

Exhibit No.:
Issues: Salaries and Wages; Retirement
Benefits; Mileage; Allocations; Rate
Base and Other Cost of Service
Witness: Scott D. Clark
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case Nos.: WR-2006-0250 and SR-2006-0249
Date Testimony Prepared: March 28, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

SCOTT D. CLARK

FILED²
MAY 16 2006
Missouri Public
Service Commission

HICKORY HILLS WATER & SEWER COMPANY

CASE NOS. WR-2006-0250 AND SR-2006-0249
(Consolidated)

Jefferson City, Missouri
March 2006

Exhibit No. 3
Case No(s) WR-2006-0250
Date 4-19-06 **Rptr** KF

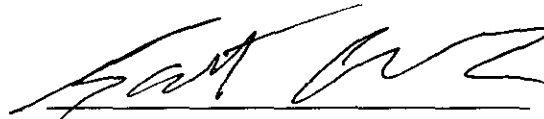
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Hickory Hills Water &)
Sewer Co.'s Request for a Small Company) **Case No. WR-2006-0250**
Rate Increase)

AFFIDAVIT OF SCOTT D. CLARK

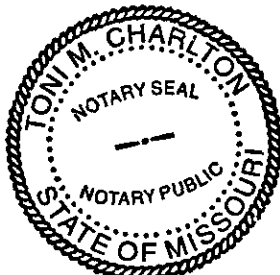
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)


Scott Clark, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the following 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.



Scott D. Clark

Subscribed and sworn to before me this 27th day of March, 2006.





Notary Public

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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HICKORY HILLS WATER & SEWER COMPANY
CASE NOS. WR-2006-0250 AND SR-2006-0249
(Consolidated)

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- 1 • Case No. ER-2005-0436 -- In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS-
2 electric and Aquila Networks-L&P- electric rate case.
- 3 • Case No. HR-2005-0450 -- In the matter of Aquila, Inc. d/b/a Aquila Networks-L&P-
4 industrial steam rate case.

5 In addition, I have worked on the following cases:

- 6 • Case No. EO-2005-0270 -- In the Matter of the Application of Kansas City Power &
7 Light Company for Authority to Sell to Aquila, Inc. Certain Electric Transmission
8 Facilities
- 9 • Case No. GM-2005-0136 -- In the matter of the Application for authority of Sendero
10 SMGC LP Acquisition Company and Sendero SMGC GP Acquisition Company to
11 purchase the partnership interests of DTE Enterprises, Inc. and DET Ozark, Inc.
- 12 • Case No. WO-2005-0206 -- In the Matter of the Joint Application of Silverleaf
13 Resort, Inc. and Algonquin Water Resources of Missouri, LLC for Authority for
14 Silverleaf Resorts, Inc. to Sell Certain Assets to Algonquin Water Resources of
15 Missouri, LLC
- 16 • Case No. WR-2006-0091 -- In the matter of Stockton Hills Water Company small
17 company rate increase.

18 **PURPOSE OF TESTIMONY**

19 Q. With reference to Case No. WR-2006-0250, have you made an examination of
20 the books and records of Hickory Hills Water & Sewer Company?

21 A. Yes, I have.

22 Q. Upon examining the books and records of Hickory Hills Water & Sewer
23 Company, what are your findings?

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1 A. Upon examining the books and records, I have determined that Hickory Hills
2 Water & Sewer Company (Hickory Hills or Company) is in need of additional revenue
3 requirement of \$4,417 for the water system and \$5,912 for the sewer system. However,
4 Hickory Hills is limited to the amount requested in their filing, that being, \$2,000 for the
5 water system and \$2,500 for the sewer system. The company cannot get a greater rate
6 increase than what it has initially requested and, therefore, is limited to the amount requested
7 in its rate increase request letter dated July, 21, 2005. The results of my calculated revenue
8 requirement can be seen on Accounting Schedule 1 of the water and sewer EMS runs,
9 respectively.

10 Q. Is the amount of revenue requirement filed with this testimony different than
11 the amount that was initially filed by Staff on December 15, 2005, as item #3 in the
12 Commissions Electronic Filing Information System (EFIS), titled Notice of Agreement
13 Regarding Disposition of Small Company Rate Increase Request?

