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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING

REBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

GASCONY WATER COMPANY, INC.

CASE NO. WR-2017-0343

Jefferson City, Missouri
January, 2018

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MATTHEW R. YOUNG
GASCONY WATER COMPANY, INC.
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1 Q. Have you previously filed testimony before this Commission?

2 A. Yes. I have filed testimony in a variety of cases processed by the Commission.
3 Attached to this rebuttal testimony is Schedule MRY-r1, which details the major audits and
4 other case work in which I participated as well as the scope of the audits I have performed.

5 Q. With reference to Case No. WR-2017-0343, have you examined and studied
6 the books and records of Gascony Water Company, Inc. (“Gascony Water”) regarding its
7 water operations?

8 A. Yes, with the assistance of other members of the Staff of the Commission
9 (“Staff”).

10 Q. What is the purpose of your rebuttal testimony?

11 A. I will respond to Gascony Water’s direct testimony regarding depreciation, the
12 rate base treatment of certain equipment and land as well as rebut the current level of revenue
13 included in Gascony Water’s direct case. Staff witness Michael Jason Taylor will be
14 responding to other revenue requirement issues in this case.

15 **REVENUE**

16 Q. What is Gascony Water’s recommendation for the appropriate amount of
17 current revenues?

18 A. Gascony Water used the dollars associated with Attachment B (Staff’s
19 Accounting Schedules) of the Partial Disposition Agreement¹ to form its revenue
20 requirement.² The revenue requirement of \$1,248 produced by Staff’s Accounting Schedules,
21 which considered all the adjustments made to the test year ending December 31, 2017, is

¹ Filed November 17, 2017 in Case No. WR-2017-0343; EFIS Item No. 8.

² Russo direct testimony, page 10, lines 11-14.

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1 based on \$35,411 of annualized revenues. However, the revenue requirement produced by
2 Staff's November 17, 2017 Accounting Schedules has changed as result of new information
3 provided by Gascony Water, relating to the number of customers Gascony Water provides
4 water service (commonly referred to customer counts).

5 Q. Were the customer counts used to annualize revenues accurate in Staff's
6 Accounting Schedules?

7 A. No. After Staff's initial revenue annualization was provided to the Company
8 and The Office of the Public Counsel ("Public Counsel"), it was learned that Staff did not use
9 the correct customer counts, which is further discussed below. Through an email dated
10 October 11, 2017, Staff requested additional information regarding customer counts from
11 Gascony Water. The correct customer counts were subsequently provided to Staff by the
12 Company and those correct customer counts were used to revise Staff's annualized revenues.
13 Therefore, the amount of revenues Gascony Water used to determine its revenue requirement,
14 as sponsored by Mr. Russo, is not accurate.

15 Q. How did the change in customer counts effect Staff's revenue requirement?

16 A. The number of June 30, 2017, part-time customers increased by 6 customers
17 from the customer counts provided by the Company during Staff's on-site visit. The
18 additional number of customers created additional annualized revenue, which leads to a
19 decrease in Staff's revenue requirement of \$885.³ This update to Staff's revenue requirement
20 is reflected in the Accounting Schedules that are attached to the rebuttal testimony of Staff
21 witness Michael Jason Taylor.

³ 6 customers * 4 bill/year * \$36.88 tariffed charge per bill = \$885.

1 Q. What is the amount of the revenue requirement Gascony Water should have
2 used in its starting point calculation?

3 A. Staff's November 17 Accounting Schedules showing a revenue requirement of
4 \$1,248 should now be a revenue requirement of \$363 to reflect the changes for the customer
5 counts. If Mr. Russo uses this updated revenue requirement amount (based on correct
6 customer counts), it would decrease his current revenue requirement proposal by \$885, to a
7 level of \$21,375.

8 **RATE BASE**

9 Q. What rate base items does Gascony Water believe should be included in
10 rate base?

11 A. Gascony Water believes there are four items that should be included in rate
12 base in this proceeding; the parcel of land that contains Gascony Water's well and well house
13 ("Lot 27"), the parcel of land that contains a storage shed ("Shed Property"), a trencher, and a
14 utility task vehicle (UTV).⁴

15 Q. Does Staff agree that these items should be in Gascony Water's rate base?

16 A. Yes. Staff has included each of the above items in rate base but disagrees on
17 the appropriate value to attach to each of these items.

18 Q. How does Gascony Water recommend that these plant items should be
19 included in rate base?

20 A. Gascony Water recommends that these plant items should be transferred from
21 the companies related to Gascony Water, that are solely controlled by Mr. Hoesch or

⁴ Russo direct testimony, page 8, lines 16-21.

1 Mr. Hoesch's children, to the water utility with the Gascony's proposed market value of each
2 item as the amount to include in Gascony Water's rate base.

3 Q. Are the amounts that Gascony Water recommends to include in rate base
4 reflective of market negotiations?

5 A. No. Any other person or entity that shares common ownership with the utility
6 or any other entity which that has familial ties to the utility would not appear to conduct
7 business with Gascony Water at arms-length.⁵ A transaction that is not made at arms-length
8 is not a balanced transaction when the parties are working together to benefit one party.

9 Q. Please identify and describe the companies that are related to Gascony Water.

10 A. Gascony Water is related to Gasc-Osage Realty Company ("Gasc-Osage" or
11 "Realty Company"). Gasc-Osage is the entity that developed Gascony Village and also built
12 water system that serves the ratepayers of Gascony Village.⁶ Gascony Water and Gasc-Osage
13 share common ownership, with Mr. Hoesch as the developer and owner. Mr. Hoesch is the
14 sole person that makes final decisions for Gasc-Osage and Gascony Water.

15 Gascony Water is also related to CMC Water Co., LLC ("CMC Water"), which is
16 owned by the children of Mr. Hoesch. CMC Water is the entity that appears to legally own
17 the land referred to as Lot 27. Gasc-Osage gifted ownership of Lot 27 to his children in the
18 late 1980s, who then transferred the real property to CMC Water in 2015.⁷

19 Q. What are the differences between Staff and Gascony Water on the rate base
20 values for each item still in dispute?

⁵ American Institute of Certified Public Accountants AU-C 550.10 defines "Arm's length transaction" as "[a] transaction conducted on such terms and conditions between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests."

⁶ Hoesch direct testimony, page 1, lines 17-19.

⁷ Hoesch direct testimony, page 5, lines 18-20.

1 A. In the following testimony, I will compare and contrast Staff's valuation
2 method with Gascony Water's for each of the rate base items.

3 **Land – Lot 27**

4 Q. What is Staff's recommendation for the treatment of Lot 27?

5 A. Staff understands that CMC Water appears to legally own Lot 27. Staff
6 recommends that CMC Water and Gascony Water should validly transfer ownership of Lot 27
7 from CMC Water to Gascony Water. Staff further recommends that rate base should contain
8 a \$0 value for Lot 27. Assigning \$0 of rate base for this land is consistent with the treatment
9 of all other utility property, plant, and equipment that existed as of the 1997 Certificate of
10 Convenience and Necessity (CCN) Case, case number WA-97-510 ("1997 CCN Case"), that
11 involved virtually the identical parties as are involved in the current case. In the 1997 CCN
12 Case, the parties agreed and the Commission approved that all existing tangible plant at the
13 time was recovered through lot sales, and should not increase rate base because it was
14 considered Contributions-in-aid-of Construction ("CIAC"). In essence, Gascony Water has
15 no investment (with no improvements to the land subsequent to the 1997 CCN Case) in
16 Lot 27 as the cost of this land was recovered as development costs.

17 Q. Why is the 1997 CCN Case relevant to the determination of rate base in
18 this case?

19 A. The events of the 1997 CCN Case, including testimony by Mr. Hoesch,
20 and agreement between the parties, determined the Commission-approved rate base for
21 Gascony Water.

