

*Exhibit No.:*

*Issue: Financing Arrangement;  
Financing Feasibility; and  
Rate Base Calculation*

*Witness: James M. Russo*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Rebuttal Testimony*

*Case No.: WA-2002-65*

*Date Testimony Prepared: November 20, 2001*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**FILED<sup>2</sup>**

**NOV 21 2001**

**REBUTTAL TESTIMONY**

**OF**

**Missouri Public  
Service Commission**

**JAMES M. RUSSO**

**ENVIRONMENTAL UTILITIES, LLC**

**CASE NO. WA-2002-65**

*Jefferson City, Missouri  
November 2001*

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**JAMES M. RUSSO**  
**ENVIRONMENTAL UTILITIES, LLC.**  
**CASE NO. WA-2002-65**

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1 Q. What is the purpose of your rebuttal testimony as it relates to this case?

2 A. The purpose of my testimony is to respond to the direct testimony of Debra J.

3 Williams, witness for Environmental Utilities LLC (Company).

4 **FINANCING ARRANGEMENT**

5 Q. Do you agree with Ms. Williams that financing is available through Central

6 Bank of Lake of the Ozarks (Bank)?

7 A. No, I do not believe Central Bank of Lake of the Ozarks has guaranteed to be

8 a finance source to the Company.

9 Q. What is the basis of your belief?

10 A. Ms. Williams states on page 17 of her direct testimony that:

11 Central Bank of Lake of the Ozarks has indicated its willingness to  
12 loan money to Environmental Utilities provided Gregory D. Williams  
13 and Debra J. Williams personally guarantee the same and provide  
14 adequate collateral to secure the loans.

15 In reviewing the letter from the Bank (attached as Schedule 2 to this rebuttal  
16 testimony), I see additional conditions placed on the Company as follows:

17 As in all cases, our interest will be conditioned upon the status of your  
18 company at the time of the request, including the sufficiency [sic]  
19 current and projected earnings, collateral margin and proper approval  
20 from the Missouri Public Service Commission.

21 The letter states that it is just an acknowledgement of an inquiry regarding financing.  
22 Furthermore, I notice key words that imply only that the Bank would consider possible  
23 financing for the Company. Paragraph one of the Banks letter states, "...possible  
24 financing..." and the final paragraph states, "We would like the opportunity to provide the  
25 required financing."

1 Q. What would you consider to be satisfactory proof of another source of  
2 financing?

3 A. I believe an established line of credit with an established financial institution,  
4 or a letter stating the Company has qualified for pre-approval for a certain dollar amount of  
5 financing may be acceptable. Staff would want to review the wording and dollar amounts on  
6 these types of documents before stating they are another source of funding for the Company.  
7 While the Company has proposed a 60%-40% debt/equity capital structure, the Staff has not  
8 seen documentation supporting the proposed long-term financing costs identified in  
9 Ms. Williams' direct testimony. The Staff will defer any recommendation concerning the  
10 capital structure and/or cost of capital until a future rate review or specific finance case.

11 **FINANCIAL FEASIBILITY**

12 Q. Do you agree with Ms. Williams' answer on page 16 of her direct testimony  
13 about the Company's financial capability of carrying out this project?

14 A. The financial capability of the Company to carry out the project and operate  
15 the system will be addressed by Staff witness James Merciel of the Commission's Water and  
16 Sewer Department.

17 **RATE BASE CALCULATION**

18 Q. On page 16 of her direct testimony, Ms. Williams discusses including a  
19 general contractor's fee of 10% in the amount capitalized for the construction of the water  
20 supply. Does the Staff agree with this proposal?

21 A. No. In this case the system developers are also the principals of the Company.  
22 Subject to a later audit, Staff is recommending including only the direct out-of-pocket

Rebuttal Testimony of  
James M. Russo

1 expenditures associated with the installation of the water supply system, noting also that the  
2 distribution system is being recorded as contribution in aid to construction.

3 Q. Does Staff agree with the Company's treatment of the distribution system?

4 A. As noted above the Staff understands that the distribution system will be  
5 contributed to the Company by the developers. In addition, Staff has not seen any  
6 documentation showing what the system has or will cost. Should the Commission grant  
7 approval to the Company's Application, Staff requests that the Commission impose the  
8 condition that the Company provide copies of the journal entries and all supporting  
9 documentation justifying the cost of the distribution system within 60 days of system  
10 operation. (See §393.170.3, RSMo) In this case system operation is defined as either the  
11 date of acceptance from the well drilling contractor or the date water service is provided to  
12 any customer.

13 Q. You previously discussed delaying certain findings until future rate review  
14 and/or later audit. What is your recommendation in this regard?

15 A. Assuming Commission approval of this certificated case, I recommend the  
16 Staff conduct a rate review approximately 18 months after Commission approval.  
17 Conducting the review at that time will provide the Staff the opportunity to: 1) review  
18 historical operating revenues, expenses and rate of return calculations; and 2) assure that  
19 appropriate books and records are being maintained by the Company.

20 Q. Does this conclude your rebuttal testimony?

21 A. Yes, it does.

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

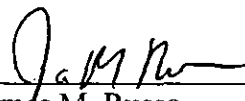
In the Matter of The Application of Environmental )  
Utilities, LLC for Permission, Approval, and a )  
Certificate of Convenience and Necessity )  
Authorizing it to Construct, Install, Own, Operate )  
Control, Manage and Maintain a Water System )  
for the Public Located in Unincorporated Portions )  
of Camden County, Missouri (Golden Glade )  
Subdivision). )

Case No. WA-2002-65

**AFFIDAVIT OF JAMES M. RUSSO**

STATE OF MISSOURI       )  
                                  )  
COUNTY OF COLE       )       ss.

James M. Russo, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.

  
\_\_\_\_\_  
James M. Russo

Subscribed and sworn to before me this 20<sup>th</sup> day of November 2001.





TONI M. CHARLTON  
NOTARY PUBLIC STATE OF MISSOURI  
COUNTY OF COLE  
My Commission Expires December 28, 2004

RATE CASE PROCEEDING PARTICIPATION

**JAMES M. RUSSO**

<u>COMPANY</u>	<u>CASE NO.</u>
Union Electric Company	GR-97-393
Gascony Water Company	WA-97-510
St. Joseph Light and Power Company	EC-98-573
St. Joseph Light and Power Company	HR-99-245
St. Joseph Light and Power Company	GR-99-246
St. Joseph Light and Power Company	ER-99-247
UtiliCorp United Inc./St. Joseph Light and Power Company	EM-2000-292
UtiliCorp United Inc./Empire District Electric Company	EM-2000-369
Osage Water Company	WR-2000-557
Osage Water Company	SR-2000-556
Missouri Gas Energy	GR-2001-292



**Central Bank  
of Lake of the Ozarks**



September 14, 2001

Mr. Greg Williams  
Environmental Utilities, LLC  
P.O. Box 650  
Sunrise Beach, MO 65079

Mr. Williams:

This letter is to acknowledge your investigation into possible financing for Environmental Utilities, LLC. Central Bank would look favorably in extending credit to your company for the operation and expansion of the utility company.

As in all cases, our interest will be conditioned upon the status of your company at the time of the request, including the sufficiency current and projected earnings, collateral margin and proper approval from the Missouri Public Service Commission.

Please do not hesitate to contact me when you are considering a new project. We would like the opportunity to provide the required financing.

Respectfully,

Matthew A. Redd  
Vice President



P.O. Box 207 / Osage Beach, Missouri 65065 / (573) 348-2761 / FAX (573) 348-2933  
[www.cbolobank.com](http://www.cbolobank.com)

