

Exhibit Number: _____

Issues: Rate Case Expense
Plant in Service
CIAC
Rate Design

Witness Name: Dale W. Johansen

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: MO PSC Staff

Case Number: WR-2006-0425 et al.

Date of Testimony: January 12, 2007

Missouri Public Service Commission

Utility Operations Division

Surrebuttal Testimony

of

Dale W. Johansen

FILED²

FEB 08 2007

**Missouri Public
Service Commission**

Algonquin Water Resources of Missouri, LLC

Case No. WR-2006-0425 et al.

Jefferson City, Missouri
January 2007

Staff Exhibit No. 27
Case No(s) WR-2006-0425
Date 1-22-07 Rptr XF

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

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

AFFIDAVIT OF DALE W. JOHANSEN

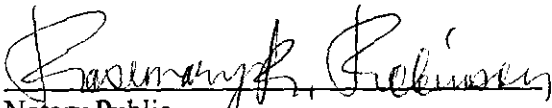
STATE OF MISSOURI)
) SS
COUNTY OF COLE)

COMES NOW Dale W. Johansen, being of lawful age, and on his oath states the following: (1) that he has participated in the preparation of the following Surrebuttal Testimony, presented in question and answer form, consisting of ten pages and including one schedule; (2) that the answers in the subject testimony were given by him; (3) that he has knowledge of the matters set forth in such answers; and (4) that such matters are true and correct to the best of his knowledge, information and belief.



Dale W. Johansen

Subscribed and sworn to before me this 11th day of January 2007.



Notary Public

My Commission Expires: 9-23-2008

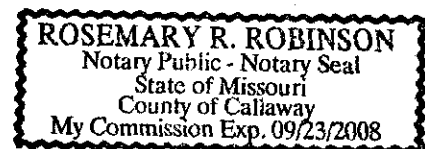


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**SURREBUTTAL TESTIMONY
OF DALE W. JOHANSEN**

**Algonquin Water Resources of Missouri, LLC
Case No. WR-2006-0425 et al.**

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**SURREBUTTAL TESTIMONY
OF
DALE W. JOHANSEN
ALGONQUIN WATER RESOURCES OF MISSOURI, LLC
CASE NO. WR-2006-0425 ET AL.**

INTRODUCTION

Q. Please state your name and business mailing address.

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

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

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

Q. Please briefly describe your job responsibilities.

A. My responsibilities include administrative and supervisory duties related to the operation of the W/S Dept, general oversight of the W/S Dept's facilities inspection program, participation in rulemaking activities involving existing or proposed Commission rules applicable to water and sewer utilities, participation in the review of utility tariffs, participation in small company rate increase requests, and participation in water and sewer utility cases before the Commission regarding both technical and policy matters. In addition to small company rate increase requests, I regularly participate in general rate increase cases, applications for certificates of convenience and necessity, rulemakings, water service area territorial agreements and formal complaints.

Q. What are your education and work experience backgrounds?

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

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

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

3 **EXECUTIVE SUMMARY**

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

5 A. I am the case coordinator for the Utility Operations Division for this case.
6 As such, I have been involved to some extent in many aspects of the Staff's investigation
7 of the general rate increase requests of Algonquin Water Resources of Missouri, LLC
8 ("Algonquin" or "Company") that are the subject of this consolidated case.

9 **Q. Based on your involvement in this case, are you familiar with the**
10 **testimony that Algonquin and the Staff have previously filed?**

11 A. Yes, I am. I have reviewed all of Algonquin's testimony and have also
12 been involved in the development of much of the Staff's testimony.

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

14 A. No, I have not.

15 **Q. Please summarize the Surrebuttal Testimony you are presenting.**

16 A. I am presenting testimony in response to the Rebuttal Testimony of
17 Algonquin witness Larry W. Loos regarding the following issues: Rate Case Expense;
18 Plant in Service (specifically what has been termed pre-1993 plant); Contributions in Aid
19 of Construction; and Rate Design.