22 Q. In Missouri's cost of service ratemaking, what does rate base represent?

1 A. In general, the rate base of a utility represents the owner's unrecovered
2 investment in utility infrastructure. Rate base valuation is based on what is referred to as
3 "original costs" concepts. Original costs methodology values a utility asset in rate base at the
4 net cost incurred when the asset was first placed into public service.

5 Q. Is there any unrecovered investment in Lot 27?

6 A. No. Staff's position is that this parcel of land, along with the original costs of
7 the well and structures situated on the parcel of land, have been recovered through the sale
8 price of Gascony Village's lots. Typically, these costs are referred to as development costs.
9 Unless evidence is presented during a rate case review to show otherwise, utility
10 infrastructure that is recovered by a developer is treated as CIAC on the utility's books and
11 records. The developer then "contributes" the infrastructure property to the utility company at
12 no (zero) costs. During the 1997 CCN Case, all of Gascony Water's utility plant was deemed
13 as contributed, or treated as CIAC. The rebuttal testimony of Staff witness James M. Russo,
14 attached as Schedule MRY-r2, in the 1997 CCN Case states:

15 Q. What did you discover in your review?
16

17 A. Based on the information provided by the Company it
18 appears that all of the identified Plant in Service costs were
19 expensed in the year occurred as a development cost.
20

21 Q. How does this affect the proposed rate base of the
22 Company?
23

24 A. Items that have been previously expensed should not be
25 included in rate base for ratemaking purposes. If companies
26 were allowed to include previously expensed items in future
27 rates they would in effect be receiving the benefit of that item

1 twice. Based on our review of the Company's records, the Staff
2 is recommending \$0 for rate base.⁸

3 Q. In what situations would Staff recommend a \$0 rate base?

4 A. Staff would recommend a \$0 rate base when the developer has recovered all
5 costs associated with the development through lot sales. It is typical in the development stage
6 of building housing, that the costs to improve the land be recovered from lot sales. The
7 development costs include the utility's initial infrastructure for water, sewer, electric, natural
8 gas service, telephone lines, etc., as well as other neighborhood amenities such as roads,
9 bridges, sidewalks, pools, boat ramps, roads, and other common areas. These improvements
10 and the related development costs are recovered through the lot sales by customers purchasing
11 the lots. When the development costs are recovered by the land or lot sales, the developer
12 typically "contributes" the related utility property, in this case the water system, to the utility.
13 Thus, upon selling lots, there is no unrecovered investment in the utility system to include in
14 rate base. To allow further recovery from utility customers through the payment of utility
15 rates would result in a double recovery of the development costs, once through payment for
16 the lot sales themselves and twice through utility rates for water service.

17 Q. Is there any historical evidence that the development costs for Gascony Village
18 were recovered through lot sales and treated as CIAC?

19 A. Yes. Gascony Water indicated in its direct testimony in the 1997 CCN Case,
20 attached to this testimony as Schedule MRY-r3, that Gasc-Osage had already recovered
21 the development costs through lot sales. In the 1997 CCN Case, Gascony Water stated
22 the following:

⁸ Russo rebuttal testimony in Case No. WA-97-510, page 4, lines 11-20.

1 Q. Did the Company record a reserve for the completion of the
2 water system?
3

4 A. The Company's predecessor [Gasc-Osage] recorded a
5 seventy thousand dollar (\$70,000) reserve for completion of the
6 water system. A portion of this reserve is allocated to the cost
7 of each lot to recover capital costs on the water plant. **This**
8 **reserve is the only mechanism that the Company's**
9 **predecessor had in place to recover the costs of the water**
10 **plant. The price of the lots does not include any other**
11 **amounts, beyond this reserve, which are intended to provide**
12 **recovery of costs associated with the water plant.**⁹

13 [emphasis added]

14 It is clear from this testimony that the development costs, specifically the water system which
15 included Lot 27, was assigned and recovered from lot sales. This cost recovery is the
16 textbook definition of CIAC.

17 Q. Why would a developer make these kinds of development investments in a
18 neighborhood?

19 A. Sales of lots are enhanced by improvements made to the development.
20 Improvements make the lots more appealing and therefore marketable. In fact, the availability
21 of utilities is a bullet point in advertisements for the lots in a newly developed area to make
22 potential buyers more interested and pay higher amounts for property improved by amenities
23 such as utility services. Attached to this testimony is Schedule MRY-r4, which is an
24 advertisement for Gascony Village obtained in Staff Data Request No. 9 submitted in the
25 1997 CCN Case. The marketing for Gascony Village illustrates the marketing strategy which
26 highlights the utility availability as the first feature of a lot in Gascony Village.

27 Q. What is Gascony Water's recommendation for the land known as Lot 27?

⁹ Hoesch direct testimony in Case No. WA-97-510, page 2, line 37 through page 3, line 42.

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1 A. Gascony Water recommends the inclusion of the “purchase price” of \$10,000
2 for Lot 27 in rate base. The General Warranty Deed has been attached to this testimony as
3 Schedule MRY-r5.

4 Q. Is it correct that Gascony Water does not have legal ownership of the land
5 containing the well?

6 A. Yes. After Mr. Hoesch drilled a water well in 1980, he deeded the Lot 27 to
7 his two children in the late 1980s¹⁰ for \$0 dollars; in 2015 the children formed CMC Water
8 Co. LLC, and transferred ownership of this parcel of land to that LLC. CMC Water attempted
9 to transfer Lot 27 to Gascony Water Company, Inc. on July 1, 2017, but the Grantor is listed
10 as “CMC water, a Missouri limited partnership” and not CMC Water Co, LLC. Regardless,
11 Gascony Water is now asking that ratepayers pay again for the same land that was recovered
12 through the purchase of lots originally. More importantly, Mr. Hoesch is requesting rate
13 treatment for the land transfer at a 2017 market based price for this property even though the
14 land and well have been used by the public utility since the Gascony Water system
15 began providing water services in the 1980s, even before it received a certificate from
16 the Commission.

17 Q. Did Mr. Hoesch previously commit to transfer the land to Gascony Water?

18 A. Yes. In his direct testimony in the 1997 CCN Case, Mr. Hoesch stated he
19 would transfer all property and equipment necessary to operate the water system upon
20 approval by the Commission authorizing the CCN. He specifically identified that “...the land
21 on which the well plant is situated...” (Lot 27) would be transferred to Gascony Water
22 operations. In essence, Mr. Hoesch pledged that upon getting the certificate from the

¹⁰ Hoesch direct testimony, page 5, lines 18-20.

1 Commission, this transfer to Gascony Water would take place. Staff based its
2 recommendation in this case on that pledge that the transfer indeed did take place when the
3 Commission issued its order in Case No. WA-97-510. In his direct testimony in the 1997
4 CCN Case, Mr. Hoesch stated:

5 Q. What are the Company's Assets?
6

7 A. The Company will own and operate an adequately sized
8 water system for the Gascony Village development, which was
9 installed in the early 1980's. The water system consists of an
10 electric well with a pump and structure connected to several
11 miles of supply mains. **The Company will also own** a trailer,
12 which will serve as the Company's office, **the land on which**
13 **the well plant is situated**, a computer and other equipment,
14 office furniture, a trencher, and shop tools. These assets are
15 currently carried on the books of the Realty Company...All of
16 these assets have been and will be used exclusively by the
17 Company, not by the Realty Company.¹¹
18 [emphasis added]

19 Q. Did Mr. Hoesch transfer the assets, including Lot 27, from the Realty
20 Company to Gascony Water?

21 A. No. Even though the Commission approved the request by Gascony Water for
22 a certificate of convenience and necessity at the end of the 1997 CCN Case, Mr. Hoesch did
23 not transfer any of the assets to Gascony Water as he committed to do in testimony. Although
24 Gascony Water's testimony in the 1997 CCN Case stated that Lot 27 was on the books of
25 Gasc-Osage, Mr. Hoesch's testimony in the current case reveals this was not the case. In the
26 current case, Mr. Hoesch's testimony admits that his children owned Lot 27 ten years before
27 the 1997 CCN Case.¹²

¹¹ Hoesch direct testimony in Case No. WA-97-510, page 3, line 49 through line 58.

