Exhibit No.:	
Issues:	*Rate Base, Plant in Service, Reserve, CIAC, Payroll Expense*
Witness:	*Graham A. Vesely*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*WR-2006-0425*
Date Testimony Prepared:	*December 4, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

GRAHAM A. VESELY

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

CASE NO. WR-2006-0425

Jefferson City, Missouri
December 2006

****Denotes Highly Confidential Information****

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing Algonquin Water Resources of Missouri, LLC to Implement a General Rate Increase for Water and Sewer Service Provided to Customers in Its Missouri Service Areas.	)))))	Case No. WR-2006-0425

AFFIDAVIT OF GRAHAM A. VESELY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Graham A. Vesely, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 41 pages to be presented in the above case; that the answers in the foregoing Direct 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.

Graham A. Vesely

Subscribed and sworn to before me this 4th day of December 2006

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

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DIRECT TESTIMONY OF

GRAHAM A. VESELY

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

CASE NOS. WR-2006-0425 and SR-2006-0426 (CONSOLIDATED)

DIRECT TESTIMONY

OF

GRAHAM A. VESELY

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

CASES NOS. WR-2006-0425 and SR-2006-0426

(Consolidated)

Q. Please state your name and business address.

A. Graham A. Vesely, 615 East 13th Street, Kansas City, MO 64106.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your education background.

A. In May of 1985, I received a Bachelor's degree in Civil Engineering from Saint Martins College, Olympia, Washington. In May of 1998, I completed an MBA degree with a focus in Accounting from Central Missouri State University, Warrensburg, Missouri. I am a Certified Public Accountant with a permit to practice in Missouri.

Q. Please describe your employment history.

A. In May of 1985, I was employed as a Facilities Maintenance Engineer by the United States Air Force. From March 1988 until May 1995, I was employed by the Army Corps of Engineers as a member of a construction management group. Subsequently, I began working with the engineering firm of Malsy & Associates, Lincoln, Missouri, as a Civil Engineer. On February 26, 1999, I began my current employment with the Commission.

Q. What is the nature of your duties while employed by this Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. With reference to Case Nos. WR-2006-0425 and SR-2006-0426, have you made an investigation of the books and records of Algonquin Water Resources (Algonquin) relating to the proposed rate increase?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. Have the water and sewer cases been combined?

A. Yes, these two cases have been consolidated by the Commission's Order Consolidating Cases issued May 23, 2006, with Case No. SR-2006-04256 being consolidated for all purposes into Case No. WR-2006-0425.

Q. Have you previously filed testimony before the Commission?

A. Yes. Schedule 1 attached to this direct testimony identifies the cases in which I have participated.

Q. What is the purpose of your direct testimony?

A. I will address the areas of plant in service, depreciation reserve, and contributions in aid of construction (CIAC) which comprise rate base. I will also address payroll expense and payroll-related benefits, depreciation expenses in the income statement.

Q. Are you sponsoring any adjustments?

A. Yes, I am sponsoring numerous adjustments in plant and reserve and others as indicated in Staff's EMS runs filed with my testimony.

Q. What knowledge, skills, experience, training, or education do you have in these subjects?

A. I have acquired knowledge of these topics through a combination of my previous employment experience and in cases before this Commission. I have reviewed the testimony, work papers, and orders from the previous Silverleaf Resorts, Inc. cases. I have reviewed the Company's testimony, work papers, and data request responses received in this case related to the above topics.

Q. Have you been involved in other Algonquin cases in the past?

A. Yes, I was involved in the transfer of assets case from Silverleaf to Algonquin, Case No. WO-2005-0206 (Consolidated). I also previously took part in the small company rate increase request submitted in 2000 and subsequently withdrawn by Silverleaf, as well as in Cases Nos. WC-2002-1040 and SC-2002-1039 that were initiated by the Staff as investigations of Silverleaf's earnings. In all instances, I performed audits of Silverleaf's utility books and records and assisted in developing the Staff Recommendation Memorandum. Specifically, I examined Silverleaf's investment in utility plant and determined that there are significant amounts of CIAC plant. I also reviewed the Well No. 2 project at Holiday Hills Resort and became aware of construction delays leading to cost overruns. I also became aware of excess water and sewer system capacity for serving existing customers on Silverleaf's, and now Algonquin's, system.

Q. What test year did Staff use in this case?

A. The test year in this case is the twelve months ending September 30, 2005, updated for known and measurable changes through September 30, 2006. Staff used this test year in the determination of all the revenue requirement calculations that are being presented to the Commission in Case No. WR-2006-0425. Some of the major revenue requirement components which are examined that typically change from test year levels are utility plant-in-service, accumulated depreciation, capital structure and cost of capital, customer growth revenues, payroll, and depreciation expense. Updates rely on changes that are known and measurable, which occur within a reasonable time after the close of the test year.

Q. What is the purpose of the test year and how is it used?

A. The test year is a 12-month period, which is used as the basis for the audit of any rate filing or earnings complaint case. This period serves as the starting point for review and analysis of the utility's operations to determine the reasonableness and appropriateness of the rate filing. The test year forms the basis for making any adjustments necessary to remove abnormalities that have occurred during the period, and for reflecting any increase or decrease to the accounts of the utility. Adjustments are made to the test year level of revenues, expenses and rate base to determine the proper level of investment on which the utility is allowed to earn a return. After the recommended rate of return is determined for the utility, a review of existing rates is made to determine if any additional revenues are necessary. If the utility's earnings are deficient, rates need to be increased. In some cases, existing rates generate earnings in excess of authorized levels, which may indicate the need for rate reductions. The test year is the time period that is used to evaluate and determine the proper relationship between revenue, expense and investment. This relationship is essential to determine the appropriate level of earnings for the utility.

The Commission has described the importance of the test year as follows:

> The test year is a central component in the ratemaking process. Rates are usually established based upon a historical test year which focuses on four factors: (1) the rate of return the utility has an opportunity to earn; (2) the rate base upon which a return may be earned; (3) the depreciation costs of plant and equipment; and (4) allowable operating expenses. From these four factors is calculated the 'revenue requirement,' which, in context of ratemaking, is the amount of revenue ratepayers must generate to pay the costs of producing the utility

> service they receive while yielding a reasonable rate of return to the utility's investors. A historical test year is used because the past expenses of a utility provide a basis for determining.

Q. Why is a test year update being utilized in this case?

A. The use of a test year update allows test year data to remain current through the update period for changes in material items that are known and measurable. Such items could include plant additions and retirements, payroll increases and changes in employee levels, customer growth, changes in fuel prices, etc. Test year amounts are adjusted to enable the parties to make rate recommendations on the basis of the most recent auditable information available.

EXECUTIVE SUMMARY

Q. Please summarize your testimony.

A. My testimony includes all major rate base items of plant in service, depreciation reserve, contributions in aid of construction. In particular I sponsor adjustments to remove construction cost overruns incurred at Holiday Hills Resort for the well no. 2 project; adjustments to reclassify excess water plant capacity to plant held for future use. On the income statement I principally address Staff annualized payroll expense.

PAYROLL EXPENSE

Q. Please describe Staff's annualization of payroll expense.

A. Staff believes that, all else being equal, it would be a detriment to the public interest to permit Algonquin to include in rates charged to customers a materially higher payroll expense than Silverleaf was charging prior to the transfer of assets effected in Case No. WO-2005-0206. Therefore, the level of payroll expense that Staff recommends

Algonquin be permitted to include in customers' rates is made with reference to Silverleaf's payroll expense just prior to the transfer of assets to Algonquin.

Q. Please describe the personnel that comprised Silverleaf's payroll prior to the transfer of assets.

A. Silverleaf maintained at its Missouri utility office a full-time office manager who divided her time between utility and non-utility matters. At a corporate office in the state of Texas, Silverleaf employed a utility manager to whom the Missouri utility office manager reported. It was my understanding that other similarly tasked office managers domiciled in other states where Silverleaf did business, also reported to the same utility manager in Texas. Additionally, Silverleaf had on its corporate Staff an engineer whose focus was the utility systems in all of the various states where Silverleaf did business.

Q. How were the payroll costs of these personnel charged to Silverleaf's Missouri utility customers?

A. Beginning with the 2000 small company rate increase request, Silverleaf personally represented to me that 50% of the Missouri utility office manager's time was spent on utility matters, with the other 50% being dedicated to other matters directly serving Silverleaf's resort business. Silverleaf and Staff developed an allocation percentage of the payroll costs for the Texas-based engineer and the utility manager. Additionally, Silverleaf requested that a portion of the Vice President for Resort Operations' compensation be allocated as a utility expense. Agreement was also reached on this percentage, however none of these agreements ended up affecting ratepayers, because no changes to Silverleaf's rates resulted from either the 2000 small company rate increase request, or the earnings investigation initiated by Staff in Case Nos. SC-2002-1039 and WC-2002-1040.

Q. What is the Staff's recommended payroll expense for Algonquin's Missouri properties?

A. Staff recommends including in rates charged to Algonquin's Missouri customers 100% of the payroll costs for a utility office manager and 50% of the payroll costs for a certified water and wastewater operator, and allowing the current allocation, on the basis of customer numbers, of non-Missouri domiciled operations personnel as proposed by Algonquin.

Additionally, to cover the administrative and general payroll and overhead costs incurred by corporate personnel, Staff recommends allowing the $3.75 per water bill and $3.25 per sewer bill fee provided for as of July 1, 2006, in the <u>AGREEMENT TO PROVIDE OPERATIONS AND MAINTENANCE SERVICES</u>, between Algonquin Water Services, and its Missouri affiliate. However, Staff is not finished conducting discovery on this item, as well as the 11% mark-up Algonquin has applied to all of its operations personnel salaries. Staff reserves the right to recommend disallowances of these costs in the progress of this case.

Staff recommends including the full costs of the contractor hired to operate the utility systems in Missouri.

Q. Why is Staff recommending that the portion of the utility office manager's salary charged to customers be increased to 100% under Algonquin's ownership and operation of the Missouri utility systems acquired from Silverleaf?

A. Now that the utility and the resorts on which they are located are no longer affiliated, Staff believes the task of managing customer accounts, of which Silverleaf represents the majority user in terms of gallons of water sold, has become more demanding of the office manager, in general. Additionally, given the facts that Timber Creek is both remote from the utility office and that Silverleaf is the only customer of the utility, led to a relatively lighter involvement of the office manager. Now, however, Algonquin will find it in its best interest to fully manage customer accounts at Timber Creek Resort.