20 **RATE CASE EXPENSE**

21 **Q. Beginning on line 7 of page 4 and continuing through line 23 of page 5**
22 **of his Rebuttal Testimony, Mr. Loos discusses various matters regarding**

1 **Algonquin's decision to not utilize the small company rate increase procedure for**
2 **submitting its rate increase request. Do you have any comments regarding this**
3 **testimony?**

4 A. Yes, I do. In addition to the discussions of this issue that are included in
5 the Surrebuttal Testimony of Staff witnesses Graham Vesely and "Kofi" Agyenim
6 Boateng, I think it is important to note that the potential beneficiary of the extended time
7 that it took to process the small company rate increase requests submitted by Silverleaf
8 Resorts ("Silverleaf") was Silverleaf itself. In fact, if the Staff is to be faulted for
9 anything with regard to the Silverleaf requests referenced by Mr. Loos, it would be that
10 the Staff was too lenient in allowing the requests to "remain open" rather than taking the
11 action of "closing" the requests and having Silverleaf resubmit them at a later date.

12 **Q. Has the Staff initiated any changes in the processing of small company**
13 **rate increase requests since the time of the Silverleaf cases that Mr. Loos mentioned,**
14 **which address the issue of the amount of time that it takes to process such requests?**

15 A. Yes, it has. As a result of the experience with the referenced Silverleaf
16 requests, and a couple of other situations that took what could be perceived as an
17 excessive amount of time to process, the Staff is now insisting that extensions of the
18 standard time frame for processing small company rate increase requests be put into
19 writing so that it is clear why the standard time frame is being "exceeded," and that the
20 company and the Staff agreed upon the extension. Additionally, the Staff has added
21 "target dates" by which certain actions are to be taken by both the involved company and
22 the Staff in an effort to see that the standard time frame for processing these requests is

1 met. With these changes, it is much less likely that small company rate increase requests
2 will simply be "kept open" for an extended period of time, even if it could be to the
3 involved company's benefit to do so.

4 **Q. While Case No. WO-2005-0206 (the "Sale Case") was pending before**
5 **the Commission, did Algonquin and the Staff discuss the Company using the small**
6 **company rate increase procedure for Algonquin's first post-sale rate increase**
7 **request?**

8 A. Yes. During the discussions that were held while the Sale Case was
9 pending before the Commission, representatives of the Company and the Staff discussed
10 the possibility of Algonquin using the small company rate increase procedure for its first
11 rate increase request. However, it was also understood that it was likely that at least
12 some of the rate base-related issues would likely go to hearing, and thus that the standard
13 small company procedure would have to be altered to accommodate that likelihood.

14 **Q. What would have been the benefit of this "alternative" small**
15 **company rate increase request procedure?**

16 A. While this approach would have likely resulted in some costs to
17 Algonquin for the anticipated hearings on the rate base-related issues, it would still have
18 resulted in substantial cost savings regarding the overall processing of the rate increase
19 requests when compared to the "formal" case approach chosen by the Company.

20 **Q. Did Algonquin contact the Staff about using the small company rate**
21 **increase procedure, or the above-referenced "alternative" procedure, for its current**
22 **rate increase requests?**

1 A. To the best of my knowledge, Algonquin did not contact anyone with the
2 Staff about possibly using the small company rate increase procedure, or the above-
3 referenced "alternative" procedure, prior to submitting the pending rate increase requests.
4 Also, I'm sure that if such contacts had been made, I would have known about them.

5 **PLANT IN SERVICE**

6 **Q. Beginning on line 1 of page 14 and continuing through line 7 of page**
7 **19 of his Rebuttal Testimony, Mr. Loos discusses various aspects of the "plant in**
8 **service" issue. Do you have any comments regarding his testimony, specifically in**
9 **regard to the "pre-1993" plant issues?**

10 A. Yes, I do. As Staff Witness Graham Vesely discusses in his Surrebuttal
11 Testimony, the Staff's balances for plant in service do, in fact, include consideration of
12 the plant that was installed prior to 1994. As a result, the only real issue with regard to
13 this matter is the manner in which the pre-1993 plant that was included in the Staff's plant
14 balances was treated for purposes of calculating Algonquin's ratemaking rate base.