¹² Hoesch direct testimony, page 5, lines 18-22.

1 Q. Was there indication in the 1997 CCN Case that the land was not under control
2 of Mr. Hoesch?

3 A. No. There is no evidence in the 1997 CCN Case that Gascony Water would
4 not have the necessary property and equipment to operate the water system. A detailed
5 review of the 1997 CCN application in Case No. WA-97-510 did not uncover any concern
6 that the land would be an issue going forward in operating the Gascony Water system.

7 Q. Does the \$10,000 amount for Lot 27 represent a purchase price negotiated at
8 “arms-length”?

9 A. No. Since Gascony Water is owned and controlled by Mr. Hoesch and
10 CMC Water is owned by his children, the negotiated purchase price for this property does not
11 represent a fair market value. Because the negotiating parties share a common interest,
12 their familial relationship, beyond their business interest, Staff is concerned that the
13 \$10,000 transfer price is not a negotiated price and was not based on an independent
14 “arms-length” transaction.

15 Q. How was the sale price in the transaction formulated?

16 A. The \$10,000 purchase price that Gascony Water is to pay for this land was
17 based on the sale of two lots that, in Gascony Water’s opinion, are comparable to Lot 27. The
18 sales data of these two lots was adjusted to account for the difference in square feet between
19 the lots sold and Lot 27.¹³

20 Q. Did Gascony Water attempt to have Lot 27 appraised?

21 A. Yes. Gascony Water initially hired an appraiser for this parcel of land, but the
22 appraiser determined that they were unable to find enough comparable land sales to make a

¹³ Russo direct testimony, page 9, lines 7-11.

1 recommendation regarding market price, and eventually withdrew from the engagement.¹⁴

2 Therefore, there is no third party, independent appraisal to base the land value for Lot 27.

3 Q. If a professional appraiser could not compare recent lot sales to Lot 27, does
4 Gascony Water's comparison to recent lot sales provide relevant information to this rate case?

5 A. No. If a professional appraiser could not place a market value on Lot 27 using
6 the sales of other property in the area, Gascony Water's comparison should not be considered
7 a market valuation for this property. Also, the two lots Gascony Water used to form a
8 value of Lot 27 cannot be comparable as neither of these lots had an existing well on
9 those properties.

10 Q. If it is Staff's opinion that the proposed \$10,000 price is not proper, what does
11 Staff propose to include in rate base for the acquisition of Lot 27?

12 A. Staff recommends including \$0 in rate base for Lot 27.

13 Q. Is it routine for Staff to recommend a \$0 rate base instead of including the
14 original cost of the utility system and offsetting the actual costs with CIAC?

15 A. Typically, Staff will attempt to identify the original cost of utility plant and
16 offset the plant with CIAC when there is no rate base investment made by the utility.
17 However, in the 1997 Certificate Case, support for the original costs was not readily available
18 from Gascony Water,¹⁵ so Staff was unable to determine a cost to offset with CIAC. At the
19 conclusion of the 1997 CCN Case, all parties agreed that no unrecovered investment for
20 tangible plant existed when rates were established.

¹⁴ Russo direct testimony, page 9, lines 3-6.

¹⁵ In Case No. WA-97-510, the original name of the utility was "George Hoesch" but on November 25, 1998, a motion was filed to substitute the corporate entity "Gascony Water Co." as the name of the company requesting a certificate. For simplicity, this testimony refers to the "George Hoesch" entity as Gascony Water.

1 Q. Did rates resulting from the 1997 CCN Case contain a rate base?

2 A. Yes. Gascony Water's initial rates had \$21,000 of rate base which consisted of
3 \$1,000 for meter related equipment and \$20,000 of start-up costs.

4 Q. What are start-up costs?

5 A. In the 1997 CCN Case, start-up costs were a "substitute" rate base. Since
6 Gascony Water did not have any unrecovered development cost investment at the time of the
7 1997 CCN Case, rates would not have included an amount of revenue for the rate of return
8 component of its cost of service.

9 Under the Commission's ratemaking practices, rates are established so that utilities
10 earn enough revenue to cover their expenses, including depreciation expense (the recovery of
11 capital investment), plus utilities have an opportunity to earn a rate of return on their
12 unrecovered investment in the utility. If rates were established on a \$0 rate base, the utility
13 would only earn revenues sufficient to pay its operating expenses, but would not be able to
14 make debt payments or earn a profit, which would likely lead to a financially unstable utility.
15 Start-up costs were included in Gascony Water's initial rates to give Gascony Water a level
16 of revenues above its expenses until the time Gascony Water had unrecovered investments in
17 the utility.

18 Q. What would be the unrecovered investments made by utility like a
19 Gascony Water?

20 A. Examples of unrecovered investments include the replacement of pumps,
21 installation or repair of water mains, or the purchase of new equipment. It is common for
22 water companies, as well as other utility companies, to add or replace plant and equipment
23 during the provision of utility services. Whenever these investments are not contributed, but

1 are “invested” by the utility operator, those investment costs are included in rate base for
2 recovery. These invested amounts are recovered through depreciation, the “return of” the
3 investment, and through the rate of return of the unrecovered or undepreciated amount of rate
4 base, referred to as the “return on.”

5 Q. What costs were used to establish Gascony Water’s start-up costs included in
6 rate base in the 1997 CCN Case?

7 A. In the 1997 CCN Case, Staff witness James A. Merciel, Jr filed Testimony in
8 Support of Stipulation and Agreement which explained Gascony Water’s rate base.
9 In Mr. Merciel’s testimony, attached to this testimony as Schedule MRY-r6, he stated, “In the
10 Stipulation, rate base includes \$20,000 as start-up costs, consisting of legal and consulting
11 expenses, and \$1,000 for three meters that the Company will install immediately for
12 commercial customers.”¹⁶ This testimony illustrates that in the 1997 CCN Case, the parties
13 agreed that Gascony Water did not have any unrecovered investment in utility plant at the
14 time the certificate was granted by the Commission because all development costs were
15 recovered through the lot sales.

16 Q. In the 1997 CCN Case, what was the recovery period for the \$20,000 of
17 start-up costs?

18 A. Rates established in the 1997 CCN Case included a 5-year amortization of the
19 start-up costs, which were included in rate base. Gascony Water began collecting this
20 amortization as of the effective date of rates in the 1997 CCN Case, and received \$4,000 per
21 year from ratepayers as a “return of” these start-up costs. Because rates have not been reset

¹⁶ Merciel Testimony in Support of Stipulation and Agreement, page 2, lines 1-4.

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1 since the 1997 CCN Case, Gascony Water has continued to collect \$4,000 a year from
2 customers after the \$20,000 was fully recovered in 2004.

3 Q. Have rates changed since Gascony Water began collecting the amortization of
4 start-up costs?

5 A. No. After the \$20,000 of start-up costs were fully recovered in 2004, Gascony
6 Water's rates continued to include the amortization of the \$20,000. As of June 30, 2017,
7 customers have paid a total of \$73,000 for this amortization during the prior 18.25 years. The
8 \$4,000 per year Gascony Water has collected is cash that the utility used to cover a variety of
9 business costs.

10 Q. Did Staff review Gascony Water's plant records after the 1997 CCN Case
11 was concluded?

12 A. Yes. Per an agreement between the parties in the 1997 CCN Case, Staff
13 completed an 18 month review in August 2001.