Q. Why does Staff believe payroll expense should include 50% of an on-site certified operator's compensation?

A. When Silverleaf owned and operated both the resorts and the utility systems, communications with the resort, as largest customer, regarding utility service issues, took place in an informal way that is no longer feasible. Staff believes it is beneficial for Algonquin to have an on-site personnel to act as a point of contact for utility operations related communications with the resort. Since Algonquin, like Silverleaf before it, has opted to fully contract out its actual utility operations, Staff believes that only 50% of an-onsite representative for Algonquin on operational matters can be justified. Such a position is effectively a "pair of eyes" for Algonquin, to interface with resort representatives on occasional operational matters and can serve as an overseer of the actual contract operator, Construction Management Specialists. The other 50% of this personnel's time can very well be dedicated to oversight of operational matters at Algonquin's other properties located in other states.

Q. How does Staff's recommendation of payroll expense compare to Silverleaf's payroll costs?

A. Staff's recommendation in this case for payroll costs are higher than those costs were for Silverleaf.

Q. How does Staff's recommendation of payroll expense compare with Algonquin's assessment of what was necessary, made at the time it took over ownership and management from Silverleaf?

A. The Staff's recommendation would provide for a greater staffing level, and more payroll costs than Algonquin Water Services envisioned to be necessary on the August 15, 2005, effective date of ownership transfer, as shown in the AGREEMENT TO PROVIDE OPERATIONS AND MAINTENANCE SERVICES.

RATE BASE

Q. Please summarize the history of Algonquin's ownership of its Missouri regulated water and sewer systems.

A. In its Order Approving Sale of Assets, effective August 14, 2005, the Commission granted Algonquin a certificate of convenience and necessity to operate the water and sewer systems for which Silverleaf had been issued a certificate and was providing water and sewer services. Once the transfer of assets from Silverleaf to Algonquin was complete, as authorized by sale Case No. WO-2005-0206 (consolidated with SO-2005-0207); the Commission cancelled the certificates that Silverleaf at the time held. The sale between Algonquin and Silverleaf closed on August 15, 2006. Algonquin has been operating these water and sewer systems since that time. After the sale of the utility properties to Algonquin, Silverleaf continues to own and operate the three individual resorts in Missouri. Silverleaf also operates resorts in other states where Algonquin purchased the utility services when it acquired the Missouri properties.

Q. Please describe briefly where Algonquin's Missouri water and sewer properties are physically located.

A. Algonquin operates utility systems at 1) Timber Creek Resort (Timber Creek), near De Soto, Missouri about 30 miles south of St. Louis, 2) Ozark Mountain Resort (Ozark Mountain), in Kimberling City, Missouri, about 20 miles west and south of Branson, and 3) Holiday Hills Resort (Holiday Hills), just outside of Branson. All of these systems are located on properties otherwise owned by Silverleaf. Algonquin, just as Silverleaf before it, provides water and sewer service to Timber Creek and Ozark Mountain and water services to Holiday Hills.

Q. How did Staff update rate base as of September 30, 2006, as ordered by the Commission in current Case No. WR-2006-0425 for each of three utility properties operated by Algonquin?

A. Staff obtained evidence from Algonquin, in the form of invoices of any additions to plant made since the Staff's December 31, 2004, update performed in the sale transfer case, Case WO-2005-0206. Staff has reviewed the costs of plant additions and depreciation reserve over the span of several rate cases since the mid-1990s and examined numerous documents provided by Silverleaf and Algonquin to determine the appropriate values of the plant investment at these three utility properties. I have personally been involved in the 2000 small company rate increase request, and Case Nos. SC-2002-1039 and WC-2002-1040, as well as the sale case (WO-2005-0206), and have followed a consistent approach to reviewing documentation identifying plant costs for each of the three utility properties previously operated by Silverleaf, and now by Algonquin. Staff made its own independent assessment as to how any such additions should be classified, and also updated each plant account's depreciation reserve by applying Commission depreciation rates to beginning of year plant balances, over the period of time since the last Staff update in Case No. WO-2005-0206.

Q. What documents have you examined in these cases relating to plant in service and depreciation reserve for these three utility properties?

A. Staff examined and reviewed purchased orders, invoices, construction estimates and budgets, contracts, letters concerning construction activities, and other related documents that identify the actual costs for the plant in service amounts included in rate base.

Q. What is the basis for the Staff review and evaluation of plant in service?

A. Staff relied on actual costs of the construction of the plant-in-service amounts. Staff employed the concept of "original costs".

Q. What is original cost?

A. The term "original cost," as defined by the Uniform System of Accounts for Class C Water Utilities (USOA), is as follows: "original cost, as applied to utility plant, means the cost of such property to the person first devoting it to public service."

Depreciation and amortization of the utility property from the previous owner must be deducted from the original cost, which results in a net original cost amount to be recorded on the purchaser's books and records. The acquired property is valued at the same value the seller placed on it, hence the concept of "original cost when first devoted to public service," adjusted for depreciation and amortization.

Q. Is use of net original cost for valuing rate base still the predominant form of regulation?

A. Yes. In the state of Missouri, the use of original cost less depreciation and amortization, *i.e.*, net original cost, to set rates is not only the predominant form of regulation, but to my knowledge, the only form that has ever been employed by this Commission.

Q. How did you develop the Staff' position on Algonquin's investment in rate base at this location?

A. Staff considers plant in service to be valued at the original cost paid when first placed in service and rate base to transfer unchanged from Silverleaf to Algonquin, regardless of purchase price. Therefore, it is necessary to first describe how Staff determined the value of utility rate base under previous ownership by Silverleaf.

Q. How did you determine rate base value of the utility systems under Silverleaf ownership, prior to transfer to Algonquin?

A. The Staff Recommendation filed with the Commission in the 2005 acquisition, Case No. WO-2005-0206, included a presentation of Staff's assessment of rate base for Timber Creek Resort (Timber Creek), Ozark Mountain and Holiday Hills as of December 31, 2004. As part of the work done to arrive at the Staff's recommendations in that case, I attended a Silverleaf-led plant tour of Timber Creek and performed discovery on the history of Silverleaf's investment in utility assets at the resort. In particular, Staff's position relies on information provided in the response to Data Request 12 and supplemental responses to Data Requests 12.1, 12.3, 12.4, and 12.5 issued in sale Case WO-2005-0206. Silverleaf informed Staff that it acquired the property, which it renamed Timber Creek Resort, in 1997 and set out to develop the infrastructure of the location, including water and sewer utilities, in preparation for constructing and operating recreational and vacation facilities and lodgings. Silverleaf was at the time, and currently still is, primarily in the business of developing and operating timeshare resort properties.

Q. Did Staff's evaluation of the three utility properties' plant costs through December 31, 2004, rely upon work that the Staff performed in prior cases?

A. Yes. The plant costs analysis conducted in Case No. WO-2005-0206 used previous audit work in prior cases dating back to the certificate cases for each utility property.

Q. Please explain your Schedules GAV-2A, GAV-2B, GAV-2C, GAV-2D, and GAV-2E, showing Staff's adjustments to plant in service, for Holiday Hills, Ozark Mountain (water), Ozark Mountain (sewer), Timber Creek (water), Timber Creek (sewer).

A. These schedules detail the step-wise fashion Staff used for arriving at it final result. Step 1 of each schedule shows the adjustment process for converting the company's test year plant balances to the Staff's test year balances. This represents any existing unaccounted for differences between Staff and company. This now makes it possible to identify further adjustments for explainable differences between Staff and company. Staff has in the past conveyed to Silverleaf the existence of this unaccounted for differences, without receiving any response from Silverleaf. Step 2 of the adjustment updates plant for known and measurable changes through September 30, 2006. Step 3 of the adjustment process shows the effect of Staff's recommended disallowance for construction cost overruns at Holiday Hills as described at length in my testimony below. Step 4 of the adjustment process shows the effect of Staff reclassification of excess plant capacity discussed in Staff witness James A. Merciel's testimony filed in this case. Steps 1 and 2 of the adjustment process were necessary on each schedule, GAV-2A through GAV-2E. Steps 3 and 4 only applied to the systems to which the relevant adjustments were applicable, as explained below in testimony, and in Mr. Merciel's testimony.

Q. Please explain Schedule GAV-2F of your testimony.

A. This schedule shows the one-step process of adjusting Staff's test year plant reserve balances to reflect updates through September 30, 2006. Staff's test year reserve was used as such information for the company could not be gleaned from the company's records.

Q. Please describe your Schedules GAV-3A, through GAV-3E attached to your testimony.

A. These schedules show plant in service and depreciation reserve computed by Staff for each account at Holiday Hills, Ozark Mountain (water), Ozark Mountain (sewer), Timber Creek (water), and Timber Creek (sewer), respectively, for the period January 1, 2004, through the update period of this case, September 30, 2006. These are provided as an illustration of the ongoing, methodical, approach Staff has always taken in tracking the company's (and its predecessor's) investment in plant at each of its utility systems.

Q. Please describe your schedules GAV-3F and GAV-3G.

A. Schedule GAV-3F contains Staff's computation of the balance of contributions in aid of construction (CIAC) for each of Algonquin's systems; Schedule GAV-3G shows details of the process Staff employed to compute the value of the booster station at Holiday Hills Resort, which is a project whose costs are required by tariff to be contributed at no cost to Algonquin.

CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

Q. Please describe this issue.

A. Silverleaf's tariffs require a customer to pay for the actual cost of extending water distribution mains and sewer collection mains as needed to provide service to that customer. This immediate financial contribution from the customer helps alleviate the burden on the utility of having to finance this cost itself. Therefore, unlike the rest of the utility plant in service, these water and sewer mains financed by customer contributions are not an investment that the utility has made and do not increase the utility's rate base. Under the provisions of Silverleaf's tariffs, this treatment applies to all of Silverleaf's utility customers and, notably, also applies to developers.

Q. What are contributions in aid of construction (CIAC)?

A. The USOA defines CIAC in item 6 of the Accounting Instructions as follows:

> Utility Plant – Contributions in Aid of Construction
>
> A. Nonrefundable contributions of cash or plant facilities donated to the water utility to assist it in constructing, extending or relocating its water facilities shall be credited to account 271 – Contributions in Aid of Construction.
>
> B. Balances in this account representing contributions of depreciable plant shall be amortized using the contra account 272 – Accumulated Amortization of Contributions in Aid of Construction. The corresponding credit shall be to account 403 – Depreciation Expenses.
>
> C. The balance in this account representing contributions of non-depreciable plant shall remain unchanged until such time as the property is sold or otherwise retired. At the time of retirement of non-depreciable contributed plant, its cost shall be credited to the appropriate plant account and charged to account 271.

Account 271 – Contributions in Aid of Construction – states:

> A. This account shall include:
>
> 1. Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility service to the public.

