

**Exhibit Number:** \_\_\_\_\_  
**Issues:** 1) Overview of Issues  
Identified by Staff  
2) Overview of Staff  
Testimony  
3) Staff Positions  
**Witness Name:** Dale W. Johansen  
**Type of Exhibit:** Rebuttal Testimony  
**Sponsoring Party:** MoPSC Staff  
**Case Number:** WO-2005-0206  
**Date Testimony Prepared:** June 10, 2005

**Missouri Public Service Commission**  
**Utility Operations Division**  
**Water & Sewer Department**

**Rebuttal Testimony**  
**of**  
**Dale W. Johansen**

**Case No. WO-2005-0206**

**Silverleaf Resorts, Inc. and Algonquin**  
**Water Resources of Missouri, LLC**

**Jefferson City, Missouri**  
**June 2005**

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

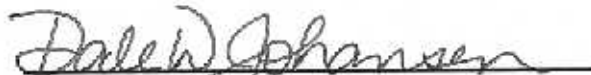
In the Matter of the Joint Application of )  
Silverleaf Resorts, Inc. and Algonquin Water )  
Resources of Missouri, LLC for Authority for )  
Silverleaf Resorts, Inc. to Sell Certain Assets )  
to Algonquin Water Resources of Missouri, )  
LLC and, in Connection Therewith, Certain )  
Other Related Transactions )

Case No. WO-2005-0206

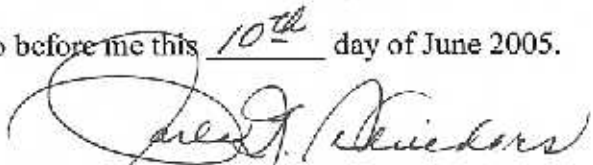
**AFFIDAVIT OF DALE W. JOHANSEN**

STATE OF MISSOURI     )  
                                  ) ss  
COUNTY OF COLE     )

Dale W. Johansen, of lawful age, on his oath states: that he has participated in the preparation of the following written rebuttal testimony in question and answer form, consisting of seven (7) pages and two (2) schedules, to be presented in this case; that the answers in the testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Dale W. Johansen

Subscribed and sworn to before me this 10<sup>th</sup> day of June 2005.

  
Notary Public

My Commission Expires: June 7, 2008

**CARLA K. SCHNIEDERS**  
Notary Public - Notary Seal  
State of Missouri  
County of Cole  
My Commission Exp. 06/07/2008

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TESTIMONY OF DALE W. JOHANSEN**

**Case No. WO-2005-0206**

**Silverleaf Resorts, Inc. and Algonquin  
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**REBUTTAL TESTIMONY**

**OF**

**DALE W. JOHANSEN**

**CASE No. WO-2005-0206**

**SILVERLEAF RESORTS, INC. AND ALGONQUIN  
WATER RESOURCES OF MISSOURI, LLC**

1 **INTRODUCTION**

2 **Q. Please state your name and business mailing address.**

3 A. Dale W. Johansen, P.O. Box 360, Jefferson City, Missouri 65102.

4 **Q. By whom are you employed and in what capacity?**

5 A. I work for the Missouri Public Service Commission (Commission) and my  
6 position at the Commission is Manager of the Water & Sewer Department (W/S Dept) in  
7 the Utility Operations Division.

8 **Q. Please briefly describe your job responsibilities.**

9 A. My responsibilities include general administrative and supervisory duties for the  
10 overall operation of the W/S Dept, and direct participation in water and sewer utility  
11 cases before the Commission regarding both technical and policy matters.

12 **Q. What are your education and work experience backgrounds?**

13 A. Please refer to Schedule DWJ – 1 attached to this testimony for a summary of my  
14 education and work experience backgrounds.

15 **Q. Have you previously testified before this Commission?**

16 A. Yes, I have, on numerous occasions.

1        **INVOLVEMENT IN THIS CASE**

2        **Q.     What has been the nature of your involvement in this case?**

3        A.     I have been involved in this case as the Staff's case coordinator and as such have  
4        been responsible for reviewing the work performed by all the involved Staff members  
5        and ensuring that their work has been properly coordinated. I was also responsible for  
6        producing the final version of the official case file memorandum that the Staff filed in  
7        this case on March 28, 2005. I have also participated in the settlement discussions that  
8        have taken place in this case, reviewed the testimony that the Joint Applicants filed in this  
9        case and reviewed the Motion for Summary Disposition and related Suggestions in  
10       Support that the Joint Applicants filed in this case. Lastly, I participated in the  
11       development of the Staff's response to the motion for summary disposition, which is  
12       being filed concurrently with the Staff's prepared rebuttal testimony. As a result of these  
13       activities, I am well aware of the Staff's positions in this case, the provisions of the Joint  
14       Application, and related documents, and the Joint Applicants' positions in this case.