14 Q. What were the findings of Staff's 18 month review?

15 A. Staff performed a review approximately 18 months after the Commission
16 authorized Gascony Water's certificate. The 18-month review memorandum, attached to this
17 testimony as Schedule MRY-r7, found that the Company did not provide evidence to show
18 that rates were too high. In its memorandum, Staff stated that:

19 The Accounting Staff has concluded the Company experienced
20 a revenue requirement shortfall in calendar year 1999 of
21 approximately \$1,268 and experienced a revenue shortfall of
22 \$329 for calendar year 2000. Staff estimates a revenue
23 requirement shortfall in calendar year 2001 of approximately
24 the same amount as calendar year 2000 as there have been no
25 significant changes to the Company's system... Since an over
26 earnings situation does not exist and it is incumbent upon the
27 Company to file for an increase in its rates, the Staff finds the

1 monthly rates for water service as ordered by the Commission
2 18 months ago are still appropriate.¹⁷

3 Q. Who on Staff conducted this 18 month review?

4 A. Staff's 18 month review was authored by Mr. Russo and another Staff auditor
5 when Mr. Russo was a member of the Commission Auditing Department, then referred to as
6 the Accounting Department.

7 Q. Did Gascony Water file for rate increase after the 1997 CCN Case?

8 A. Yes, but not until mid-2014. In Case No. WR-2015-0020, Gascony Water
9 filed a rate increase request causing a review of the Company's cost structure. This rate case
10 was ultimately withdrawn before an agreement was reached.

11 Q. Should rate base be increased for any costs incurred to obtain ownership of the
12 land with the well?

13 A. No. As stated by Mr. Hoesch himself in testimony, Gasc-Osage has already
14 recovered the costs of the entire development, including the land in question, through lot sales
15 therefore, there is no unrecovered investment to charge to ratepayers. As such, these
16 recovered assets were "contributed" to Gascony Water by the developer, Mr. Hoesch, and his
17 realty company, Gasc-Osage.

18 Additionally, although the ownership of Lot 27 was transferred away from
19 Gasc-Osage prior to Gascony Water becoming a certificated utility, Gascony Water submitted
20 sworn testimony that it would procure ownership of Lot 27.

¹⁷ 18 month Audit Review Memorandum dated August 22, 2001 from James M. Russo and Dana E. Eaves.

1 Q. If Mr. Hoesch were making decisions from the perspective of a regulated
2 utility, would it have been a prudent decision to transfer ownership of Lot 27 out of
3 his control?

4 A. No. From a regulated utility perspective, it would have been an imprudent
5 decision for a utility owner to relinquish control of the well that provides service to
6 ratepayers. However, Mr. Hoesch was making decisions from the perspective of a developer
7 at the time the property was transferred and did not consider the legal and technical
8 ramifications associated with regulatory requirements of retaining access to utility property.

9 **Shed Property**

10 Q. What is the Gascony Water's position on the Shed Property for ratemaking?

11 A. Similar to Lot 27 discussed in the previous section of my rebuttal, Gascony
12 Water states that it is appropriate for the utility to own all the land that contains utility
13 structures.¹⁸ Gascony Water further recommends that the Shed Property should be valued in
14 rate base at what it has determined to be a current market value at 2017 land prices. Gascony
15 Water has used its determination of current market value to arrange a transaction between
16 Gascony Water and its affiliated company Gasc-Osage. Both Gascony Water and
17 Gasc-Osage are owned by Mr. Hoesch. Staff has been advised by its counsel that based on
18 the facts and circumstances presented, the Shed Property was legally transferred from
19 Gasc-Osage to Gascony Water on July 1, 2017.

20 Q. How was the sale price in the transaction formulated?

21 A. Consistent with the Company's methodology used to value Lot 27,
22 the purchase price for the Shed Property was again based on the sale of the two lots sold by

¹⁸ Hoesch direct testimony, page 6, lines 5-6.

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1 Gasc-Osage (through Mr. Hoesch). In Gascony Water’s opinion, the two lots sold by
2 Gasc-Osage are comparable to the Shed Property and the sales data of these two lots
3 was adjusted to account for the difference in square feet between the lots sold and the
4 Shed Property.¹⁹

5 Q. Did Gascony Water attempt to have the Shed Property appraised?

6 A. Yes. Gascony Water initially hired the same appraiser it did for Lot 27 for
7 this parcel of land. Just as the appraiser was unable to perform an appraisal of Lot 27, they
8 were unable to find enough comparable land sales to determine a market price for the
9 Shed Property. The appraiser withdrew from the engagement for the appraisal of the
10 Shed Property just as they did for Lot 27.²⁰

11 Q. If a professional appraiser could not compare recent lot sales to the
12 Shed Property, does Gascony Water’s comparison to recent lot sales provide relevant
13 information to this rate case?

14 A. No. If a professional appraiser could not place a market value on the
15 Shed Property using the sales of other property in the area, Gascony Water’s comparison
16 should not be considered a market value. More importantly, the Shed Property has been
17 “in service” for many years, so it is unrealistic to determine property values based on 2017
18 market based prices.

19 Q. What is Staff’s position for Gascony Water to resolve this issue with the
20 Shed Property?

¹⁹ Russo direct testimony, page 9, lines 12-18.

²⁰ Russo direct testimony, page 9, lines 3-6.

Rebuttal Testimony of
Matthew R. Young

1 A. Staff recommends that Mr. Hoesch should file the transfer ownership of the
2 Shed Property from Gasc-Osage to Gascony Water with the Gasconade County Recorder of
3 Deeds. Staff further recommends that rate base should contain a \$0 value for this property as
4 well, just as it recommends for Lot 27. Assigning \$0 of rate base for this land is consistent
5 with the treatment of all other utility property, plant, and equipment that existed as of the
6 1997 CCN Case. In the 1997 CCN Case, the parties agreed that all existing tangible plant was
7 recovered through lot sales, and should not increase rate base because it was considered
8 CIAC. I discussed the CIAC concept in the section of this rebuttal testimony titled Lot 27
9 above. Consistent with Lot 27, there is not any unrecovered investment associated with the
10 Shed Property.

11 Q. Did Staff include the cost of the structure in rate base?

12 A. Yes. Staff has included the supportable costs associated with the construction
13 of the shed itself. The issue in dispute relates to the land upon which the shed was built.

14 Q. Is it a sound utility practice to construct utility property on land that is not
15 owned and controlled by the utility?

16 A. No. Just as it would not be prudent to build one's house on property not
17 owned by the home owner, it is equally not prudent to locate utility property on land not
18 owned by the utility. It was improper for Gascony Water to place its water system on land not
19 under control of ownership. As such, ratepayers should be held harmless from all costs
20 incurred to acquire ownership of the Shed Property.

21 Q. Does Mr. Hoesch have the ability to transfer the Shed Property from
22 Gasc-Osage to Gascony Water?

1 A. Yes. The Deed transfer is already signed and notarized and ready to be filed
2 with the Gasconade County Recorder of Deeds. The document is attached to this testimony
3 as Schedule MRY-r8.

4 **Trencher**

5 Q. What is the make and model of the trencher?

6 A. The trencher is a 1984 Ditch Witch, Model 4010. This equipment was
7 originally purchased by Gasc-Osage in 1995 as a used piece of equipment.

8 Q. What is Gascony Water's position on the appropriate ratemaking treatment for
9 the trencher?

10 A. Gascony Water has entered into an affiliated transaction with Gasc-Osage to
11 purchase the trencher with a purchase price of \$8,000. To finance the transaction, Gascony
12 Water executed a promissory note dated July 1, 2017, at an 18% interest rate. This promissory
13 note is attached to this testimony as Schedule MRY-r9. The Company proposes to add the
14 trencher into rate base as of 2015, the year Gascony Water states the trencher was placed in
15 service,²¹ at the 2015 market based price.