> 2. Amounts transferred from Account 252 – Advances for Construction, representing un-refunded balances of expired contracts or discounts resulting from termination of contracts in accordance with the Commission's rules and regulations.
>
> 3. Compensation received from governmental agencies and others for relocation of water mains or other plants.
>
> 4. Any amount of money received by a utility, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility and which is utilized to offset the federal, state or local income tax effect of taxable contributions in aid of construction, taxable amounts transferred from Account 252 – Advances for Contribution, and taxable compensation received from governmental agencies and others for relocation of water mains or other plants shall be reflected in a sub-account of this account.
>
> B. The credits to this account shall not be transferred to any other account without the approval of the Commission.
>
> C. The records supporting the entries to this account shall be so kept that the utility can furnish information as to the purpose of each donation, the conditions, if any, upon which it was made, the amount of donations from (a) states, (b) municipalities, (c) customers, and (d) others, and the amount applicable to each utility department.

Silverleaf's tariffs required the Company to identify CIAC amounts received from customers and developers, and the USOA requires that the record-keeping be maintained for CIAC on a very detailed basis.

Q. Who are Algonquin's utility customers?

A. Silverleaf is the main customer of Algonquin. However, when Silverleaf owned the utility prior to Algonquin, in virtually all instances the customer requiring a main line to be extended in order to be able to receive utility service was Silverleaf itself, acting as a developer of its own resort properties. In some cases the facilities built by Silverleaf, the developer, were then sold to members of the general public who from then on became the customers being billed for utility service. Even so, Silverleaf, the developer, would still have been responsible for paying for the construction of the subject main extensions. Despite the fact that Silverleaf, the developer, was required to pay for the main water and sewer lines, this did not increase the investment base of Silverleaf, the utility company. This interpretation has met with some resistance from Silverleaf in the past, but it remains the Staff's position, as it is consistent with the treatment accorded all other developers under the provisions of Silverleaf's tariffs.

Q. Does Algonquin have a tariff for CIAC?

A. Yes. Silverleaf's water tariffs, which were canceled and adopted by Algonquin as a result of Case No. WO-2005-0206, provides as follows:

> Rule 14 <u>EXTENSION OF WATER MAINS</u>
>
> (a) This rule shall govern the extension of mains by the company within its certified area where there are no water mains.
>
> (b) Upon receipt of written application for a main extension, the company will provide the applicants an itemized estimate of the cost of the proposed extension. Said estimate shall include the cost of all labor and materials required, including valves, fire hydrants, booster stations, storage facilities, reconstruction of existing mains (if necessary), and the direct costs associated with supervision, engineering, permits, and bookkeeping. Applicable income tax cost will be added to this estimate calculated at the maximum rate.
>
> (c) Applicant shall enter into a contract with the company for the installation of said extension and shall tender to the company a contribution in aid of construction equal to the amount determined in paragraph (b) above, plus any applicable customer connection fee. The contract may allow the customer to contract with an independent contractor for the installation and supply of material, except that mains of 12" or greater diameter must be installed by the company, and the reconstruction of existing facilities must be done by the company.
>
> (d) Extensions made under this rule shall be made and remain the property of the company.

Q. Please present the relevant portions of the tariffs governing the provision of sewer service, previously by Silverleaf, then canceled and adopted by Algonquin without change as a result of Case No. WO-2005-0206.

Rule 11 EXTENSION OF COLLECTING SEWERS

A. Collecting sewers will be extended within the company's certificated service area, at the applicant's cost (sometimes referred to in this rule as the "original applicant"), if service is required by the applicant at a location where facilities do not exist. The applicant shall enter into a contract with the company. The applicant may choose to have the company perform all work under the terms and conditions of Paragraph C, following, or have a private contractor perform the work under the terms and conditions of Paragraph D, following. For purposes of this rule, an extension could include, in addition to a collecting sewer, one or more pump station or treatment plant facilities, as necessary to provide service.

…

C. The company will extend collecting sewers for the applicant under the following terms and conditions:

(1) Upon receipt of written application for service as provided in Rule 4, Applications for Service, the company will provide the applicant an itemized estimate of the cost of the proposed extension. Said estimate shall include the cost of all labor and materials required, including reconstruction of existing facilities if necessary, and the direct costs associated with supervision, engineering, permits, and bookkeeping. Applicable income tax calculated at the maximum rate will be added to this estimate.

(2) The applicant shall enter into a contract with the company for the installation of said extension and shall tender to the company a contribution-in-aid-of-construction equal to the amount determined in Paragraph C (1) above, plus any appropriate fees as provided in the Schedule of Rates or the Schedule of Service Charges.

D. When the applicant elects to construct an extension, the company will connect said extension to its existing collecting sewers under the following terms and conditions:

…

(3) Applicant shall enter into a contract with the company which provides that the applicant construct said collecting sewers and/or other facilities to meet the requirements of all governmental agencies and the company's rules. Plans for the extension shall be submitted to the company for approval prior to construction. Applicant's choice of construction contractor is subject to approval by the company. Applicant shall contribute said facilities to the company with a detailed accounting of the actual cost of construction, contribute

> to the company an amount equal to the company's estimated income tax cost calculated at the maximum rate, and contribute to the company the estimated cost of the company's inspection.

Q. Did Silverleaf recognize CIAC plant when it owned these utility properties?

A. Yes. In its PSC Annual Report submitted to the Commission, Silverleaf identified an amount of plant costs as CIAC. However, when Algonquin submitted its 2005 PSC Annual Report earlier this year, the Company did not identify any plant costs as CIAC. Algonquin simply did not recognize the plant costs that Silverleaf classified as CIAC.

Q. How is CIAC identified?

A. Plant costs that are contributed by developers and customers are typically identified at the time of the actual construction of the development property. It is nearly impossible to ascertain the nature of the development costs after-the-fact as time passes, so it is critically important to maintain good records during the development phase of a project, so actual costs can be segregated between legitimate utility plant costs, which would be included as part of utility plant in service, and those costs that should be classified as CIAC plant.

Q. What are developer costs?

A. These costs are those that the developer must incur to sell or otherwise market the development. For lots for housing, developers typically make improvements for sidewalks, roads and curbing as well as utility services. In the case of Silverleaf, the developers invested in the development the condominiums and time shares, which required the same type of utility infrastructure as residential lots. New developments that are not fully built out may not result in the sale of all lots, so utilities will require monies to be provided to fund the utility infrastructure. Since the utility has not provided the investment dollars to fund these developments, the costs relating to the infrastructure are not included in the utilities' rate base investment. No investment is made by the utility so it is not allowed to earn a return on the developer's investment dollars.

Q. How are developer costs recovered?

A. These costs are reflected in the price of the sale of the lots or condominiums and residential housing units. The developer will price the real estate being sold, considering all the costs of the development including the upgrades and improvements for sidewalks, roads and curbing and the utility infrastructure.

Timber Creek Resort

Q. In your assessment, what plant-in-service items made up Silverleaf's investment in rate base at the time of asset transfer to Algonquin?

A. As a result of discovery performed in sale Case WO-2005-0206, I concluded that water and sewer rate base consisted virtually only of the cost of the projects to install the water plant (Silverleaf Project No. 3010), and the sewer treatment plant (Silverleaf Project No. 3009). According to the response to Data Request 12, cited above, both of these projects were completed and placed in service in 2001.

Q. Did Silverleaf incur any other known costs for utility plant in service at Timber Creek that you are specifically not including in your calculation of rate base transferred to Algonquin?

A. Yes. Silverleaf, in its capacity of resort developer, as opposed to public utility company, did incur such costs. As part of the process of developing the resort to support operation of its timeshare vacation lodgings and other amenities, Silverleaf incurred all costs to plan, design, and install water distribution lines and sewer collector lines to each new developed area to be served. The tariffs issued by the Commission to regulate the provision of service by Silverleaf, in its capacity of public utility company, provided for water distribution lines and sewer collector lines to be charged to the developer necessitating the installation of such lines. If a developer applies for an extension to a water or sewer line, the tariffs permit the option of either a) the utility company performing the work, after being paid to do so by the developer, or b) having the developer perform the work directly after coordination with the utility company. In both cases the plant installed becomes utility property contributed by the developer, at no expense to the utility company. This property is called contributions in aid of construction (CIAC).

Q. Please clarify the distinction Staff is drawing between Silverleaf, when previously serving as a public utility company regulated by the Commission, and Silverleaf, when it was instead acting as a resort developer and operator competing in the free market.

A. Silverleaf was the first holder of a certificate of necessity and convenience (Certificate) issued by the Commission for providing water and sewer service at Timber Creek Resort. Silverleaf made investments in utility plant in order to be able to provide service to the vacation and recreational facilities it was planning to build and operate on location. In order for the Commission to be able to regulate Silverleaf's utility rates it has been necessary to distinguish between the activities, investments, revenues, and expenses of Silverleaf, when acting as developer as opposed to when it was acting as a public utility company. From the time Silverleaf, as a public utility, was issued a Certificate at Timber Creek, until the effective date of transfer under sale Case WO-2005-0206, Silverleaf, as resort developer and operator, was the only water and sewer customer. Since the effective date of the aforementioned transfer, Silverleaf, now exclusively a resort developer and operator, has been the only water and sewer customer of Algonquin at Timber Creek Resort. Silverleaf continues to be the owner of all three resorts wherein Algonquin now owns and operates the Commission-regulated water and sewer systems. Since Silverleaf and Algonquin are not related companies, the separation between resort developer/operator and water/sewer utility since the date of asset transfer is now a matter of fact.

Q. Was it, however, equally important to draw the distinction, as stated above, between resort and utility activities, during the period that Silverleaf owned both the resort and the utilities?

A. Yes, particularly at the other two Missouri resorts owned by Silverleaf; but also at Timber Creek.

Q. Please explain.

A. Since receiving a Certificate to provide utility service at Holiday Hills and Ozark Mountain, until the transfer to Algonquin, Silverleaf's utility customers included both its own facilities and the facilities of unrelated private parties. At these locations it was part of the Staff's responsibilities to ensure that water and sewer service provided in affiliated transactions between the utility and the resort were not carried out so as to be detrimental to non-affiliated customers. This would have taken place, for example, if the cost of plant properly required under tariff to be contributed by the developer were instead included in the utility's investment in rate base. Under these conditions, a portion of the utility charges that should have been absorbed by the developer (Silverleaf) would instead have been billed to non-affiliated customers.

Q. How did this concern apply at Timber Creek, where Silverleaf did not have non-affiliated customers?

A. For one thing, the possibility always existed that Silverleaf might at some point construct and sell and transfer ownership of condominium units, for example, thus creating non-affiliated utility customers that would be billed for service as it exists at Silverleaf's other two Missouri resorts. In fact, nothing prevents Silverleaf, currently or in the future, as owner of Timber Creek, from doing so. Additionally, if an eventual sale of the utilities took place, as in fact occurred, it would be necessary to know the value of rate base to Silverleaf, in order to ascertain whether or not the acquisition took place at a premium. This Commission has never agreed to include an acquisition premium in rate base. As the value of rate base does not change merely because of change of ownership, in order to treat customers fairly after the sale of the utilities to Algonquin, it was necessary to know what its value was, in Silverleaf's hands, at the time of the sale case.

