*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

FILED

JAN - 6 1999

Gascony Water Company, Inc.

Missouri Public
Service Commission

CASE NO. WA-97-510

**TESTIMONY IN SUPPORT OF
STIPULATION AND AGREEMENT**

JAMES A. MERCIEL, JR., P. E.

Jefferson City, Missouri
January 5, 1999

1 TESTIMONY IN SUPPORT OF STIPULATION AND AGREEMENT

2 James A. Merciel, Jr.

3 Gascony Water Company, Inc.

4 CASE NO. WA-97-510

5
6 Q. Please state your name and address.

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

9 Q. Are you the same James A. Merciel, Jr. who submitted
10 Rebuttal Testimony in this case?

11 A. Yes.

12 Q. What is the purpose of this testimony?

13 A. The purpose of this testimony is to support the
14 Stipulation and Agreement (Stipulation) that was filed in this
15 case, and agreed upon between the Staff, the Company, and the
16 Office of the Public Counsel. Specifically, I will explain the
17 difference between the expenses used to calculate rates in the
18 Stipulation, as compared to those in the Direct Testimony of
19 Gascony Water Company (Company) witness Ernest Harwig, and those in
20 my Rebuttal Testimony.

21 Q. What is the total annual revenue?

22 A. The total annual revenue in the Stipulation is
23 \$33,817. The Company originally requested \$75,675, and the Staff
24 originally proposed \$26,649.

25 Q. What plant is included as rate base, and what is the
26 amount?

Testimony in Support of Stipulation and Agreement
James A. Merciel, Jr.

1 A. In the Stipulation, rate base includes \$20,000 as
2 startup costs, consisting of legal and consulting expenses, and
3 \$1,000 for three meters that the Company will install immediately
4 for commercial customers. The Company agreed to install meters in
5 order to accurately determine actual water usage for the swimming
6 pool, a kitchen, and the recreational vehicle dump station. The
7 meters will allow metered rates to be set to produce the
8 appropriate revenue in a future rate case. However, at this point
9 in time we do not know actual water usage, and it is thus necessary
10 to utilize flat rates so that the Company collects the proper
11 amount of revenue. In testimony, an estimated water use amount for
12 the swimming pool was used to determine a flat rate. For the
13 Stipulation, estimated water use amounts provided by the Company
14 were also used to determine flat rates for the kitchen and the dump
15 station. These customers were previously included as low-use
16 commercial customers. Meters are included in the proposed
17 depreciation schedule.

18 The Company took the position that there is rate base,
19 consisting of undepreciated and non-contributed plant, with
20 original cost of \$229,656. The return as proposed by the Company
21 was \$10,103, and depreciation was \$4,376. The Company included
22 startup costs as an annual expense. The Staff took the position
23 that there was no rate base, and included startup costs as a four-
24 year amortized expense of \$4,000 annually. The meters were not
25 included in any of the testimony.

Testimony in Support of Stipulation and Agreement
James A. Merciel, Jr.

1 In the Staff's rate calculations the startup cost
2 amortization was originally included as a part of the "customer
3 charge" component, dividing this expense equally among all
4 customers. In the Stipulation, the startup costs are treated as
5 rate base and included in the "commodity charge" component, which
6 shifts more of the expense to customers who use more water.

7 Q. What operating expenses are significantly different?

8 A. A comparison of expenses is included as Schedule 1.
9 The estimated expenses that were modified for settlement are:
10 salary for management, operations, and clerical, which was strictly
11 a negotiated estimated amount; office equipment, a negotiated
12 amount that the Company had included in rate base; postage, a
13 rounded amount to account for the increase in postage costs
14 proposed by the US Postal Service; income taxes, to adjust for the
15 change in both parties' positions regarding rate base; ongoing
16 annual legal and accounting expenses, a negotiated estimate;
17 miscellaneous expense, increased from the Company's proposed
18 expense because the Company had not included materials and supplies
19 on hand; uncollectibles, to adjust to an estimated 2 percent of
20 annual revenue; and the PSC assessment, adjusted to the actual
21 current rate for water utilities.

22 Q. Are there other charges included in the Stipulation?

23 A. Yes, there is a charge of \$425 which reflects the
24 cost of installing a meter box and yoke. The purpose is to provide
25 a valve with which service may be turned on and off. This charge

Testimony in Support of Stipulation and Agreement
James A. Merciel, Jr.