16 Q. How was the sale price in the transaction formulated?

17 A. During Staff's on-site audit, Mr. Hoesch stated he compared his trencher to the
18 current market prices found on websites. The \$8,000 transfer price is for an almost 35 year
19 old piece of equipment.

20 Q. What is the basis for Gascony Water's valuation of the trencher?

²¹ Russo direct testimony, page 9, lines 19-20.

Rebuttal Testimony of
Matthew R. Young

1 A. Mr. Russo states in his direct testimony that his sole basis for the value he is
2 proposing for the trencher is the promissory note signed by Gascony Water and Mr. Hoesch.²²

3 Q. Is the promissory note an appropriate basis for the value of the trencher?

4 A. No. The promissory note has no relevance to the trencher valuation.
5 Mr. Hoesch is the owner and president of Gascony Water and Gasc-Osage. Gascony Water,
6 with Mr. Hoesch as its owner, entered into the promissory note with Gasc-Osage through
7 Mr. Hoesch as President of his realty company. In essence, the water utility entered into this
8 “agreement” without the benefit of independent representation. There is no market-basis for
9 this agreement and it should not be considered an agreement that was negotiated between two
10 willing entities, each free to serve its own interest. This “promissory note agreement”
11 cannot be thought of as independently bargained negotiated agreement. As such, it is not an
12 arms-length transaction nor does it form a basis that can be or should be relied on for rate base
13 valuation. Staff recommends that Mr. Russo’s reliance on the non-negotiated promissory
14 note as support for his recommendation to include the trencher in rate base not be approved
15 by the Commission.

16 Q. Why does Gascony Water believe it is appropriate to include the trencher in
17 plant-in-service?

18 A. Gasc-Osage determined in 2015 that the trencher was only useful to the
19 utility company.²³ Prior to 2015, it had also been used by Mr. Hoesch’s realty company,
20 Gasc-Osage.

²² Russo direct testimony, page 10, lines 1-3.

²³ Hoesch direct testimony, page 6, lines 20-22.

1 Q. Is this Company determination consistent with other documents that were
2 provided to Staff?

3 A. No. Gascony Water's direct testimony in this case is completely inconsistent
4 with Mr. Hoesch's direct testimony in the 1997 CCN Case and also inconsistent with the
5 Promissory Note it provided to support the transaction. While Gascony Water's testimony in
6 this case cites a determination made by Gasc-Osage in 2015, the promissory note is dated
7 July 2017.

8 Q. What inconsistencies are there with the testimony in the 1997 CCN Case?

9 A. In direct testimony in the 1997 CCN Case, Mr. Hoesch specifically stated the
10 trencher was one of the assets that would be transferred to Gascony Water upon the
11 Commission's granting the certificate to the Company. Gascony Water's 1997 testimony also
12 stated that Gasc-Osage did not use the trencher. As referenced previously, Mr. Hoesch said in
13 his 1997 CCN Case direct testimony the following:

14 Q. What are the Company's Assets?

15
16 A. The Company will own and operate an adequately sized
17 water system for the Gascony Village development, which was
18 installed in the early 1980's. The water system consists of an
19 electric well with a pump and structure connected to several
20 miles of supply mains. **The Company will also own** a trailer,
21 which will serve as the Company's office, the land on which the
22 well plant is situated, a computer and other equipment, office
23 furniture, **a trencher**, and shop tools. These assets are currently
24 carried on the books of the Realty Company...The trencher was
25 purchased on or about 1995 for approximately ten thousand
26 eight hundred dollars (\$10,800). All of these assets have been
27 and will be used exclusively by the Company [Gascony Water],
28 not by the Realty Company.²⁴
29 [emphasis added]

²⁴ Hoesch direct testimony in Case No. WA-97-510, page 3, line 49 through line 58.

1 Clearly, the owner of both Gasc-Osage and Gascony Water pledged to transfer the trencher
2 to the water operations upon receiving the certificate to operate as a water public utility.
3 Equally important, Mr. Hoesch's 1997 CCN Case testimony clearly states that the trencher
4 would be used exclusively by Gascony Water in the business of providing water services to
5 its customers.

6 Q. Does Staff support adding the trencher to rate base based on 2015
7 market prices?

8 A. No. Staff supports the original cost concept, as opposed to market value, for
9 ratemaking purposes.

10 Q. What is the original cost concept and why is it most appropriate for
11 ratemaking?

12 A. The original cost of property, plant, and equipment represents the actual
13 investment that has been made in a utility when it is first placed in public service. Setting
14 rates on market value would require the ratepayers to provide a "return of" and a "return on"
15 an amount that is inflated, or overstated, over the actual amount invested by the owner.

16 Q. Did Staff include the trencher in rate base using the original cost concept?

17 A. Yes. Using documents filed in Gascony Water's 1997 CCN Case, Staff
18 identified the original purchase price of the trencher as \$10,800 in 1995. When Mr. Hoesch
19 stated in the certificate case the trencher would be transferred to the Gascony Water, the
20 purchase price of \$10,800 became the "original" cost of the asset. As discussed earlier, Staff
21 supports the use of the original cost to value rate base because original cost best represents the
22 unrecovered investment in property, plant, and equipment. It would be inappropriate for

1 ratepayers to pay a “return of” and a “return on” a current market value of the trencher that
2 clearly has been used for the water company’s operations since it became a certificated utility.

3 Q. Did Mr. Hoesch use the trencher for his real estate business?

4 A. Yes. Mr. Hoesch stated that Gasc-Osage purchased the trencher “in 1999 to be
5 used by the Realty Company.”²⁵ It is clear that the trencher was used for both business
6 operations owned by Mr. Hoesch. Under those circumstances, it may have been appropriate
7 to charge or allocate a portion of the costs relating to the trencher to Gasc-Osage. In the
8 alternative, Gasc-Osage would have been charged a “rent” to use the trencher in its business.
9 Either through a costs reduction from allocation or a rent revenue, Gascony Water would have
10 benefited from Gasc-Osage’s use of this equipment.

11 Q. What is Staff’s net value of the trencher at the June 30, 2017, cut-off date and
12 how does that compare to Gascony Water’s net value for the trencher?

13 A. Staff’s rate base contains a net value of \$2,887 for the trencher at June 30,
14 2017. The trencher value is \$10,800 in plant in service with a depreciation reserve amount of
15 \$7,913, resulting in the net rate base value of \$2,887.

16 Gascony Water recommends placing the trencher into utility service in 2015 at \$8,000.
17 Under Gascony Water’s proposed treatment in its recommendation, 2015 would be the
18 starting point for depreciating a piece of equipment that was manufactured in the 1980s and
19 purchased by Mr. Hoesch in 1995. In essence, the Company’s treatment of the trencher
20 results in this asset will not be fully depreciated for 30 years until 2045 (with starting in
21 2015). This is unrealistic considering the trencher is already 30 years old.

²⁵ Hoesch direct testimony, page 6 lines 18-19.

1 **Utility Task Vehicle (UTV)**

2 Q. What is the make and model of the UTV?

3 A. The UTV is a John Deere 4x6 Gator.

4 Q. What is Gascony Water's position on the appropriate ratemaking treatment for
5 the UTV?

6 A. Gascony Water has entered into an affiliated transaction with Gasc-Osage
7 Realty to purchase the UTV with a purchase price of \$3,500. To finance the transaction,
8 Gascony Water procured a promissory note with Mr. Hoesch dated July 1, 2017 at an 18%
9 interest rate. This promissory note is attached to this testimony as Schedule MRY-r10. The
10 Company proposes to add the UTV into rate base as of 2015, the year of the transfer.

11 Q. How was the sale price in the transaction formulated?

12 A. During Staff's on-site audit, Mr. Hoesch stated he compared his UTV to the
13 current market prices found on websites.