Q. Are you aware of any other utility assets in service at Timber Creek, not already accounted for above, that are not included in Staff's calculation of rate base, whether prior to or after the sale to Algonquin?

A. Yes. During the discovery conducted in sale Case WO-2005-0206, Staff issued Data Request 12, in which Item 2 asked Silverleaf to "Prepare for PSC staff review at the Holiday Hills resort utility office the following information regarding plant expenditures at Timber Creek: a) An itemized description of all water and sewer plant assets acquired from any previous owner, along with cost and date when originally placed in service by the previous owner, as well as the price paid by Silverleaf." Silverleaf replied as follows:

> Silverleaf Resorts, Inc. acquired the existing water well and distribution system, as well as a small wastewater treatment facility, at Jefferson Resort in 1997 [re-named Timber Creek Resort by Silverleaf]. The water system included a well and pump, capable of delivering 140 gpm along with a distribution system consisting of 6" and 4" mains with service lines to existing campsites and ancillary buildings. The water

> system also included a standpipe. It is estimated the water distribution system was constructed around 1983. The well continues to remain in service, along with many of the distribution lines to campsites, although the existing standpipe was removed and replaced by a new water treatment facility and storage tank in 2001.
>
> The wastewater treatment plant consisted of a small (20' X 18') tank and clarifier. This plant was taken out of service in lieu of a new wastewater treatment facility. The tank was re-used as an equalization basin for the new plant. Currently, the wastewater is pumped into this basin directly from the sewer system.
>
> The original construction costs associated with the water and sewer facilities at Jefferson Resort are unknown. There are no costs reflected on the utilities books as a result of the acquisition of the *Jefferson Resort from Thousand Trails, Inc*.[emphasis added]

Q. Have you attempted to include any costs in rate base, in order to reflect the utility plant acquired at Timber Creek for which Silverleaf had no cost records?

A. No. Without any cost records the Staff recommends against including any investment in rate base for such plant.

Q. How did Staff update rate base as of September 30, 2006, as ordered by the Commission in current Case No. WR-2006-0425?

A. Staff obtained invoices of any additions to plant that were made since the Staff's December 31, 2004, update. Staff had reviewed the costs of plant additions and depreciation reserve over the span of several rate cases since the early 1990s. I have personally been involved in two of these rate cases and the sale case and have followed a consistent approach to reviewing the documentation that identifies plant costs for each of the three utility properties operated by Silverleaf, and now Algonquin. Staff made its own independent assessment as to how any such additions should be classified, and also updated each plant account's depreciation reserve by applying Commission-prescribed rates to beginning-of-year plant balances, over the period of time since the last Staff update in Case No. WO-2005-0206.

Q. Please summarize how the Staff's position on rate base at Timber Creek was determined in Case No. WR-2006-0206.

A. Rate base has been calculated beginning with the original cost of plant, when first put into operation providing utility service. Silverleaf was not able to provide cost evidence for the water and sewer systems on site when it acquired Timber Creek, therefore any such plant remaining in service has not been assigned any rate base value. Staff reviewed the investment Silverleaf made in utility plant after it acquired Timber Creek, through December 31, 2004, and updated depreciation reserve at Commission rates. Staff then reviewed any plant activity by Silverleaf and/or Algonquin after December 31, 2004, updating plant in service and depreciation reserve balances accordingly through September 30, 2006. Staff has followed the requirements of the tariffs in determining what plant was required to be contributed by the developer, assigning zero rate base value to such plant, and ensuring in its calculations that rate base under Silverleaf's ownership was transferred unchanged to Algonquin, irrespective of the price Algonquin may have paid for the underlying plant assets.

Ozark Mountain Resort

Certificate Case --- Case No. WA-94-246

Q. How did you develop the Staff's position on Algonquin's investment in rate base at this location?

A. On July 1, 1994, the Commission issued its Order Granting Certificate (Order) in Case No. WA-94-246, authorizing Ascension Resorts, Ltd. (later re-named Silverleaf Resorts, Inc.) at Ozark Mountain Resort to provide public water and sewer service at specified rates. Selecting 1993 as the test year, the Staff had made its first assessment of rate base and cost of service at Ozark Mountain in the work required to support its recommendations cited in the Order. The Commission's Order and the Staff's Memorandum including such recommendations, as well as correspondence and work papers showing the Staff's work, are all preserved for the record. Staff has relied on this starting-point rate base from 1993 and continued the review of the plant investment in each successive rate cases, including in the sale case in 2005, and concluding with this case, Case No. WR-2006-0425.

<u>1997 Small Company Rate Increase Request</u>

Q. What was the next time that Staff made an audited assessment of rate base at Ozark Mountain?

A. Staff records indicate that in April 1997 Silverleaf submitted a request, under the Commission's small water and sewer case process, to increase rates at Ozark Mountain (and Holiday Hills Resort). In the resulting small company rate increase request, the Staff used 1997 for the test year. Staff's audit memorandum and work papers produced in that case acknowledged that utility plant had been in service at these two resorts as far back as 1984 and indicate that the Staff made a thorough review of Silverleaf's investment in utility plant. A prominent feature of the Staff's position was a determination that a majority of plant in service at Ozark Mountain (as well as Holiday Hills) should be classified as contributed under the provisions of the tariffs. Ultimately, the Staff recommended a rate increase based on its assessment of rate base and operating costs at both of these resorts.

2000 Small Company Rate Increase Request

Q. Please proceed by describing the next time the Staff evaluated rate base at Ozark Mountain.

A. Staff records indicate that in August 2000 Silverleaf submitted a request, again under the Commission's small water and sewer case process, to increase rates at Ozark Mountain (and Holiday Hills). In the resulting case, I participated in the audit of Silverleaf's utility books and records for both Ozark Mountain and Holiday Hills, based on a test year ending October 31, 2000.

Q. In that audit, how did you determine the rate base as of October 31, 2000?

A. Using the December 31, 1997, plant account balances determined in the previous case, I updated such balances to reflect any plant additions through October 31, 2000, for which Silverleaf provided sufficient evidence. In deciding which accounts the plant additions should be classified to, contributed plant balances were also updated by continuing the previously adopted tariff-based approach. I also updated depreciation reserve by applying rates prescribed by the Commission in the previous case to each year's beginning plant balance.

Q. Is it typical for Staff to actually make its own independent update of plant and reserve in this manner, without relying on the utility's own account balances?

A. Yes, it is, when performing an audit in an informal case such as those previously submitted by Silverleaf. Water and sewer utilities, owing to their size and to the fact that they typically exist only to support the parent company's development business, often don't make it a priority to become entirely proficient in regulatory accounting. To save such firms the relatively significant expense of preparing and filing a formal rate increase request, the small company rate increase process places upon Staff auditors the requirement for preparing more independent calculations, and placing less reliance on company account balances, than is the case in formal filings by typically larger utility companies. Staff will determine plant investment amounts from invoices, billings, contracts, letters concerning construction activities and any other piece of information documentation that provide reliable evidence to substantiate the costs of utility property.

<u>Case Nos. SC-2002-1039 and WC-2002-1040</u>

Q. Was there another later case that required Staff to update rate base at Ozark Mountain?

A. Yes, in Cases Nos. WC-2002-1040 and SC-2002-1039 the Staff initiated an investigation of Silverleaf's water and sewer earnings. As a result, I participated in the audit of Silverleaf's utility books and records using a test year ending September 30, 2002. Beginning with the plant account balances I had previously established at October 31, 2000, I updated plant for any documented additions made through September 30, 2002. Likewise, I update the Staff's previously determined depreciation reserve balances by applying to beginning-of-the-year plant balances the Commission-prescribed rates, through September 30, 2002. Little activity in the way of plant additions was noted at Ozark Mountain during this period. Overall, the Staff's findings in this investigation did not indicate a condition of over-earnings at Silverleaf's service areas, and the Commission ended this proceeding by Order dated November 20, 2003, closing Case Nos. WO-2002-1040 and SO-2002-1039.

<u>Case No. WO-2005-0206</u>

Q. Did Staff perform a rate base update in sale Case No. WO-2005-0206, in which the Commission authorized the transfer of utility assets from Silverleaf to Algonquin?

A. Yes, it did. In sale Case No. WO-2005-0206 the Staff Recommendation submitted with the Commission contained an update, as of December 31, 2004, of rate base at Silverleaf's Missouri resorts. This was done to support Staff's opinion, based on the portion of the purchase price assigned to Silverleaf's Missouri utilities, that Algonquin would be acquiring these utility systems at a premium. Staff produced this update to rate base in the usual way by starting with previously determined plant account balances at September 30, 2002, and including any plant additions that Silverleaf could document.

Case No. WR-2006-0425

Q. Finally, please describe how you prepared Staff's update of rate base at Ozark Mountain, through the required September 30, 2006, date in this current Case No. WR-2006-0425.

A. I requested Algonquin provide general ledger data for the twelve months of the test year, as well as through the September 30, 2006, update ordered by the Commission. Staff compared the plant balances in Silverleaf's general ledger that were closest to the August 2005 transfer date. Staff also requested from Algonquin invoices supporting any additions to plant made throughout this period either by Silverleaf, before the transfer of property, or by Algonquin since it acquired the property. With this information it was possible to update the Staff's calculation of rate base from the plant and reserve balances determined by Staff as of December 31, 2004, in sale Case No. WO-2005-0206, to the current September 30, 2006 update period.

Q. Please summarize Staff's approach to determining Algonquin's September 30, 2006, investment in rate base at Ozark Mountain.

A. Rate base has been calculated beginning with the original cost of plant paid when first put into operation providing utility service. Staff reviewed any additional investment made in utility plant, first by Silverleaf and later by Algonquin, and updated depreciation reserve computed at Commission-prescribed rates. Staff has followed the requirements of the tariffs in determining what plant was required to be contributed by the developer, assigning zero rate base value to such plant, and ensuring that rate base under Silverleaf's ownership was transferred at unchanged value to Algonquin, irrespective of the price Algonquin may have paid for the underlying plant assets.

Holiday Hills Resort

Case No. WA-94-60

Q. How did you develop the Staff's position on Algonquin's investment in rate base at this location?

A. On January 26, 1994, the Commission issued its Order Approving Certificate of Convenience and Necessity (Order) in Case No. WA-94-60, authorizing Ascension Resorts, Ltd. (later renamed Silverleaf Resorts, Inc.) at Holiday Hills Resort (Holiday Hills) to provide public water and sewer service at specified rates. With 1993 selected as the test year, the Staff had made its first assessment of rate base and cost of service at Holiday Hills in the work required to support its recommendations cited in the Order. The Commission's Order and the Staff's Memorandum including such recommendations, as well as correspondence internal to the Staff and external with Ascension Resorts, are all preserved for the record.