1 would apply to new connections. In addition to this charge, new
2 customers would pay for the service connection to the main and the
3 pipeline between the main and the meter box, which will be owned
4 and maintained by the Company after the initial installation.

5 The \$425 charge also applies to any customer who has been
6 disconnected for any reason, for example non-payment of water
7 bills, and wants to be reconnected. It is my understanding that
8 valves are installed on some or all service lines, but they are
9 buried and not accessible. The valve on a meter yoke is
10 accessible, and may be locked in the off position. The
11 installation of the meter box and valve is necessary for the
12 Company to be able to enforce bill collection, and compliance with
13 other rules.

14 It is not being proposed to meter all customers at this
15 time; however meters could be easily installed in the meter boxes
16 in the future. If the Company initiated a meter installation
17 program, then meter boxes would need to be installed for all
18 customers.

19 Q. Do you have any other comments?

20 A. Yes. This is a certificate case, and expenses
21 are estimated, as opposed to a rate case where rates are determined
22 by auditing actual expenses. The expenses used to support the
23 recommended rates were negotiated between the parties for
24 settlement purposes. Since the expenses are estimates, the
25 Stipulation requires the Staff to review actual expenses within

Testimony in Support of Stipulation and Agreement
James A. Merciel, Jr.

1 eighteen (18) months to determine the reasonableness of the rates.
2 In order to determine actual expenses, the Staff needs reasonable
3 documentation of such things as telephone calls, equipment use,
4 employee time, and vehicle use. It is imperative that the Company
5 keep records and use forms similar to those that were included as a
6 part of the Stipulation so that the Staff can verify actual
7 expenses.

8 Q. What is your recommendation?

9 A. I recommend the Commission approve the Stipulation.
10 The Staff, of course, is available to answer questions as desired.

11 Q. Does this conclude your Testimony in Support of
12 Stipulation and Agreement?

13 A. Yes.

Hoesch WA-97-510
COMPARISON OF EXPENSES

01/05/99

Expenses	STIPULATION	Company Direct	Staff Rebuttal
Return	2,310	10,103	-
Deprec	4,040	4,376	-
Electric	500	500	500
Mgt -Operator-Cerical	15,000	19,767	12,000
Maintenance	1,500	500	1,500
Vehicle	2,829	2,829	2,829
Testing	500	500	500
Rent	1,500	(incl in rate base)	1,500
Office Equip - Supplies	400	200 plus rate base	200
Telephone	600	600	600
Postage	300	230	250
Insurance	-	600	-
Taxes other than Income	70	70	70
Income Taxes	552	6,182	-
Legal, Accounting	1,500	2,500	1,000
Misc, Contingency, M & S	1,200	500	1,200
Uncollectible	676	4,836	-
PSC Assessment	340	634	500
Startup Costs	(incl in rate base)	20,750	4,000
Design Revenue	33,817	75,677	26,649

Hoesch WA-97-510
RATE COMPARISON

01/05/99

Quarterly Rates	STIPULATION	Company Direct	Staff Rebuttal
Part Time Customers	36.88	21.98	32.82
Full Time Customers	103.33	130.86	65.38
Swimming Pool	368.16	687.69	139.67
Kitchen	58.39	(Included as part time customer)	
Dump Station	170.74	(Included as part time customer)	

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
George Hoesch, for a Certificate of)
Convenience and Necessity Authorizing)
Him to Own, Operate, and Maintain a) Case No. WA-97-510
Water System for the Public, Located in)
an Unincorporated Area of the County of)
Gasconade, Missouri.)

AFFIDAVIT OF JAMES A. MERCIEL, JR.

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., of lawful age, on his oath states: that he has participated in the preparation of the foregoing Testimony in Support of Stipulation and Agreement, in question and answer form, consisting of 5 pages and 1 Schedule, to be presented in the above case; that he has knowledge of the matters set forth in such answers; and that such answers are true to the best of his knowledge and belief.


James A. Merciel, Jr.

Subscribed and sworn to before me this 5th day of January 1999.


Notary Public

CHRISTINE E BRAUNER
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP JULY 22 2001

My commission expires