15       **Q.     Have you previously filed testimony in this case?**

16       A.     No, this is the first opportunity for the Staff to file testimony in this case.

17       **PURPOSE OF TESTIMONY**

18       **Q.     What is the purpose of the testimony you are presenting in this case?**

19       A.     I will be presenting an overview of the issues identified by the Staff during its  
20       investigation of the subject Joint Application, and an overview of the Staff's prepared  
21       rebuttal testimony that addresses those issues. I will also be presenting the Staff's  
22       positions regarding the resolution of this case.

1        **OVERVIEW OF ISSUES IDENTIFIED BY STAFF**

2        **Q.     Please provide an overview of the issues identified by the Staff during its**  
3        **investigation of the Joint Application that is the subject of this case.**

4        A.     The main issues identified by the Staff, for which the Staff believes the  
5        Commission should issue rulings upon in this case, are the existence of an acquisition  
6        premium and the potential recovery of that acquisition premium by Algonquin Water  
7        Resources of Missouri, LLC (Algonquin) as the purchaser of Silverleaf Resorts, Inc.'s  
8        (Silverleaf) utility assets. Directly related to the issue of the existence of an acquisition  
9        premium are issues regarding the correct balances of Silverleaf's accounts for plant in  
10       service, contributions in aid of construction and accumulated depreciation reserves, and  
11       an issue regarding cost overruns for a construction project in one of Silverleaf's service  
12       areas. Regarding the issue of the existence of an acquisition premium, I believe it is  
13       important to note that even the information provided by Silverleaf and Algonquin shows  
14       that an acquisition premium does exist.

15             An additional issue identified by the Staff, which is characterized as a ratemaking  
16       issue and is not related to the acquisition premium issues, is related to the existence of  
17       what the Staff believes to be excess plant capacity in certain of Silverleaf's service areas.

18             Other matters reviewed by the Staff during its investigation, but which do not rise  
19       to the level of "disputed issues", include the following: the impact of the proposed  
20       transactions on Algonquin; depreciation rates; Algonquin's use of Silverleaf's existing  
21       tariffs; the transfer of Silverleaf's certificates of convenience and necessity to Algonquin  
22       versus the granting of new certificates to Algonquin and the cancellation of Silverleaf's

1 certificates; the condition of Silverleaf's water and sewer systems; Algonquin's operation  
2 of Silverleaf's systems; the status of Silverleaf's annual report submissions and  
3 assessment payments; and other pending actions involving Silverleaf and Algonquin.

4 With regard to all of the items discussed above, I would like to note that the Staff  
5 addressed all of these items in the official case file memorandum that it filed in this case  
6 on March 28, 2005.

7 **OVERVIEW OF STAFF'S TESTIMONY**

8 **Q. What other Staff members are presenting prepared rebuttal testimony in this**  
9 **case and what issues are they covering in that testimony?**

10 A. Graham Vesely of the Auditing Department is providing testimony on the  
11 acquisition premium issues and related issues identified by the Staff, as discussed above.  
12 Jim Merciel of the Water & Sewer Department is presenting testimony on the excess  
13 plant capacity issue identified by the Staff, as discussed above. Rosella Schad of the  
14 Engineering & Management Services Department is presenting testimony regarding the  
15 matter of depreciation rates. Although the Staff is not presenting testimony on the "other  
16 matters" discussed above, except as noted above regarding the matter of depreciation  
17 rates, the Staff's findings and conclusions regarding some of those matters are the basis  
18 for certain of the Staff's recommendations to the Commission, as presented below.

19 **STAFF'S POSITIONS**

20 **Q. What are the Staff's positions regarding the overall resolution of the Joint**  
21 **Application that is the subject of this case?**

1 A. Based on the prepared rebuttal testimony that the Staff is presenting in this case,  
2 and certain of the findings and conclusions presented in the Staff's March 28 official case  
3 file memorandum, the Staff's positions regarding the resolution of this case are as  
4 follows.

5 (a) First, and foremost, it is the Staff's position that the Commission should  
6 decide in this case that Algonquin will not be allowed to recovery any acquisition  
7 premium that is determined to exist.