<u>1997 Small Company Rate Increase Request</u>

Q. What was the next time that Staff made an audited assessment of rate base at Holiday Hills?

A. Staff records indicate that in April 1997 Silverleaf submitted a request, under the Commission's water and sewer small company rate increase process, to increase rates at Holiday Hills (and Ozark Mountain Resort). In the resulting small case the Staff used 1997 for the test year. Staff's audit memorandum and work papers produced in that small case acknowledged that utility plant had been in service at these two resorts as far back as 1984, and they indicate Staff made a thorough review of Silverleaf's investment in utility plant. A prominent feature of the Staff's position was a determination that a majority of plant in service at Holiday Hills (as well as Ozark Mountain Resort) should be classified as contributed, in accordance with tariff requirements. Ultimately, the Staff recommended a rate increase based on its assessment of rate base and operating costs at both of these resorts.

<u>2000 Small Company Rate Increase Request</u>

Q. Please proceed by describing the next time the Staff evaluated rate base at Holiday Hills.

A. Staff records indicate that in August 2000 Silverleaf submitted a request, under the Commission's small water and sewer case process, to increase rates at Holiday Hills (and Ozark Mountain Resort). In the resulting small case, I participated in the audit of Silverleaf's utility books and records based on a test year ending October 31, 2000.

Q. In that audit, how did you determine the rate base as of October 31, 2000?

A. Using the December 31, 1997, plant account balances determined in the previous small case, I updated such balances to reflect any plant additions through

October 31, 2000, for which Silverleaf provided sufficient evidence. In deciding which accounts the plant additions should be classified to, contributed plant balances were also updated by continuing the previously adopted tariff-based approach. I also updated depreciation reserve by applying rates prescribed by the Commission in the previous case to each year's beginning plant balance.

<u>Case Nos. SC-2002-1039 and WC-2002-1040</u>

Q. Was there another later case that required Staff to update rate base at Holiday Hills?

A. Yes, in Cases Nos. WC-2002-1040 and SC-2002-1039 the Staff initiated an investigation of Silverleaf's water and sewer earnings. As a result, I participated in the audit of Silverleaf's utility books and records using a test year ending September 30, 2002. Beginning with the plant account balances I had previously established at October 31, 2000, I updated plant for any documented additions made through September 30, 2002. Likewise, I updated the Staff's previously determined depreciation reserve balances by applying to beginning-of-the-year plant balances the Commission-prescribed rates, through September 30, 2002. Overall, the Staff's findings in this investigation did not indicate a condition of over-earnings at Silverleaf's service areas, and the Commission ended this proceeding by Orders dated November 20, 2003, closing Cases Nos. WO-2002-1040 and SO-2002-1039. However, unlike at Ozark Mountain, I became aware of substantial plant activity having taken place at Holiday Hills.

Q. Please describe the plant activity that had taken place since your previous audit of Holiday Hills.

A. Previously, the regulated water system at Holiday Hills utilized only one well. Records indicate that the resort had installed a second well in 1996, but its sole function had been for irrigation purposes. Under this arrangement, this well was used to provide untreated ground water for the resort's nearby golf course and was not in any way connected to the regulated water system. In July of 2002, Silverleaf completed a project to connect this second well to the regulated water system, while maintaining much of the well's production of water for irrigation purposes. Other than piping revisions to split the well's output between irrigation and public water supply, the other main features of the project included adding an above ground storage tank, a chlorination system, and a pump house with pressure tank. In relation to the scope of the regulated water system at Holiday Hills, this was a major investment in utility plant.

Q. What facts came to your attention that led you to recommend disallowing a portion of the costs of this project?

A. The construction project that added a second well (No. 2) to the water supply system at Holiday Hills experienced an abnormal amount of construction stoppages that led to material growth in the contract costs. Staff believes that Silverleaf's expenditures on the project were not a fair reflection of the necessary and prudent cost of the work received; therefore it would not be reasonable to record the project at actual cost in Silverleaf's (now Algonquin's) utility accounts. The Staff recommends writing off the unnecessary costs and recording the project at the cost that the available evidence indicates Silverleaf would have incurred absent the avoidable delays.

Q. Please describe these delays.

A. Silverleaf's response to Data Request 29 in Case No. WO-2002-1040 stated that after Silverleaf awarded the construction contract for the work in question to Larry Snyder & Company (LSC) on December 18, 1998, it then issued a work stoppage order on March 17, 1999. At this time Silverleaf apparently realized that the project, as designed, was not coordinated with other plans to develop the resort (Holiday Hills). My Schedule GAV-4 includes a copy of the project file document by an unnamed Silverleaf employee in which it is stated that "the whole site is moving". From that point on, the following is a list of key events that show how these coordination difficulties affected the progress of the Well No. 2 project:

- **January 14, 2000:** Silverleaf's engineer (Wasteline Engineering Inc.) issues a request to Larry Snyder Company to provide a cost impact of revising the work to be done, and expressing the desire to have another preconstruction conference (Schedule GAV-5)

- **May 8, 2000:** Notice to re-start work on the Well No. 2 project is issued to Larry Snyder Company (Schedule GAV-6).

- **June 21, 2000:** Letter from Mike Saunders, P.E., of Wasteline Engineering, Inc. to Michael Brown, of Silverleaf, in which Mr. Saunders states "I have not yet determined a solution to the irrigation water problem". (Schedule GAV-7)

- **July 17, 2000:** Larry Snyder Company is notified of additional changes to the project beyond those stated previously on January 14, 2000, and again requesting a cost impact from builder. "Special Specifications" are produced and issued to the builder detailing these revisions.

- **November 7, 2000:** Notice to re-start work is issued to Larry Snyder Company. A cost impact of $31,209 for the revisions of Change Order No. 1 (Revised) had been received from Larry Snyder Company.

- **December 12, 2000:** A preconstruction conference was held, attended by representatives of Silverleaf, Wasteline Engineering, Larry Snyder Company, and George&Associates, a soil testing company.

- **January 26, 2001:** Notice to stop work on the project until April 1, 2001 is issued to Larry Snyder Company.

- **May 8, 2001:** Larry Snyder Company terminates its contract with Silverleaf for work on the Well No. 2 project citing billing disputes with Silverleaf.

- **November 2001:** Work begins on a new contract awarded to Construction Management Specialists (CMS) to complete the Well No. 2 project. The project is completed July 17, 2002.

Q. What is the estimated value of this recommended adjustment?

A. This adjustment is estimated at $186,373, as follows:

Cost Increase Due to Switch from Lowest to 2nd Lowest Bidder	**$102,395**
Loss in Value of Work Done by Low Bidder (LSC)	**42,292**
Excess Capitalized Interest During Delay Period	**41,686**
Recommended Disallowance	**$186,373**

Q. Please explain the first item in the recommended disallowance, namely how switching from Larry Snyder & Company, as low bidder, to Construction Management Specialists, resulted in unnecessary cost increases.

A. A document provided to Staff that lists the results of the bidding process for the Well No. 2 project shows LSC was the low bidder, at $339,058, and Construction Management Specialists (CMS) was the second-lowest bidder at $421,900. This initial difference in the bids, together with an apparent $25,624 overbilling error by CMS, undetected by Silverleaf, accounts for most of the **$102,395**. Having been awarded the contract, LSC became obligated to perform the work at the contract price, which, all else equal, would have resulted in cost savings of **$102,395,** absent termination of the contract due to the above-listed, Silverleaf-imposed delays.

Q. Please explain the next component of the Staff's recommended disallowance, the $42,292 loss in value of the amount paid to LSC prior to then awarding the contract to the second lowest bidder, CMS.

A. Silverleaf made general ledger charges from February 18, 1999 through December 31, 2001, totaling $153,412, for payments made to LSC for this contract. A document provided to the Staff indicated that CMS offered, and Silverleaf accepted, a $106,119.94 reduction of its original bid in credit for materials purchase by LSC, and also a credit of $5,000 because LSC had already performed clearing and grading of the work site. Since LSC had been paid $153,412 towards the contract amount, the credits of $106,119.94 and $5,000 from CMS represent a loss of $42,292 from terminating the original contract ($153,412-$106,119.94-$5,000=$42,292).

Q. Did Silverleaf provide persuasive evidence to suggest that LSC was merely a troubled or unreliable firm that should bear responsibility for the contract termination?

A. No, it did not. Nothing in the records provided to the Staff indicates that, without the two-year delay period imposed by Silverleaf (March 17, 1999 to April 1, 2001), LSC was not willing and able to fulfill its contractual obligations regarding the project. In fact, during roughly the same period LSC started and successfully completed another utility construction contract consisting of a project for a major expansion of the <u>Water Supply and Distribution System</u> (contract price: $579,788) at one of Silverleaf's other Missouri properties, Timber Creek Resort. Also, LSC started and successfully completed for Silverleaf during this period another project of considerable scope, the <u>Booster Pump Station</u> (contract price: $111,356) at Holiday Hills. In neither of these other two projects has anything come to Staff's attention that would cast doubt on LSC's competency or integrity as a building contractor. It is very clear that the disruption to the Well No. 2 construction project was due to Silverleaf's inadequate preparation before entering into the contract. The project was not ready for construction when Silverleaf entered into the contract with LSC, which was, by all accounts, a competent builder with a proven track record of reliably delivering utility construction projects to Silverleaf.

Q. Please explain the third part of Staff's recommended disallowance of cost overruns in the construction of Well No. 2 at Holiday Hills.

A. It is customary to add to the cost of a construction project the interest paid on the money borrowed to pay for the progress of the work. The correct amount of interest is that which is due while the project is ongoing, ending when the project is complete. Though it was clearly not prepared to proceed with construction, Silverleaf awarded the project and paid LSC $153,412 to move its operations on location and to begin to purchase building material and equipment. Then, as shown on the above timeline of events, Silverleaf imposed a series of delays on the builder for the next two years, before LSC terminated the contract and Silverleaf completed the work with the second-lowest original bidder, CMS. During this entire period, more specifically between September 1998 and July 2002, Silverleaf continued to charge to the project the interest on borrowed funds spent on project costs. Staff considers this a completely unreasonable approach since during most of this period there was no construction activity taking place because of the delays imposed by Silverleaf. The contract provided for six months to complete the work, but Staff recommends allowing up to eight months of capitalized interest to be charged to the cost of the project in acknowledgment of the realities of schedule slippage in construction projects.

Q. Is there anything further you would add to support Staff's recommendation to disallow the above-described construction cost overruns on the well No. 2 project at Holiday Hills?