14 Q. What is the basis for Gascony Water's valuation of the UTV?

15 A. Mr. Russo states in his direct testimony that his sole basis for the value he is
16 proposing for the UTV is the promissory note signed by Gascony Water and Mr. Hoesch.²⁶

17 Q. Is the promissory note an appropriate basis for the value of the UTV?

18 A. No. The promissory note has no relevance to the UTV valuation. Mr. Hoesch
19 owns Gascony Water. Gascony Water entered into the promissory note with Mr. Hoesch,
20 who in essence negotiated the amount with himself. Mr. Hoesch determined the "purchase
21 price" for the UTV himself and, as the owner of Gascony Water, caused the utility to enter
22 into this "agreement" without the benefit of independent representation. Staff does not

²⁶ Russo direct testimony, page 10, lines 7-9.

1 consider this to be an arms-length transaction nor does it form a basis that can be or should be
2 relied on for rate base valuation.

3 Q. Why does Gascony Water believe it is appropriate to include the UTV
4 in plant?

5 A. Gascony Water states the UTV was placed into service in September of 2015.²⁷

6 Q. Is this in-service date consistent with other documents that are publicly
7 available?

8 A. No. Page 3 of Gascony Water's 2007 Annual Report identifies the purchase of
9 a John Deere Gator for \$4,200. Seven years later, Gascony Water's 2014 Annual Report
10 identifies a purchase of a 4x6 John Deere Gator for \$3,300. Both of these annual reports,
11 attached to this testimony as Schedules MRY-r11 and MRY-r12, are inconsistent with
12 Gascony Water's claim in this rate case that the UTV was placed into service in 2015.

13 Q. Does Staff support adding the UTV to rate base based on 2015 market prices?

14 A. No. Staff supports the original cost concept, as opposed to market value, for
15 ratemaking purposes.

16 Q. What is the original cost concept and why is it most appropriate
17 for ratemaking?

18 A. The original cost of property, plant, and equipment represents the actual
19 investment that has been made in a utility when it is first placed in public service. Setting
20 rates on market value would require the ratepayers to provide a "return of" and a "return on"
21 an amount that is inflated, or overstated, over the actual amount invested by the owner.

²⁷ Russo direct testimony, page 10, lines 4-5.

1 Q. Did Staff include the UTV in rate base using the original cost concept?

2 A. Yes. Using Gascony Water's 2007 Annual Report, Staff identified the original
3 cost of the UTV as \$4,200 in 2007. As discussed earlier, Staff supports the use of the original
4 cost to value rate base because original cost best represents the unrecovered investment in
5 property, plant, and equipment. It would be inappropriate for ratepayers to pay a "return of"
6 and a "return on" an inflated market value of the UTV.

7 Q. What is Staff's net value of the UTV at the June 30, 2017, cut-off date and
8 how does that compare with Gascony Water's recommendation?

9 A. Staff's rate base contains a net value of \$1,403 for the UTV at June 30, 2017.
10 Gascony Water recommends placing the UTV into utility service in 2015 at \$3,500. Under
11 Gascony Water's recommendation, 2015 would be the starting point for depreciating a piece
12 of equipment that appears to be purchased by Gascony Water in 2007.

13 **DEPRECIATION**

14 Q. What is Gascony Water's position regarding depreciation?

15 A. Gascony Water indicates in its direct testimony that it agrees with Staff's
16 position on depreciation.²⁸ However, the Company's position regarding the rate base
17 treatment of the trencher and the UTV, discussed in previous sections of this rebuttal
18 testimony, is inconsistent with its position on depreciation. The Company's position is that a
19 used 1985 trencher, purchased in 1995, and a UTV purchased in 2007, should be included in
20 rate base starting in 2015 when Mr. Hoesch claims the equipment was transferred to Gascony
21 Water. This treatment would result in depreciation, on property purchased well before 2015,

²⁸ Hoesch direct testimony in Case No. WR-2017-0343, page 7, lines 14-15.

1 beginning in 2015 under the Company’s proposed treatment. In Staff’s opinion, this would be
2 improper treatment considering the property was committed to be transferred by Mr. Hoesch
3 in the 1997 Certificate Case.²⁹

4 Q. Did the rates resulting from the 1997 CCN Case include a “return of”
5 rate base?

6 A. Yes. The rates resulting from the 1997 CCN Case included an amortization of
7 \$20,000 of “start-up costs.” Beginning on the effective date of rate in the 1997 CCN Case,
8 Gascony Water’s rates included \$4,000 annually for recovery of the start-up costs which
9 represented a “return of” rate base investment. Because Gascony Water’s rates have not
10 changed since the effective date of rate in the 1997 CCN Case, ratepayers continue to pay the
11 \$4,000 annually as a return of the start-up costs that were fully recovered in March 2004,
12 five years after the effective date of rates determined in Case No. WA-97-510. After the
13 initial \$20,000 was recovered in rates, the total amount Gascony Water over-collected during
14 13.75 years for the “start-up costs” from the end of full recovery through December 2017 is
15 \$55,000 [$\$4,000 \div 12 \text{ months} = \$333.33 \text{ per month times } 165 \text{ months}$]. This
16 \$55,000 was collected by the Company without any corresponding expense amount so these
17 dollars theoretically covered other cost of service amounts.

18 Q. Does Staff propose to capture amounts related to the over-amortization of
19 start-up costs?

20 A. No. Staff does not recommend capturing any over-collections related to
21 start-up costs. However, Staff finds that the amortization that Gascony Water is still
22 collecting from customers more than offsets the depreciation expense accumulated by placing

²⁹ Hoesch direct testimony in Case No. WA-97-510, page 3, line 49 through line 58.

1 the trencher and UTV in service at the time they were purchased. As such, Staff does not
2 recommend beginning depreciation on plant in 2015 when the plant was placed in service
3 years ago.

4 Q. Is Gascony Water's position on depreciation consistent with its position on the
5 trencher and UTV?

6 A. No. Staff's position on depreciation is tied to the assertion that depreciation on
7 the trencher began in 1995 and depreciation on the UTV began in 2007. Gascony Water's
8 position is that the trencher and UTV were not placed into service until 2015. It is
9 inconsistent for Gascony Water to agree to Staff's depreciation methodology while
10 maintaining a disagreement on the in-service year.

11 Q. Did Staff accumulate depreciation reserve on the trencher and the UTV?

12 A. Yes. Staff concluded that the trencher and UTV still had economic value as of
13 the June 30, 2017, update period in this case. Staff assumed useful lives of 30 years for the
14 trencher and 15 years for the UTV and accumulated depreciation reserve through the update
15 period based on this useful life.

16 Q. Did the 1997 CCN Case result in approved depreciation rates that represented
17 30-year or 15-year useful lives?

18 A. No. The 1997 CCN Case did not result in a rate to depreciate utility assets
19 over 30 or 15 years. Staff depreciated the trencher at a 30 year rate and the UTV at a 15 year
20 rate in the current case to recognize that the trencher and UTV are still used and useful in
21 providing utility services. The trencher is used for the installation of meter pits and repairs to
22 the utility's infrastructure. The UTV is used for the transportation of materials and supplies

Rebuttal Testimony of
Matthew R. Young

1 need for the installation of meter pits and repairs to the utility's infrastructure and travel to
2 customer's individual lots.

3 Q. What would be the June 30, 2017, rate base value of the trencher and the UTV
4 if the approved depreciation rates were applied?

5 A. If the approved rates were applied (assuming Staff's in-service dates), the
6 trencher would have been added to USOA Account 379 – Other General Equipment and fully
7 depreciated in 2008. Likewise, the UTV would have been added to USOA Account 392 –
8 Transportation equipment and fully depreciated in 2014. In other words, at June 30, 2017, the
9 rate base value of both pieces of equipment would be \$0 assuming they were retired when
10 fully depreciation or would have be a reduction to rate base assuming they were not retired
11 when fully recovered, and continued to accumulate depreciation reserve.