14 A. Yes. Staff initially filed a revenue requirement of \$2,284 for the water system
15 and \$10,772 for the sewer system.

16 Q. What changes did Staff make that resulted in this difference?

17 A. Upon further review and discussion with my supervisors and the
18 Commission's water and sewer department, there were some items that I changed from the
19 initial filing that resulted in this difference. These items included: the hourly rate for the
20 operator, the amount of retirement benefits for the operator, the allocation of salaries and
21 wages, mileage between the two systems for the operator, and reclassification and removal of
22 certain items in plant account 325.

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1 The hourly rate for the operator was changed from \$22.50 in the initial filing to \$19
2 per hour in this filing.

3 Because the amount of retirement benefits was calculated as a percentage of salaries
4 and wages, this amount decreased as a result of decreasing the operator's hourly wage.

5 The allocation of salaries & wages and mileage between the two systems for the
6 operator was changed from 50% water and 50% sewer in Staff's initial filing to 75% water
7 and 25% sewer in this filing.

8 Upon further review of plant account 325 electric pumping equipment, it was
9 determined that this account included amounts for pressure tanks purchased in 1998 and
10 2000. The amount included in account 325 for these pressure tanks was removed and
11 reclassified to account 330 distribution reservoir and standpipes. An amount relating to a
12 well pump that was replaced during the test year was also removed from account 325.
13 Corresponding changes were made to depreciation reserve to account for these plant changes.

14 Q. Do these changes in Staff's revenue requirement affect the overall rate design
15 of this case?

16 A. No, they do not. As stated earlier, the Company is limited to a \$2,000
17 increase for the water system and a \$2,500 increase for the sewer system.

18 Q. What issues will you be addressing in this testimony?

19 A. I will be specifically addressing Salaries and Wages, Retirement Benefits,
20 Mileage, and Allocations. I will also be generally addressing all other cost of service items
21 included in this case, as well as the general rate base items.

22 Q. What knowledge, skill, experience, training or education do you have in
23 regulatory matters?

1 A. Since commencing employment with the Commission, I have attended various
2 in-house training seminars and have reviewed in-house training materials. I have worked on
3 two small water and sewer rate cases and two major electric and steam rate cases, which have
4 provided a strong basis in the ratemaking process and an understanding of the cost of service
5 determination. I have also worked closely with senior auditors and supervisors, who possess
6 extensive regulatory knowledge. In addition, I have worked closely with members of the
7 Commission's Water and Sewer Department on this case.

8 **SALARIES & WAGES**

9 Q. Who owns Hickory Hills?

10 A. Randy and Kay Clifford own the water and sewer companies.

11 Q. Who are the primary employees of Hickory Hills?

12 A. The owners of these companies, the Cliffords, are also the primary employees
13 of Hickory Hills.

14 Q. What are their qualifications and duties?

15 A. Randy Clifford is a licensed operator holding a certificate in the State of
16 Missouri. His duties include performing all of the day-to-day activities involved in operating
17 a water and sewer system. These duties include, but are not limited to taking daily water
18 samples, monitoring sewer effluent, performing various maintenance procedures to the
19 system as needed, etc. He is responsible for making repairs to broken equipment such as
20 water pumps and water pump housings. He is required to be "on-call" at all times to respond
21 to customers' needs when problems arise. Mr. Clifford's duties also include being the
22 primary decision maker for the Company. This role requires him to be involved in all

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1 financial, legal and technical aspects of the Company. Kay Clifford is responsible for all
2 bookkeeping responsibilities, as well as reading monthly meters, for Hickory Hills.

3 Q. How are Mr. and Mrs. Clifford compensated for their time spent working for
4 Hickory Hills?

5 A. The Company pays Mr. Clifford \$365 per month, or \$4,380 per year, for
6 monitoring, overseeing and maintaining the water and sewer system of Hickory Hills.
7 Mrs. Clifford is paid \$35 per month, or \$420 per year for taking care of the books and
8 billings of these two utility operations.