A. Yes. According to the Silverleaf records made available to Staff in response to its Data Request 29, in Case WC-2002-1040, Staff believes the construction cost overruns this project experienced were caused by delays that can be divided into three categories: 1) Those caused by Silverleaf not being prepared to enter into the construction contract, which led to the need to halt work and revise the design to coordinate with other work, past or future, at the resort. These factors account for the portion of the delay between March 17, 1999, and January 26, 2001. 2) Delays caused by a decision to reduce expenditures, owing to a serious deterioration of Silverleaf's financial condition. This decision accounts for the delay from January 26, 2001 Order to April 1, 2001. 3) Delays caused by the need, after termination of LSC's contract, to contract with another builder, CMS, for completion of the project. This delay extended into November 2001, when records indicate Silverleaf first made a payment to CMS for work on the Well No. 2 project.

Q. What support do you have for asserting Silverleaf experienced a serious deterioration of its financial condition during this period that led it to delay work on the Well No. 2 project between January 26, 2001 and April 1, 2001?

A. A Form 8-K Silverleaf filed April 2, 2001, with the federal Securities Exchange Commission (SEC) stated, in part, as follows:

> On February 27, 2001, Silverleaf Resorts, Inc. ("Company or Silverleaf") filed a Current Report on Form 8-K addressing liquidity and going concern issues. Specifically, the Company disclosed that negotiations for expansion and extension of certain credit facilities with a principal lender as well as negotiations with other financing sources has proven unsuccessful and that the Company did not then have sufficient financing in place to sustain its operations at existing levels. Consequently, the Company announced that it was reducing its sales and marketing operations in an attempt to conserve cash and downsize its business to a sustainable level…
>
> In connection with its planned downsizing, the Company has to date reduced the total number of its employees from approximately 2,653 to

> 2,118. The approximately 535 employees affected by this reduction in workforce were located at the Company's facilities in the states of Texas, Missouri, Georgia, Illinois and Massachusetts. Additionally, the Company has closed one of its five marketing centers, **slowed most new construction at its resorts**, and reduced general and administrative expenses in all departments. [emphasis added]

The contents of this SEC Form 8-K filing are merely a formal confirmation and explanation, in part, of the events, whose effects Staff had become aware of after reviewing the record of the well No. 2 construction project. Staff considers all of the above to be compelling evidence in support of its recommended disallowance of the cited construction cost overruns.

<u>Case No. WO-2005-0206</u>

Q. Continuing, did Staff perform an update of rate base in sale Case No. WO-2005-0206, in which the Commission authorized the transfer of the Holiday Hills utility assets from Silverleaf to Algonquin?

A. Yes, it did. In sale Case No. WO-2005-0206 the Staff Recommendation filed with the Commission contained an update, as of December 31, 2004, the rate base at Silverleaf's Missouri resorts. This was done to support Staff's opinion, based on the portion of the purchase price assigned to Silverleaf's Missouri utilities, that Algonquin would be acquiring these utility systems at a premium. Staff produced this update to rate base in the same way by starting with previously determined plant account balances at September 30, 2002, and including any plant additions that Silverleaf could document.

Q. Finally, please describe how you prepared Staff's update of rate base, at Holiday Hills, through the required September 30, 2006, date in this current Case No. WR-2006-0425.

A. I requested that Algonquin provide general ledger data from the period where the sale case left off in December 31, 2004, as well as through the September 30, 2006, update ordered by the Commission. Staff compared the plant balances in Silverleaf's general ledger at the time of the close of the sale case in August 2005. Staff also requested from Algonquin invoices supporting any additions to plant made throughout this period either by Silverleaf prior to the sale or by Algonquin since its purchase. With this information, it was possible to update the Staff's calculation of rate base by beginning with plant and depreciation reserve balances determined previously by Staff for December 31, 2004, in sale Case No. WO-2005-0206.

Q. Please summarize Staff's approach to determining Algonquin's September 30, 2006, investment in rate base at Holiday Hills.

A. Rate base has been calculated beginning with the original cost of plant paid when first put into operation providing utility service. Staff reviewed any additional investment made in utility plant, first by Silverleaf and later by Algonquin, and updated depreciation reserve computed at Commission-prescribed rates. Staff has followed the requirements of the tariffs in determining what plant was required to be contributed by the developer, assigning zero rate base value to such plant, and ensuring that rate base under Silverleaf's ownership was transferred at unchanged value to Algonquin, irrespective of the price Algonquin may have paid for the underlying plant assets.

<u>EXCESS PLANT CAPACITY COSTS</u>

Q. Please explain the purpose of this adjustment.

A. This adjustment re-classifies a portion of Algonquin's water systems from plant in service to plant held for future use. This adjustment is necessary due to a Staff finding of substantial excess capacity in Algonquin's water systems. Staff witness Merciel of the Commission's Water and Sewer Department supplied information to me to calculate the removal of this excess capacity. Mr. Merciel identifies the reason for this adjustment in his direct testimony. I have taken his recommended percentages and determine the dollar value of net plant affected, in order to remove these amounts from plant in service balances.

Q. Does this conclude your testimony?

A. Yes, it does.

GRAHAM A. VESELY

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
5/13/1999	Maintenance Expense Normalization	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense Normalization	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	EC98573	Direct	St. Joseph Light & Power Company
5/13/1999	Customer Growth	ER99247	Direct	St. Joseph Light & Power Company
5/13/1999	Maintenance Expense	GR99246	Direct	St. Joseph Light & Power Company
5/13/1999	Normalization	GR99246	Direct	St. Joseph Light & Power Company
3/1/2000	Pension Asset Transfer	GM2000312	Rebuttal	Atmos Energy Company and Associated Natural Gas Company
4/19/2001	Payroll	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Payroll Taxes	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Cash Working Capital	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
4/19/2001	Bonuses	GR2001292	Direct	Missouri Gas Energy, A Division of Southern Union Company
12/6/2001	Payroll Taxes	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Incentive Compensation	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Fuel Inventories	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Incentive Compensation	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Employee Benefits	EC2002265	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
12/6/2001	Payroll Taxes	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service

Date Filed	Issue	Case Number	Exhibit	Case Name
12/6/2001	Employee Benefits	ER2001672	Direct	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	EC2002265	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public Service
1/22/2002	Incentive Compensation	ER2001672	Surrebuttal	UtiliCorp United Inc. d/b/a Missouri Public
8/16/2002	Fuel Inventory	ER2002424	Direct	The Empire District Electric Company
8/16/2002	Fuel and Purchase Power	ER2002424	Direct	The Empire District Electric Company
10/16/2002	Fuel and Purchase Power Expense	ER2002424	Surrebuttal	The Empire District Electric Company
12/9/2003	Fuel and Purchase Power Expense	ER20040034	Direct	Aquila, Inc.
1/26/2004	Fuel and Purchase Power Expense	ER20040034	Rebuttal	Aquila, Inc.
2/4/2004	Fuel and Purchase Power Expense	ER20040034	Surrebuttal	Aquila, Inc.
10/14/2005	Overview of Electric Generation; Fuel and Purchased Power Expense; Fuel Prices; Demand Charges-Fuel Inventories; Transmission Expense; Pipeline Reservation Charge; and Emission Allowances	ER20050436	Direct	Aquila, Inc. d/b/a Aquila Networks-MPS – Electric and Aquila Networks-L&P - Electric
12/13/2005	Coal Prices; Fuel Oil Prices; SO2 Emissions	ER20050436	Surrebuttal	Aquila, Inc. d/b/a Aquila Networks-MPS – Electric and Aquila Networks-L&P – Electric
2006	Kansas City Power and Light Company	ER20060314		Corporate Project Costs, SO2 Emissions Allowances, Injuries and Damages Expense, Advertising Expense

INFORMAL CASES

Raytown Water Company
Timbercreek Sewer Company
Silverleaf Resorts
Taney County Utilities
Stockton Hills

HHR

Schedule 2A

Company																			
9/30/2005 **Account Numbers**																			
Test Year End	**311**	**314**	**316**	**321**	**325**	**331**	**332**	**341**	**342**	**343**	**345**	**346**	**348**	**379**	**391**	**394**			
	684	13,050	-	55,468	118,727	26,580	345,304	30,242	27,103	1,203,805	43,859	70,580	8,990	1,160	34,668	-	$	1,980,220	
Staff																			
9/30/2005	2,887	107,225	6,028	135,032	212,196	-	17,655	8,836	301,246	592,916	1,793	19,334	11,119	-	17,725	0	$	1,433,992	
Adjust Step 1 to agree w/Staff test year end	2,203	94,175	6,028	79,564	93,469	(26,580)	(327,649)	(21,406)	274,143	(610,889)	(42,066)	(51,246)	2,129	(1,160)	(16,943)	-	$	(546,228)	Step 1
																	$	1,980,220	
																	$	1,433,992	
	311	314	316	321	325	331	332	341	342	343	345	346	348	379	391	394			
	7,656	107,225	6,028	164,489	250,658	-	18,110	8,836	302,158	604,749	1,883	44,511	11,119	-	20,688	416	$	1,548,526	
add back:																			
Overruns				41,686	42,292				102,395										
Staff																			
9/30/2006	7,656	107,225	6,028	206,175	292,950	-	18,110	8,836	404,553	604,749	1,883	44,511	11,119	-	20,688	416	$	1,734,899	
Adjust Step 2 9/30/06 update	4,769	-	-	71,143	80,754	-	455	-	103,307	11,833	90	25,177	-	-	2,963	416	$	300,907	Step 2
																	$	1,433,992	
																	$	1,734,899	
Adjust Step 3 Well No.2 Construction Cost Overruns				(41,686)	(42,292)				(102,395)								$	(186,373)	Step 3
Adjust Step 4 Excess Plant Capacity Reclassify to Plant Held for Future Use 31.6% well no.1 73% storage		(3,371)							(198,518)								$	(201,889)	Step 4

Case No. WR-2006-0425
Algonquin Water Resources of Missouri
Graham Vesely, MPSC

OMR-w Schedule 2B

	311	314	321	325	332		343	345	346	391		
Company 9/30/2005 Test Year End	-	9,728		800	1,666		248,005	5,086	7,204	5,920	$ 278,409	

Staff	Account Numbers											
9/30/2005	**311**	**314**	**321**	**325**	**332**	**342**	**343**	**345**	**346**	**391**		
	-	45,273	549	20,534	2,361	45,601	149,664	-	7,905	-	$ 271,887	
Adjust Step 1 to agree w/Staff test year end	-	35,545	549	19,734	695	45,601	(98,341)	(5,086)	701	(5,920)	$ (6,522)	Step 1
											278,409	
											$ 271,887	
Staff 9/30/2006	637	45,273	32,960	21,659	2,361	51,331	149,664	-	24,655	61	$ 328,601	
Adjust Step 2 9/30/06 update	637	-	32,411	1,125	-	5,730	-	-	16,750	61	$ 56,714	Step 2
											271,887	
											$ 328,601	
Adjust Step 3 Excess Plant Capacity Reclassify to Plant Held for Future Use		(12,296)									$ (12,296)	Step 3
67.90%												