12 Q. Does this conclude your rebuttal testimony?

13 A. Yes.

Matthew R. Young

Educational and Employment Background and Credentials

I am employed as a Utility Regulatory Auditor for the Missouri Public Service Commission (“Commission”). I earned a Bachelor of Liberal Arts from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Commission since July 2013.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

Case/Tracking Number	Company Name – Type of Case; Issues
WM-2018-0104	Missouri American Water Company – Sale Case; Rate Base
WM-2018-0023	Liberty Utilities – Sale Case; Rate Base
WR-2017-0343	Gascony Water Company – Rate Case; Revenue Requirement
GR-2017-0215 GR-2017-0216	Laclede Gas Company & Missouri Gas Energy – Rate Case; Pensions, OPEBs, SERP, Incentive Compensation, Equity Compensation, Severance Costs
WR-2017-0139	Stockton Hills Water Company – Rate Case; Revenue, Expenses, Rate Base
ER-2016-0285	Kansas City Power & Light – Rate Case; Forfeited Discounts, Bad Debt Expense, Customer Growth, Cash Working Capital, Payroll and Payroll Related Costs, Incentive Compensation, Rate Case Expense, Renewable Energy Standards Cost Recovery, Property Taxes

Matthew R. Young

Case/Tracking Number	Company Name – Type of Case; Issues
SR-2016-0202	Raccoon Creek Utility Operating Company – Rate Case; Rate Base.
ER-2016-0156	KCP&L Greater Missouri Operations – Rate Case; Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Injuries and Damages, Insurance Expense, Property Tax Expense, Rate Case Expense.
SR-2016-0112	Cannon Home Association – Rate Case; Revenues and Expenses, Rate Base.
WR-2016-0109 SR-2016-0110	Roy-L Utilities – Rate Case; Revenues and Expenses, Rate Base.
WO-2016-0098	Missouri American Water Company – ISRS; ISRS Revenues.
WR-2015-0246	Raytown Water Company – Rate Case; Revenues and Expenses, Rate Base.
SC-2015-0152	Central Rivers Wastewater Utility – Complaint; Verification of amounts identified in Complaint.
WR-2015-0104	Spokane Highlands Water Company – Rate Case; Revenues and Expenses, Rate Base.
GR-2015-0026	Laclede Gas Company – ISRS; Plant Additions and Retirements, Contributions in Aid of Construction.
GR-2015-0025	Missouri Gas Energy – ISRS; Plant Additions and Retirements, Contributions in Aid of Construction.
WR-2015-0020	Gascony Water Company – Rate Case; Revenues and Expenses, Rate Base.
SM-2015-0014	Raccoon Creek Utility Operating Company – Sale Case; Rate Base, Acquisition Premium.
ER-2014-0370	Kansas City Power & Light – Rate Case; Injuries & Damages, Insurance, Payroll, Payroll Benefits, Payroll Taxes, Property Taxes, Rate Case Expense.

Matthew R. Young

Case/Tracking Number	Company Name – Type of Case; Issues
SR-2014-0247	Central Rivers Wastewater Utility – Rate Case; Revenues and Expenses, Rate Base, Affiliated Transactions.
HR-2014-0066	Veolia Energy Kansas City – Rate Case; Payroll, Payroll Benefits, Payroll Taxes, Bonus Compensation, Property Taxes, Insurance Expense, Injuries & Damages Expense, Outside Services, Rate Case Expense.
GO-2014-0179	Missouri Gas Energy – ISRS; Plant Additions, Contributions in Aid of Construction.
GR-2014-0007	Missouri Gas Energy – Rate Case; Advertising & Promotional Items, Dues and Donations, Lobbying Expense, Miscellaneous Expenses, PSC Assessment, Plant in Service, Depreciation Expense, Depreciation Reserve, Prepayments, Materials & Supplies, Customer Advances, Customer Deposits, Interest on Customer Deposits.
SA-2014-0005	Central Rivers Wastewater Utility – Certificate Case; Revenue and Expenses, Plant in Service, Depreciation Reserve. Other Rate Base Items.

Rebuttal Testimony of
James M. Russo

1 A. Yes, I testified in Case No. GR-97-393, Union Electric Company and in
2 Case No. EC-98-573, St. Joseph Light and Power Company.

3 Q. With reference to Case No. WA-97-510, what is the purpose of your
4 rebuttal testimony?

5 A. The purpose of my rebuttal testimony is to reply to the direct testimony of
6 Company witness Ernest Harwig, as it relates to rate base. Staff witness James Merciel
7 of the Water and Sewer Department will address estimated operating expenses and rate
8 design issues.

9 Q. Have you reviewed Mr. Harwig's testimony and work papers?

10 A. I have reviewed Mr. Harwig's direct testimony and his Schedules 1 thru 3,
11 attached to that direct testimony.

12 Q. Are you in agreement with Mr. Harwig's calculation of the Company's rate
13 base?

14 A. No, I am not.

15 Q. With what parts of the rate base calculation do you disagree?

16 A. The Original Cost of Plant in Service, Cash Working Capital and Reserve
17 for Completion.

18 Q. Why do you disagree with the Original Cost of Plant in Service?

19 A. There are several items that the Staff believes should not be included in
20 Plant in Service. First, on Schedule 1, page 2, lines 5 thru 16 are identified as various
21 additions to Source of Supply. Company has not supplied any supporting documentation
22 to identify what type of work was performed. Therefore, the Staff cannot recommend
23 including these amounts in Plant in Service. In addition, Schedule 1, page 2, line 12

1 identifies an item as new pump, line 13 identifies a pump motor, and line 14 identifies a
2 pump. Yet, there is no indication if these were additional installations or if they were
3 replacements for items that should have been retired.

4 Finally, Schedule 1, page 2, line 27 is identified as shut-off valves. It is the Staff's
5 understanding that these shut-off valves have not yet been installed. It is also our
6 understanding that the purpose of these valves is to "cut off" lots currently receiving
7 service that have refused to pay for such service. For obvious reasons the Staff would not
8 include the cost of construction (new plant) that has not been completed in Plant in
9 Service.

10 Q. Why do you disagree with the Cash Working Capital calculation?

11 A. There is no supporting documentation on how the Cash Working Capital
12 was calculated and what components are included. It appears that Mr. Harwig may have
13 used the "45 day" method that was sometimes proposed during the 1970's.

14 Currently, the components that the Staff would include in a typical calculation of
15 cash working capital includes a calculation of appropriate revenue and expense lags on
16 all test year expense.

17 Q. Is it appropriate for the Company to have cash working capital included in
18 rate base for this case?

19 A. No. Due to the small number of proposed customers, and the absence of
20 day to day operating expenses, the Staff does not believe it appropriate to calculate a cash
21 working capital allowance.

22 Q. Why do you disagree with the Reserve for Completion calculation?

Rebuttal Testimony of
James M. Russo

1 A. The Reserve for Completion calculation appears to be an attempt to
2 allocate to ratepayers a portion of the original construction costs identified as a
3 development cost over the number of lots developed since not all of the lots have been
4 sold. It is the Staff's opinion that no property development costs should be included in
5 rates, whether or not the identified property (lot) has been sold.

6 Q. Have you reviewed any other documents?

7 A. Yes I have. I have reviewed all of the records of the Company that were
8 provided to Staff. These records included documents relating to the cost of the land,
9 expenditures for the time period September 1, 1982 to December 31, 1996, and the 1979
10 and 1980 federal income tax returns.

11 Q. What did you discover in your review?

12 A. Based on the information provided by the Company it appears that all of
13 the identified Plant in Service costs were expensed in the year occurred as a development
14 cost.