9 Q. What amount did Staff include in its case?

10 A. Staff determined an hourly wage of \$19.00 per hour to compensate
11 Mr. Clifford for his time spent on the system. This rate was applied to the amount of hours
12 that Mr. Clifford had spent working on the system during the test year which Staff believes to
13 be reasonable. Staff applied an hourly rate of \$10.50 per hour to the amount of hours that
14 Mrs. Clifford spent working during the year.

15 Q. How did Staff determine a rate of \$19.00 per hour to include for
16 Mr. Clifford's wages?

17 A. As a result of continuous discussion between the Commission's Water and
18 Sewer Department, senior staff members and myself, as well as researching various sources
19 of wage information used by Staff in other small informal cases, this rate was determined to
20 be a reasonable amount.

21 Q. What sources did you find that confirmed that the \$19.00 hourly wage rate
22 was a reasonable amount?

1 A. The Commission's Water and Sewer Department researched the U.S.
2 Department of Labor-Bureau of Labor Statistics web-site and the consumer price index (CPI)
3 for Urban Wage Earners and Clerical Workers in the Midwest Region for Size Class D,
4 which applies to areas with population less than 50,000. The CPI factor was then applied to
5 the operator's hourly salary allowed by the Commission in the Bill Gold Investments
6 Complaint Case (Case No. SC-93-576). As a result, the \$15.00 hourly wage allowed in that
7 case was updated to an hourly wage of \$18.99 for this case.

8 Staff also received information from the City of Tipton, Missouri, which reflected an
9 hourly rate of \$18.62 excluding benefits, for the water and sewer operator of that system.
10 The city of Tipton paid benefits for this position that amounted to an additional \$13.41 per
11 hour for a total hourly wage of \$32.02. The benefits were paid to cover health insurance,
12 short-term disability and retirement.

13 Based upon the analysis described above, Staff believes \$19.00 per hour to be
14 reasonable compensation for the services provided by Mr. Clifford as a licensed operator.

15 Q. How did Staff determine a rate of \$10.50 per hour to include for
16 Mrs. Clifford's wages?

17 A. This was the amount used in the last informal rate case filed by the Company.
18 In addition, in discussions with other Staff members it was determined to be a reasonable
19 amount.

20 **RETIREMENT BENEFITS**

21 Q. Did Staff include an expense for retirement benefits in this case?

22 A. Yes. Staff included a retirement benefit expense equal to 9% of the
23 employees' total salaries as retirement benefits. As a normal business practice, most

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1 companies provide benefits which include some form of retirement benefit to its employees.
2 A retirement benefit is usually in the form of a pension plan or a matching contribution to an
3 individual retirement account.

4 **MILEAGE**

5 Q. Has Staff allowed any reimbursement expenses relating to Mr. Clifford's
6 services as an operator to the system?

7 A. Yes. Staff has included an amount in this case to cover the automobile
8 expense related to Mr. Clifford's use of his personal vehicle for business purposes associated
9 with the running of the water and sewer systems.

10 Q. For what business purposes does Mr. Clifford use his personal vehicle?

11 A. Mr. Clifford is required by Missouri Department of Natural Resources (DNR)
12 regulations to make daily visits from his place of business to take water samples.
13 Mr. Clifford runs the business from his home. The distance between his place of business
14 and the well house is 11 miles, or 22 miles roundtrip.

15 Mr. Clifford also uses his personal vehicle for other various operating activities such
16 as picking up supplies, performing maintenance to the system, and service calls to customers.

17 Q. How did Staff calculate the amount to be included for mileage expense in this
18 case?

19 A. Staff determined the amount of mileage expense by applying the Federal
20 mileage rate of 40.5 cents per mile to Mr. Clifford's mileage incurred during the test year.
21 The amount of mileage incurred during the test year was provided on a mileage log that
22 Mr. Clifford maintained throughout the year. After review of the mileage log, Staff
23 concluded that the mileage was necessary and reasonable.