Case No. WR-2006-0425
Algonquin Water Resources of Missouri
Graham Vesely, MPSC

OMR-s Schedule 2C

	Account Numbers														
Company	303	311	352.1	352.2	354	355	362	363	373	375	376	391			
9/30/2005															
Test Year End	33,950	9,950	1,880	109,481	3,154	-	-	20,429	101,203	-	2,971	-	$	283,018	
Staff															
9/30/2005	303	311	352.1	352.2	354	355	362	363	373	375	376	391			
	0	-	3,276	132,201	6,359	2,909	3,495	106,593	80,164	3,892	-	5,257	$	344,146	
Adjust Step 1 to agree w/Staff test year end	(33,950)	(9,950)	1,396	22,720	3,205	2,909	3,495	86,164	(21,039)	3,892	(2,971)	5,257	$	61,128	Step 1
														283,018	
													$	344,146	
Staff															
9/30/2006	-	-	3,276	137,814	6,359	2,909	10,661	107,030	83,419	3,892	-	7,012	$	362,372	
Adjust Step 2 9/30/06 update	-	-	-	5,613	-	-	7,166	437	3,255	-	-	1,755	$	18,226	Step 2
														344,146	
													$	362,372	

Case No. WR-2006-0425
Algonquin Water Resources of Missouri
Graham Vesely, MPSC

Schedule 2D

TCR-w

	311	314	321	325	328	332	342	343	345	346	347	348		
Company 9/30/2005 Test Year End	-	106,801	86,523	216,796	-	15,227	197,487	234,215	32,832	25,394	44,841	19,406	$ 979,522	
Staff 9/30/2005	0	138676	86341	158626	54607	15556	271384	269369	0	0	0	0	$ 994,559	
Adjust Step 1 to agree w/Staff test year end	-	31,875	(182)	(58,170)	54,607	329	73,897	35,154	(32,832)	(25,394)	(44,841)	(19,406)	$ 15,037	Step 1
													979,522	
													994,559	
Staff 9/30/2006	13484	138676	97905	158626	54607	15556	271384	269889	0	1691	0	0	$1,021,818	
Adjust Step 2 9/30/06 update	13484	0	11564	0	0	0	0	520	0	1691	0	0	$ 27,259	Step 2
													994,559	
													$1,021,818	
Adjust Step 3 Excess Plant Capacity Reclassify to Plant Held for Future Use		(89,550)					(170,972)						$ (260,522)	Step 3

well 73.8%
storage 72%

Case No. WR-2006-0425
Algonquin Water Resources of Missouri
Graham Vesely, MPSC

TCR-s

Schedule 2E

	Account Numbers												
Company	301	303	311	352.2	354	362	363	373	374	391	393		
9/30/2005 Test Year End	393	13,915	302,985	157,403	3,797	45,964	18,683	339,904	10,340	-	-	$ 893,384	
Staff 9/30/2005	0	0	62207	201822			91304	403433	15772		930	$ 775,468	
Adjust Step 1 to agree w/Staff test year end	(393)	(13,915)	(240,778)	44,419	(3,797)	(45,964)	72,621	63,529	5,432	-	930	$ (117,916)	Step 1
												893,384	
												$ 775,468	
Staff 9/30/2006	0	0	63162	206322	0	0	95525	404419	15772	382	930	$ 786,512	
Adjust Step 2 9/30/06 update	0	0	955	4500	0	0	4221	986	0	382	0	$ 11,044	Step 2
												775,468	
												$ 786,512	

Case No. WR-2006-0425
Algonquin Water Resources of Missouri
Graham Vesely, MPSC

All Systems

Schedule 2F

OMR-w	**Account Numbers**									
Staff	**311**	**314**	**321**	**325**	**332**	**342**	**343**	**346**	**391**	
9/30/2005 Test Year End	-	19,688	5	41,522	1,431	23,446	26,899	9,295	-	$ 122,286
Staff 9/30/2006	8	20,593	424	43,632	1,499	24,658	29,893	10,923	4	$ 131,634
Adjustment 9/30/2006 Update	8	905	419	2,110	68	1,212	2,994	1,628	4	$ 9,348
										122,286
										$ 131,634

OMR-s	**Account Numbers**									
Staff	**352.1**	**352.2**	**354**	**355**	**362**	**363**	**373**	**375**	**391**	
9/30/2005 Test Year End	3,391	32,903	1,997	36	2,791	110,987	49,521	2,435	2,236	$ 206,297
Staff 9/30/2006	3,456	35,547	2,124	132	2,966	121,647	53,128	2,611	2,987	$ 224,598
Adjustment 9/30/2006 Update	65	2,644	127	96	175	10,660	3,607	176	751	$ 18,301
										206,297
										$ 224,598

TCR-w	**Account Numbers**									
Staff	**311**	**314**	**321**	**325**	**328**	**332**	**342**	**343**	**346**	
9/30/2005 Test Year End	0	11787	9174	67416	4096	1917	28835	22799	0	$ 146,024
Staff 9/30/2006	169	14561	11477	83279	9556	2368	35619	28191	85	$ 185,305
Adjustment 9/30/2006 Update	169	2774	2303	15863	5460	451	6784	5392	85	$ 39,281
										146,024
										$ 185,305

TCR-s	**Account Numbers**							
Staff	**311**	**35.2**	**363**	**373**	**374**	**391**	**393**	
9/30/2005 Test Year End	7,875	10,928	37,208	76,940	3,016	-	35	$ 136,002
Staff 9/30/2006	9,756	15,009	46,550	95,117	3,726	19	128	$ 170,305
Adjustment 9/30/2006 Update	1,881	4,081	9,342	18,177	710	19	93	$ 34,303
								136,002
								$ 170,305

HHR	**Account Numbers**													
Staff 9/30/2005	311	314	316	321	325	332	341	342	343	345	346	348	391	394	
Test Year End	-368	26590	527	20220	130533	4574	967	62553	139392	449	5655	2830	28111	0	$ 422,033
Staff 9/30/2006	-237	28734	648	23964	153675	5093	1188	70096	151369	502	8847	3108	30857	21	$ 477,865
Adjustment 9/30/2006 Update	131	2144	121	3744	23142	519	221	7543	11977	53	3192	278	2746	21	$ 55,832
															422,033
															$ 477,865

Schedule 3A

HHR

	Account Numbers														
	311	314	316	321	325	332	341	342	343	345	346	348	391	394	
Accumulated reserve 1/1/04	(495)	22,837	316	14,313	93,711	3,699	580	49,428	118,715	358	2,550	2,362	23,689	-	332,063
															-
Plant Investment12/31/04	2,887	107,225	6,028	135,032	209,920	17,142	8,836	299,646	586,136	1,793	16,923	9,679	17,524	-	1,418,771
2004 Additions (Retirements)									6,357		611	1,440	201		8,609
2004 Depreciable base=Beg. Plant+1/2 additions for year	2,887	107,225	6,028	135,032	209,920	17,142	8,836	299,646	589,315	1,793	17,229	10,399	17,625	-	
Depreciation rate	0	0	0	0	0	0	0	0	0	0	0	0	0		
Depreciaton expense for 2004	72	2,145	121	3,376	20,992	497	221	7,491	11,786	52	1,723	260	2,520	-	
Deduction from reserve for retirements															
Accumulated reserve 12/31/04	(422)	24,981	437	17,688	114,703	4,196	801	56,920	130,502	410	4,273	2,621	26,210	-	383,319
															-
Plant Investment 1/1/05	2,887	107,225	6,028	135,032	209,920	17,142	8,836	299,646	592,493	1,793	17,534	11,119	17,725	-	1,427,380
9/30/2005 Additions (Retirements)					2,276	513		1,600	423		1,800	-	-		6,612
9/30/2005 Depreciable base=Beg. Plant+1/2 additions for year	2,887	107,225	6,028	135,032	211,058	17,399	8,836	300,446	592,705	1,793	18,434	11,119	17,725	-	
Depreciation rate	0	0	0	0	0	0	0	0	0	0	0	0	0		
Depreciaton expense for 9/30/ 2005	54	1,608	90	2,532	15,829	378	166	5,633	8,891	39	1,383	208	1,901	-	
Deduction from reserve for retirements															
Accumulated reserve 9/30/2005	(368)	26,590	527	20,220	130,533	4,574	967	62,553	139,392	449	5,655	2,830	28,111	-	422,032
Plant Investment10/01/2005	2,887	107,225	6,028	135,032	212,196	17,655	8,836	301,246	592,916	1,793	19,334	11,119	17,725	-	1,433,992
9/30/2006 Additions (Retirements)	4,769			29,457	38,462	455		912	11,833	90	25,177		2,963	416	114,534
2006 Depreciable base=Beg. Plant+1/2 additions for year	5,272	107,225	6,028	149,761	231,427	17,883	8,836	301,702	598,833	1,838	31,923	11,119	19,207	208	
Depreciation rate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Depreciaton expense thru 9/30/2006	132	2,145	121	3,744	23,143	519	221	7,543	11,977	53	3,192	278	2,747	21	
Deduction from reserve for retirements															
Accumulated reserve 9/30/06	**(237)**	**28,734**	**648**	**23,964**	**153,675**	**5,093**	**1,188**	**70,096**	**151,369**	**502**	**8,847**	**3,108**	**30,857**	**21**	**477,865**
															-
Plant Investment 9/30/06	**7,656**	**107,225**	**6,028**	**164,489**	**250,658**	**18,110**	**8,836**	**302,158**	**604,749**	**1,883**	**44,511**	**11,119**	**20,688**	**416**	**1,548,526**

Schedule GAV 3A-1

Schedule 3B

OMR-Water

	311	314	321	325	332	342	343	346	391.1	
Accumulated reserve 1/1/04	0	18,103		38,036	1,311	21,451	21,661	7,912	-	108,474
Plant Investment 1/1/04	0	45,273		19,756	2,361	45,601	149,664	7,905	-	270,560
2004 Additions (Retirements)	0						-	-	-	-
2004 Depreciable base=Beg. Plant+1/2 additions for year	0	45,273		19,756	2,361	45,601	149,664	7,905	-	
Depreciation rate		0.02		0.1	0.029	0.025	0.02	0.1	0.143	
Depreciaton expense for 2004	0	905		1,976	68	1,140	2,993	791	-	
Deduction from reserve for retirements										
Accumulated reserve 12/31/04	0	19,008	-	40,012	1,379	22,591	24,654	8,703	-	116,347
	0									
Plant Investment 1/1/05	0	45,273	-	19,756	2,361	45,601	149,664	7,905	-	270,560
9/30/2005 Additions (Retirements)	0		549	778	-	-	-	-	-	1327
9/30/2005 Depreciable base=Beg. Plant+1/2 additions for y	0	45,273	275	20,145	2,361	45,601	149,664	7,905	-	
Depreciation rate		0.02	0.025	0.1	0.029	0.025	0.02	0.1	0.143	
Depreciaton expense for 2005	0	679	5	1,511	51	855	2,245	593	-	
Deduction from reserve for retirements										
Accumulated reserve 9/30/2005	0	19,688	5	41,522	1,431	23,446	26,899	9,295	-	122,287
Plant Investment 10/01/2005	0	45,273	549	20,534	2,361	45,601	149,664	7,905	-	271,887
9/30/2006 Additions (Retirements)	637	-	32,411	1,125	-	5,730	-	16,750	61	56,714
2006 Depreciable base=Beg. Plant+1/2 additions for year	319	45,273	16,755	21,097	2,361	48,466	149,664	16,280	31	
Depreciation rate	0.025	0.02	0.025	0.1	0.029	0.025	0.02	0.1	0.143	
Depreciaton expense thru 9/30/2006	8	905	419	2,110	68	1,212	2,993	1,628	4	
Deduction from reserve for retirements	0									
Accumulated reserve 9/30/06	**8**	**20,593**	**424**	**43,632**	**1,499**	**24,658**	**29,893**	**10,923**	**4**	**131,634**
Plant Investment 9/30/06	**637**	**45,273**	**32,960**	**21,659**	**2,361**	**51,331**	**149,664**	**24,655**	**61**	**328,601**