8 (b) It is the Staff's position that the Commission should determine in this case  
9 whether an acquisition premium exists and the amount of any premium. However, if the  
10 Commission decides in favor of the Staff's position regarding the recovery of any  
11 acquisition premium, then the Staff would not object to the determination of the amount  
12 of the acquisition premium being made in Algonquin's first rate before the Commission.

13 (c) Regarding the determination of the amount of the acquisition premium, it  
14 is the Staff's position that the Commission needs to make a determination regarding the  
15 issues of the correct balances of Silverleaf's accounts for plant in service, contributions in  
16 aid of construction and accumulated depreciation reserves, and the issue related to cost  
17 overruns for a construction project in one of Silverleaf's service areas.

18 (d) Regarding the excess plant capacity issues identified by the Staff, it is the  
19 Staff's position that the Commission does not need to make a finding regarding those  
20 issues in this case. Rather, these issues are properly dealt with in the context of  
21 Algonquin's first rate case before the Commission. The Staff presented testimony  
22 regarding these issues so that Algonquin and the Commission would be aware of them.



1 (e) It is the Staff's position that if the Commission approves the proposed  
2 asset sale that the Commission should cancel Silverleaf's existing certificates of  
3 convenience and necessity and issue "new" certificates to Algonquin for Silverleaf's  
4 established service areas.

5 (f) It is the Staff's position that if the Commission approves the proposed  
6 asset sale that the Commission should authorize Algonquin to adopt Silverleaf's existing  
7 tariffs, and further that Algonquin specifically be authorized to operate under Silverleaf's  
8 tariffs until such time that the necessary tariff adoption actions are completed.

9 (g) It is the Staff's position that if the Commission approves the proposed  
10 asset sale that the Commission should prescribe the schedule of depreciation rates  
11 attached to the testimony of Staff Witness Schad as the schedule of rates to be used by  
12 Algonquin, and that the Commission should direct Algonquin to begin using those rates  
13 upon the closing of its purchase of Silverleaf's assets.

14 (h) It is the Staff's position that it would be appropriate for the Commission to  
15 make a finding that Algonquin has the technical, managerial and financial capacities  
16 necessary to operate Silverleaf's water and sewer systems.

17 **Q. Regarding the acquisition recovery issue, why is it important for the**  
18 **Commission to decide that issue in this case?**

19 A. The main reason this issue needs to be decided in this case is the amount and  
20 magnitude of the acquisition premium that the Staff believes exists. As is shown in  
21 Schedule DWJ – 2 attached to this testimony, the Staff's positions on the various issues  
22 that directly affect the calculation of the acquisition premium result in a calculated

1 acquisition premium of approximately \$2,345,600. When considered in the context of  
2 the price that Algonquin will be paying Silverleaf for the subject assets, this acquisition  
3 premium represents nearly 62% of the purchase price.

4 Because of the size and magnitude of this premium, it is the Staff's position that  
5 recovery of the premium would result in a situation where the Commission could not also  
6 then find that the proposed transaction meets the standard applicable to the transaction.  
7 In other words, the Commission could not allow Algonquin to recover the acquisition  
8 premium and find that the proposed transaction "is not detrimental to the public interest."

9 **Q. Does that conclude your prepared rebuttal testimony?**

10 A. Yes, it does.

**EDUCATION & WORK EXPERIENCE**  
**SUMMARY OF DALE W. JOHANSEN**

**COLLEGE EDUCATION**

Associate of Arts in Pre-Engineering Studies  
State Fair Community College – Sedalia, Missouri

Bachelor of Science in Agricultural Engineering  
School of Engineering – University of Missouri @ Columbia

**REGULATORY/UTILITY WORK EXPERIENCE**

**Missouri Public Service Commission**

Manager – Water & Sewer Department  
Utility Operations Division  
June 1995 to Present

**Johansen Consulting Services**

Utility & Regulatory Consultant  
February 1994 to June 1995

**Missouri One Call System, Inc.**

Executive Director  
January 1992 to February 1994

**Missouri Public Service Commission**

(service prior to current position)

Director – Utility Services Division  
November 1990 to January 1992

Case Coordinator – Utility Division  
November 1987 to November 1990

Assistant Manager – Engineering  
Gas Department – Utility Division  
October 1980 to November 1987

Gas Safety Engineer  
Gas Department – Utility Division  
May 1979 to October 1980

**Silverleaf Resorts, Inc. - Summaries of Plant In Service - Corporate, CIAC, Plant In Service - Utility Company,  
Depreciation Reserves, Miscellaneous Plant Adjustments & Rate Base and Calculation of Acquisition Premium**