15 **Q. How is the pre-1993 plant that is included in the Staff's plant balances**
16 **treated for ratemaking purposes?**

17 A. This plant is treated in the same manner as is plant that was installed after
18 1993, specifically with water supply and storage facilities and sewer treatment facilities
19 being treated as rate base, and with water distribution mains and sewer collecting mains
20 being treated as contributed plant.

21 **Q. As a result of the above-noted recognition and treatment of the pre-**
22 **1993 plant, what is the real issue regarding this plant?**

1 A. The real issue regarding much of the pre-1993 plant, as well as much of
2 the plant installed after 1993, is whether the plant should be treated as a utility investment
3 or as contributed plant for ratemaking purposes. Additional discussions of this issue are
4 included in the following section of this testimony.

5 Q. So far as Algonquin's efforts to calculate a value for the pre-1993
6 plant, and its request to use these values for ratemaking purposes, are concerned,
7 are you aware of any other situation where a Commission-regulated water or sewer
8 utility has undertaken such actions for ratemaking purposes?

9 A. No, I am not. This is the only instance of this extraordinary effort and
10 request of which I am aware.

11 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

12 Q. Where does Mr. Loos' testimony about CIAC appear in his Rebuttal
13 Testimony?

14 A. Mr. Loos' discussion of this issue begins on line 8 of page 19 and
15 continues through line 3 of page 22 of his Rebuttal Testimony.

16 Q. Do you agree with Mr. Loos' characterization of the Staff's CIAC
17 adjustment as being "phantom" CIAC?

18 A. No, I do not. The Staff's adjustments regarding CIAC pertain specifically
19 to actual amounts of plant that are considered to be CIAC for ratemaking purposes. Also,
20 while the Staff's adjustments assume that Silverleaf adhered to certain tariff provisions, I
21 do not believe this means the adjustments are for "phantom" CIAC.

1 **Q. Are you familiar with the tariff provisions that are related to this**
2 **issue?**

3 **A. Yes, I am. These tariff provisions are generally those pertaining to the**
4 **extension of mains. For sewer service, the related provisions are found in Rule 11 –**
5 **Extension of Collecting Sewers, which begins on Sheet No. 24 of the sewer tariff. For**
6 **water service, the related provisions are found in Rule 14 – Extension of Water Mains,**
7 **which begins on Sheet No. 25 of the water tariff.**

8 **Q. On lines 10 and 11 of page 20 of his Rebuttal Testimony, Mr. Loos**
9 **states that "the concept of contributions makes no sense" in light of the fact that**
10 **"Silverleaf" was the only developer. Do you agree?**

11 **A. Absolutely not. First, Silverleaf the developer is not the same entity as**
12 **Silverleaf the utility company for purposes of these tariff provisions. Second, what**
13 **would make no sense to me would be for Silverleaf the developer to be treated differently**
14 **than an "independent" developer or other customers who required main extensions. To**
15 **do so would obviously be inequitable and would lead to the utility "company" and its**
16 **customers taking on the risk that should be born by the development "company" through**
17 **its normal course of business.**

18 **Q. One of the items that Mr. Loos noted is that he found no evidence that**
19 **Silverleaf the utility ever required or received a contribution from Silverleaf the**
20 **developer. Are you surprised that Mr. Loos found no such evidence?**

21 **A. No, I am not. It is not at all unusual to find that money never actually**
22 **changed hands when it comes to contributions being "made" for main extensions. It is**

1 not at all unusual for this to be the case when a developer is involved, because the
2 developer is often times the entity that constructs the facilities; in fact, this is actually the
3 norm in those situations where the developer is an affiliate of the utility company.