Schedule 3C

OMR-Sewer

	352.1	352.2	354	355	362	363	373	375	391	
Accumulated reserve 1/1/04	1,383	28,276	1,774		2,485	92,419	44,318	2,129	920	173,704
Plant Investment 1/1/04	3,276	132,201	6,359		3,495	105,972	50,798	3,892	5,257	311,250
2004 Additions (Retirements)							17,952	-	-	17,952
2004 Depreciable base=Beg. Plant+1/2 additions for year	3,276	132,201	6,359		3,495	105,972	59,774	3,892	5,257	
Depreciation rate	0.02	0.02	0.02		0.05	0.1	0.045	0.045	0	
Depreciaton expense for 2004	66	2,644	127		175	10,597	2,690	175	752	
Deduction from reserve for retirements										
Accumulated reserve 12/31/04	1,449	30,920	1,901	-	2,660	103,016	47,008	2,304	1,672	190,929
Plant Investment 1/1/05	3,276	132,201	6,359	-	3,495	105,972	68,750	3,892	5,257	329,202
9/30/2005 Additions (Retirements)		-		2,909	-	621	11,414	-	-	14,944
9/30/2005 Depreciable base=Beg. Plant+1/2 additions for y	3,276	132,201	6,359	1,455	3,495	106,283	74,457	3,892	5,257	
Depreciation rate	0.02	0.02	0.02	0.033	0.05	0.1	0.045	0.045	0.143	
Depreciaton expense for 2005	49	1,983	95	36	131	7,971	2,513	131	564	
Deduction from reserve for retirements										
Accumulated reserve 9/30/2005	1,498	32,903	1,997	36	2,791	110,987	49,521	2,435	2,236	204,403
Plant Investment 10/01/2005	3,276	132,201	6,359	2,909	3,495	106,593	80,164	3,892	5,257	344,146
9/30/2006 Additions (Retirements)		5613			7166	437	3255		1755	18,226
2006 Depreciable base=Beg. Plant+1/2 additions for year	3,276	132,201	6,359	2,909	3,495	106,593	80,164	3,892	5,257	
Depreciation rate	0.02	0.02	0.02	0.03	0.05	0.10	0.05	0.05	0.14	
Depreciaton expense thru 10/30/2006	66	2,644	127	96	175	10,659	3,607	175	752	
Deduction from reserve for retirements										
Accumulated reserve 9/30/06	**1,563**	**35,547**	**2,124**	**132**	**2,966**	**121,647**	**53,128**	**2,611**	**2,987**	**222,704**
Plant Investment 9/30/06	**3,276**	**137,814**	**6,359**	**2,909**	**10,661**	**107,030**	**83,419**	**3,892**	**7,012**	**362,372**

Schedule 3D

TCRW

	Account Numbers									
	311	**314**	**321**	**325**	**328**	**332**	**342**	**343**	**346**	
Beginning Plant Investment 1/01/04	-	138,676	86,341	158,626	54,607	15,556	271,384	267,744	-	992,933
Additions	-							1,625		1,625
Ending Plant Investment	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	
Deprec. base= Beg. Plant + 1/2 add's for year	-	138,676	86,341	158,626	54,607	15,556	271,384	268,557	-	
Depreciation rate	-	0	0	0	0	0	0	0		
Depreciation expense	-	2,774	2,159	15,863	5,461	451	6,785	5,371	-	
Deduction from Reserve for retirements	-									
Accumulated reserve 12/31/04	-	9,707	7,555	55,519		1,579	23,746	18,758	-	116,865
	-									
Beginning Plant Investment 1/01/05	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	994,558
9/30/2005Additions	-									-
9/30/2005Ending Plant Investment	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	
Deprec. base= Beg. Plant + 1/2 add's for year	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	
Depreciation rate	-	0	0	0	0	0	0	0	0	
Depreciation expense	-	2,080	1,619	11,897	4,096	338	5,088	4,041	-	
Deduction from Reserve for retirements										
Accumulated reserve 9/30/2005	-	11,787	9,174	67,416	4,096	1,917	28,835	22,799	-	146,023
Beginning Plant Investment 10/01/2005	-	138,676	86,341	158,626	54,607	15,556	271,384	269,369	-	994,558
9/30/2006 Additions	13,484		11,564					520	1,691	27,259
Ending Plant Investment 9/30/06	**13,484**	**138,676**	**97,905**	**158,626**	**54,607**	**15,556**	**271,384**	**269,889**	**1,691**	**1,021,817**
Deprec. base= Beg. Plant + 1/2 add's for year	6,742	138,676	92,123	158,626	54,607	15,556	271,384	269,629	846	
Depreciation rate	0	0	0	0	0	0	0	0	0	
Depreciation expense	169	2,774	2,303	15,863	5,461	451	6,785	5,393	85	
Deduction from Reserve for retirements										
Accumulated reserve 9/30/06	**169**	**14,561**	**11,477**	**83,279**	**9,556**	**2,368**	**35,619**	**28,191**	**85**	**185,305**

Schedule 3E

TCRS

	Account Numbers							
	311	**352.2**	**363**	**373**	**374**	**391**	**393**	
Beginning Plant Investment 1/01/04	62,207	122,104	86,838	402,192	15,772	-	-	689,113
Additions			1,536					1,536
Ending Plant Investment	62,207	122,104	88,374	402,192	15,772	-	-	
Deprec. base= Beg. Plant + 1/2 add's for year	62,207	122,104	87,606	402,192	15,772	-	-	
Depreciation rate	0	0	0	0	0	0	0	
Depreciation expense	1,866	2,442	8,761	18,099	710	-	-	
Deduction from Reserve for retirements								
Accumulated reserve 12/31/04	6,476	8,498	30,470	63,345	2,484	-	-	111,274
Beginning Plant Investment 1/01/05	62,207	122,104	88,374	402,192	15,772	-	-	690,649
9/30/2005 Additions		79,718	2,930	1,241			930	84,819
9/30/2005 Ending Plant Investment	62,207	201,822	91,304	403,433	15,772	-	930	
Deprec. base= Beg. Plant + 1/2 add's for year	62,207	161,963	89,839	402,812	15,772	-	465	
Depreciation rate	0	0	0	0	0	0	0	
Depreciation expense	1,400	2,429	6,738	13,595	532	-	35	
Deduction from Reserve for retirements								
Accumulated reserve 9/30/2005	7,875	10,928	37,208	76,940	3,016	-	35	136,003
Beginning Plant Investment 10/01/2005	62,207	201,822	91,304	403,433	15,772	-	930	775,468
9/30/2006 Additions	955	4,500	4,221	986		382		11,044
9/30/2006 Ending Plant Investment	**63,162**	**206,322**	**95,525**	**404,419**	**15,772**	**382**	**930**	**786,512**
Deprec. base= Beg. Plant + 1/2 add's for year	62,684	204,072	93,415	403,926	15,772	191	930	
Depreciation rate	0	0	0	0	0	0	0	
Depreciation expense	1,881	4,081	9,341	18,177	710	19	93	
Deduction from Reserve for retirements								
Accumulated reserve 9/30/06	**9,756**	**15,009**	**46,550**	**95,117**	**3,726**	**19**	**128**	**170,305**

Schedule GAV 3E-1

Schedule 3F

HHR	Account		
	343	345	Total
	640,749	1,883	642,632
Reserve	151,369	502	151,871
			490,761
Booster Station			94,018
Net Deduct from Rate Base			$ 584,779

OMRW	Account
	343
	149664
Reserve	29893
Net Deduct from Rate Base	$ 119,771

OMRS	Account			
	352.1	352.2	354	Total
	3,276	137,814	6,359	147,449
Reserve	1,563	35,547	2,124	39,234
Net Deduct from Rate Base				$ 108,215

TCRW	Account
	343
	269,889
Reserve	28,191
Net Deduct from Rate Base	$ 241,698

TCRS	Account
	352.2
	206,322
Reserve	15,009
Net Deduct from Rate Base	$ 191,313

Schedule 3G

Holiday Hills

Source: DR 28

Item	**Total Cost**	**Cost by Account (water)** 321	**325**	**342**	
Bulldog Steel Products	7,500			7,500	7,500
Wasteline Engineering	10,800				-
Bulldog Steel Products	7,500			7,500	7,500
Bulldog Steel Products	938	938			938
Wasteline Engineering	1,900	321			321
Coffman Construction	10,125	10,125			10,125
Larry Snyder Construction	111,356	62,258	37,807	11,291	111,356
Larry Snyder Construction	2,200	2,200			2,200
	$ 152,319	75,842	37,807	26,291	$ 139,940

Note: This project was placed in service in 1999

	321	325	342	
Depreciation Rates	0.025	0.1	0.025	
In service date is July 1, 1999				
Months in service thru 9/30/2006:	87	87	87	
Accumulated Reserve:	13,746	27,410	4,765	
Net Plant Value	62,096	10,397	21,526	$ 94,018 Rate Base Offset
Annualized Depreciation Expense:	1,896	3,781	657	$ 6,334 Deduct from Deprec. (Amort of CIAC)

SCHEDULE 4 HAS BEEN DEEMED HIGHLY CONFIDENTIAL
IN ITS ENTIRETY

SCHEDULE 5 HAS BEEN DEEMED HIGHLY CONFIDENTIAL
IN ITS ENTIRETY

SCHEDULE 6 HAS BEEN DEEMED HIGHLY CONFIDENTIAL
IN ITS ENTIRETY

SCHEDULE 7 HAS BEEN DEEMED HIGHLY CONFIDENTIAL
IN ITS ENTIRETY