1	<b>Timber Creek Service Area</b>	<b>Staff</b>			<b>Company</b>	<b>Difference</b>
		Water	Sewer	Total	Total	Total
2						
3	Plant In Service - Corporate Total	\$ 1,036,675	\$ 752,795	\$ 1,789,470	\$ 1,573,320	\$ 216,150
4	CIAC Per Utility Tariff Provisions	\$ 308,375	\$ 185,785	\$ 494,160	\$ -	\$ 494,160
5	Plant In Service - Utility Company	\$ 728,300	\$ 567,010	\$ 1,295,310	\$ 1,573,320	\$ (278,010)
6	Depreciation Reserve	\$ 200,000	\$ 240,040	\$ 440,040	\$ 440,040	\$ -
7	Ratemaking Rate Base	\$ 528,300	\$ 326,970	\$ 855,270	\$ 1,133,280	\$ (278,010)
8	<b>Ozark Mountain Service Area</b>	<b>Staff</b>			<b>Company</b>	<b>Difference</b>
9		Water	Sewer	Total	Total	Total
10	Plant In Service - Corporate Total	\$ 271,455	\$ 317,940	\$ 589,395	\$ 556,985	\$ 32,410
11	CIAC Per Utility Tariff Provisions	\$ 149,665	\$ 141,835	\$ 291,500	\$ -	\$ 291,500
12	Plant In Service - Utility Company	\$ 121,790	\$ 176,105	\$ 297,895	\$ 556,985	\$ (259,090)
13	Depreciation Reserve	\$ 87,820	\$ 157,265	\$ 245,085	\$ 217,400	\$ 27,685
14	Ratemaking Rate Base	\$ 33,970	\$ 18,840	\$ 52,810	\$ 339,585	\$ (286,775)
15	<b>Holiday Hills Service Area</b>	<b>Staff</b>			<b>Company</b>	<b>Difference</b>
16		Water	Sewer	Total	Total	Total
17	Plant In Service - Corporate Total	\$ 1,495,710	\$ -	\$ 1,495,710	\$ 2,263,860	\$ (768,150)
18	CIAC Per Utility Tariff Provisions	\$ 565,890	\$ -	\$ 565,890	\$ -	\$ 565,890
19	Plant In Service - Utility Company	\$ 929,820	\$ -	\$ 929,820	\$ 2,263,860	\$ (1,334,040)
20	Construction Cost Overrun	\$ 207,180	\$ -	\$ 207,180	\$ -	\$ 207,180
21	Adjusted Plant In Service - Util. Co.	\$ 722,640	\$ -	\$ 722,640	\$ 2,263,860	\$ (1,541,220)
22	Depreciation Reserve	\$ 176,320	\$ -	\$ 176,320	\$ 870,095	\$ (693,775)
23	Ratemaking Rate Base	\$ 546,320	\$ -	\$ 546,320	\$ 1,393,765	\$ (847,445)
24	<b>Total Company Summaries</b>	<b>Staff</b>	<b>Company</b>	<b>Difference</b>		
25	Plant In Service - Corporate Total	\$ 3,874,575	\$ 4,394,165	\$ (519,590)		
26	CIAC Per Utility Tariff Provisions	\$ 1,351,550	\$ -	\$ 1,351,550		
27	Plant In Service - Utility Company	\$ 2,523,025	\$ 4,394,165	\$ (1,871,140)		
28	Construction Cost Overrun (H.H.)	\$ 207,180	\$ -	\$ 207,180		
29	Adjusted Plant In Service - Util. Co.	\$ 2,315,845	\$ 4,394,165	\$ (2,078,320)		
30	Depreciation Reserve	\$ 861,445	\$ 1,527,535	\$ (666,090)		
31	Ratemaking Rate Base	\$ 1,454,400	\$ 2,866,630	\$ (1,412,230)		
32	<b>Acquisition Premium Calculation</b>	<b>Staff</b>	<b>Company</b>			
33	Allocated Sale Price	\$ 3,800,000	\$ 3,800,000			
34	Ratemaking Rate Base	\$ 1,454,400	\$ 2,866,630			
35	Acquisition Premium	\$ 2,345,600	\$ 933,370			

Notes:

- (1) Balances Shown Are Current As Of 12/31/04
- (2) Difference = Staff Numbers - Company Numbers
- (3) Staff Depreciation Reserve Balances Are For Utility Company Plant Only
- (4) Total Company Summaries and Acquisition Premium Calculation Do Not Include Adjustments To Reflect The Plant Held For Future Use Issue Discussed In The Staff's 03/28/05 Official Case File Memorandum, Nor Any Additional Such Issues Subsequently Identified By The Staff