4 **Q. Do you agree with Mr. Loos' characterization that "intergenerational**
5 **inequities" are created by the Staff's approach to CIAC involving Silverleaf the**
6 **developer?**

7 A. While this is, quite honestly, the first time I have seen this discussion
8 regarding this matter, I do not agree with Mr. Loos' characterization. In fact, it seems to
9 me that when it comes to the tariff extension rules that it would be the inconsistent
10 application of those provisions that would create inequities, whether generational or
11 otherwise.

12 **Q. Are the tariff provisions applicable to this situation consistent with**
13 **those that exist for most other water and sewer utilities?**

14 A. Yes, they are.

15 **Q. Is the Staff's interpretation and application ("treatment") of the tariff**
16 **provisions applicable to this situation consistent with the Staff's treatment of similar**
17 **tariff provisions that exist for other water and sewer utilities?**

18 A. Yes.

19 **Q. How long has Algonquin been aware of the Staff's position regarding**
20 **this matter?**

21 A. The Staff made Algonquin aware of its position regarding this matter
22 during the time the Sale Case was pending before the Commission.

RATE DESIGN

Q. Beginning on line 14 of page 22 and continuing through line 12 of page 23 of his Rebuttal Testimony, Mr. Loos discusses the Staff's proposed rate design and suggests that it be modified by combining the rates for the Holiday Hills Resort ("HHR") and the Ozark Mountain Resort ("OMR") service areas. Please respond to this suggestion.

A. While I don't necessarily disagree with the reasons that Mr. Loos offers as support for this suggestion, I believe there are better reasons for not implementing it.

Q. What are the reasons for not combining the rates for the HHR and OMR service areas?

A. First, it is clear there is a significant difference in the amount of rate base existing in these systems on a per-customer basis, which in turn leads to significant differences in the cost-of-service items that are directly related to rate base. Combination of the rates for the two systems would thus create the situation where one system is clearly subsidizing the other.

Second, the type of service provided in these systems is significantly different in two respects. The first of these is that service in the OMR system is essentially provided only for domestic purposes, while service in the HHR system also includes significant sales for the irrigation of a golf course. The second service-related difference that exists between these two systems is that the facilities in the HHR system are capable of providing a significantly higher level of fire protection service than are

1 those in the OMR system. (Additional information regarding fire protection matters is
2 included in the Surrebuttal Testimony of Staff witness James A. Merciel, Jr.)

3 Because of these significant differences between the two systems, the
4 Staff does not believe it is appropriate to combine the rates for the HHR and OMR
5 service areas.

6 **Q. If the Commission decides that the rates for the HHR and OMR**
7 **service areas should be combined, is there anything in particular that it should keep**
8 **in mind when making that decision?**

9 A. Yes, there is. If the rates for these two systems are to be combined, there
10 should still be a separate rate for the irrigation service being provided in the HHR service
11 area and the costs allocated to that service should not significantly change from those that
12 are included in the Staff's most recent rate calculations.

13 **Q. Does this conclude your Surrebuttal Testimony?**

14 A. Yes, it does.

**SCHEDULES FOR THE SURREBUTTAL
TESTIMONY OF DALE W. JOHANSEN**

Case No. WR-2006-0425 et al.

Listing and Description of Schedules

Schedule DWJ – 1: Education & Work Experience Summary

DALE W. JOHANSEN

EDUCATION & WORK EXPERIENCE SUMMARY

COLLEGE EDUCATION

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

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

REGULATORY/UTILITY WORK EXPERIENCE

Missouri Public Service Commission

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

Johansen Consulting Services

Utility & Regulatory Consultant
February 1994 to June 1995

Missouri One Call System, Inc.

Executive Director
January 1992 to February 1994

Missouri Public Service Commission

(service prior to current position)

Director – Utility Services Division
November 1990 to January 1992

Case Coordinator – Utility Division
November 1987 to November 1990

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

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