OTHER COST OF SERVICE ITEMS

Q. What other cost of service items did you include in this case for the water system?

A. As well as the items mentioned above, I also included costs associated with the water system for power purchased for pumping, chemicals, testing supplies/services, maintenance and supplies expense, accounting fees, annual registration, PSC assessment, office supplies, postage expense, telephone expense, insurance, FICA, amortization of engineering expense, amortization for well repair and depreciation expense.

Q. Will you please explain how you determined the proper level of each one of these expenses to be included in this case?

A. Yes. All items except for insurance, FICA, amortization of engineering expense, and amortization for well repair were included at their test year level and/or annualized and normalized to include a proper amount of each expense in the case.

General liability insurance was included in the case as a result of Staff recommendation in prior years. The annual premium was purchased outside of the 2004 test year, and thus was not in the per-books amount for 2004. An adjustment was made to include this cost in the Company's cost of service.

FICA insurance had not been recorded in the 2004 test year amount. An adjustment was made to include 7.65% of the employee's salary as an expense to FICA in this case.

Amortization of engineering expenses and well repair expenses were included to evenly spread the cost incurred during the test year for both of these major expense items over five years.

Depreciation expense was determined by first calculating the proper depreciable balance of each plant account. A depreciation rate, supplied by the Commission's

1 Engineering and Management Services Department, was then applied to each of the plant
2 accounts to determine the proper total amount of depreciation to be included in the cost of
3 service.

4 Q. Were there any additional expenses included for the sewer system that were
5 not included for the water system?

6 A. Yes. An expense was included for the sewer permit at test year level.

7 **ALLOCATIONS**

8 Q. What expenses were considered "common expenses" that were needed to be
9 allocated between the water and sewer systems in this case?

10 A. Common expenses included: salaries and wages, mileage, retirement benefits,
11 FICA, billing, office supplies, accounting fees, postage, annual registration, telephone and
12 insurance expense.

13 Q. By what amount and by what criteria were these "common expenses"
14 allocated to each system?

15 A. Salaries and wages, mileage, retirement benefits, and FICA were each
16 allocated 75% to the water system and 25% to sewer system. This allocation was determined
17 to be reasonable based on the actual time spent on each system during the test year.
18 Mr. Clifford maintained a log of actual time he devoted to the water and sewer system. This
19 log was the basis for the allocations between these two utility services.

20 Billing, office supplies, accounting fees, postage, annual registration, cell-phone, and
21 insurance expenses were allocated equally 50% to water and 50% to sewer operations. The
22 allocation of these expenses was determined to be reasonable based on the nature of these
23 accounts.

1 Q. Why is it appropriate to allocate these accounts equally between the water and
2 sewer operations?

3 A. The Company sends out bills to each of its water and sewer customers equally
4 each month. Thus, billing, office supplies, and postage are expenses which should be shared
5 equally between the two systems.

6 The Company's accountant spends an equal amount of time preparing the financial
7 statements, tax returns and annual reports for each system. Therefore, this expense is
8 allocated equally between the two systems.

9 Annual registration, cell-phone, and insurance expense are also items that benefit
10 both the water and sewer systems equally.

11 Q. Was there another expense item that had a different allocation between the
12 two operating systems?

13 A. Yes. The expense of having a toll-free telephone line for customers to call in
14 free of charge was allocated 80% to water and 20% to sewer. This allocation was based on
15 Mr. Clifford's estimate of actual usage of the line for each type of customer.

16 **RATE BASE**

17 Q. Did Staff make any changes to the Company's test year plant balances that
18 would change the Company's amount of rate base included in this case?

19 A. Yes. Staff reclassified from account 325 to account 330 pressure tanks
20 purchased in 1998 and 2000 that were not yet fully depreciated, but were included in account
21 325 as being so. Staff also corrected the depreciation reserve amounts relating to this
22 reclassification.

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1 Staff also removed from account 325 an amount related to an old pump that was fully
2 depreciated and replaced and included the cost of the new pump put into service. An
3 adjustment was also made to the depreciation reserve for this replacement.

4 An adjustment was made to account 346 to reflect the cost of a new master meter that
5 was replaced during the test year.

6 Q. Does this conclude your direct testimony?

7 A. Yes, it does.