15 Q. How does this affect the proposed rate base of the Company?

16 A. Items that have been previously expensed should not be included in rate
17 base for ratemaking purposes. If companies were allowed to include previously expensed
18 items in future rates they would in effect be receiving the benefit of that item twice.
19 Based on our review of the Company's records, the Staff is recommending \$0 for rate
20 base.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF THE APPLICATION OF)
GEORGE HOESCH, FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY AUTHORIZING)
HIM TO OWN, OPERATE, AND MAINTAIN A) Case No. WA-97-510
WATER SYSTEM FOR THE PUBLIC, LOCATED)
IN AN UNINCORPORATED AREA OF THE)
COUNTY OF GASCONADE, MISSOURI)

AFFIDAVIT OF JAMES M. RUSSO


STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

James M. Russo, is, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



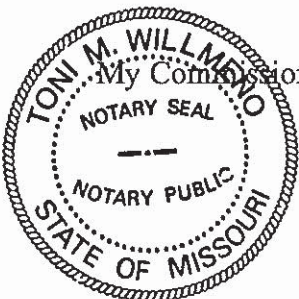
James M. Russo

Subscribed and sworn to before me this 24th day of November, 1998.



Notary Public

TONI WILLMENO
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF CALLAWAY
MY COMMISSION EXPIRES JUNE 24 2000



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Via Federal Express

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Missouri Public
Service Commission

Mr. Gordon Persinger
Acting Executive Secretary
Missouri Public Service Commission
301 West High Street
P.O. Box 360
Jefferson City, MO 65102

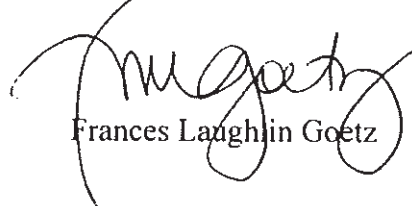
RE: In the matter of George Hoesch Water Application
Case No. WA-97-510

Dear Mr. Persinger:

Enclosed for filing, please find an original and fourteen (14) copies of the **DIRECT TESTIMONY OF GEORGE R. HOESCH** prepared on behalf of the Gascony Water Company, Inc. I am also enclosing one extra copy of this transmittal letter to be file-stamped and returned to my office in the enclosed stamped, self-addressed envelope.

This filing has been sent on this date by U.S. Mail, postage-prepaid to all parties of record. Thank you for your assistance with this matter.

Very truly yours,



Frances Laughlin Goetz

FLG/tms

Enclosures

cc: All Parties of Record

Schedule MRY-R3

Exhibit No.: _____
Issues: Rate Base, Operating Income and Rates
Witness: George R. Hoesch
Type of Exhibit: Direct Testimony
Sponsoring Party: Gascony Water Company, Inc.
Company: Gascony Water Company, Inc.
Case No.: WA-97-510

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Application)
Of George Hoesch, for a certificate of)
Convenience and necessity authorizing him)
To own, operate, and maintain a Water)
System for the public, located in an)
Unincorporated area of the County of)
Gasconade, Missouri)

Case No. WA-97-510

FILED

NOV - 9 1998

DIRECT TESTIMONY OF GEORGE R. HOESCH

Missouri Public
Service Commission

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A George R. Hoesch, 4948 Theiss Road, St. Louis, Missouri 63128.

3 Q PLEASE STATE YOUR OCCUPATION.

4 A I am a real estate developer and the sole shareholder and President of the Gascony Water Company,
5 Inc. and the Gasc-Osage Realty Co., Inc.

6 Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

7 A I am testifying on behalf of the Gascony Water Company, Inc. (Gascony or Company).

8 Q PLEASE EXPLAIN THE BACKGROUND OF THE COMPANY.

9 A Gascony Water Company, Inc. was incorporated on January 5, 1998. The purpose of the company is
10 to provide adequate facilities and to maintain continuity of water service to customers in Gascony
11 Village (Village).

12 Q PLEASE DISCUSS THE BACKGROUND OF GASCONY VILLAGE.

13 A The Village is a planned development which is located in a developing rural area in the Northwest part
14 of Gasconade County, Missouri. The Village includes an eight (8) acre lake, a forty (40) foot by sixty
15 (60) foot swimming pool, a playground, and picnic areas. The Village includes seven hundred fifty-

16 five (755) lots in total, of which five hundred fifty-five (555) lots have been sold. Currently, two
17 hundred (200) lots in the development remain unsold.

18 Q WHAT IS YOUR RELATIONSHIP TO THE COMPANY AND THE VILLAGE?

19 A I am the original developer of Gascony Village. I am currently the sole shareholder and the President
20 of the Company. I caused the Company to become incorporated on January 5, 1998. I have been and
21 continue to be responsible for the day-to-day operations of the Company. I have provided all the
22 capital and financing required by the Company to date.

23 Q WHAT IS GASC-OSAGE REALTY CO., INC.'S RELATIONSHIP TO THE COMPANY?

24 A Prior to January 5, 1998, all the Company's operations were handled as a division of the Gasc-Osage
25 Realty Co., Inc., (Realty Company) of which I am the sole shareholder. All the Company's financial
26 accounting has been recorded on the books of its predecessor, the Realty Company. With the
27 incorporation of the Company and the filing of this application, the Company became a corporate
28 entity, separate and distinct from the Realty Company. However, all the assets of the Company have
29 not yet been transferred from the Realty Company to the Company. The Realty Company and the
30 Company have begun to work with legal counsel to take the appropriate steps to transfer the assets
31 associated with providing water service from the Realty Company to the Company. The Realty
32 Company's matters are handled in a separate office; the Realty Company will not use the Company's
33 trailer to transact business

34 Q WHAT IS THE COMPANY'S CAPITAL STRUCTURE?

35 A The Company's capital structure will be one hundred percent (100%) equity. The Company will have
36 no debt on the water plant or any of the other assets that the Company will own.

37 Q DID THE COMPANY RECORD A RESERVE FOR COMPLETION OF THE WATER SYSTEM?

38 A The Company's predecessor recorded a seventy thousand dollar (\$70,000) reserve for completion of
39 the water system. A portion of this reserve is allocated to the cost of each lot to recover capital costs
40 on the water plant. This reserve is the only mechanism that the Company's predecessor had in place to

41 recover the costs of the water plant. The price of the lots does not include any other amounts, beyond
42 this reserve, which are intended to provide recovery of costs associated with the water plant.

43 Q DID THE COMPANY RECOVER ANY FEES FROM CUSTOMERS WHICH ARE INTENDED TO
44 REIMBURSE FOR THE COST OF LINE EXTENSIONS?

45 A The Company's predecessor charged customers a fee of one hundred ninety-five dollars (\$195) per lot
46 to run line extensions which connected their property to the water system and to install frost-free
47 spigots. The Company's predecessor collected these fees from approximately one hundred twenty
48 (120) customers.

49 Q WHAT ARE THE COMPANY'S ASSETS?

50 A The Company will own and operate an adequately sized water system for the Gascony Village
51 development, which was installed in the early 1980s. The water system consists of an electric well
52 with a pump and structure connected to several miles of supply mains. The Company will also own a
53 trailer, which will serve as the Company's office, the land on which the well plant is situated, a
54 computer and other equipment, office furniture, a trencher, and shop tools. These assets are currently
55 carried on the books of the Realty Company. The trailer was purchased on or about 1996 for
56 approximately ten thousand dollars (\$10,000). The trencher was purchased on or about 1995 for
57 approximately ten thousand eight hundred dollars (\$10,800). All of these assets have been and will be
58 used exclusively by the Company, not by the Realty Company. The Company is currently planning to
59 purchase a company truck.

60 Q WHAT IMPROVEMENTS TO THE WATER SYSTEM ARE PLANNED IN THE NEAR FUTURE?

61 A In order to enforce the new rates, the Company will need to install shut-off valves at each corporation
62 stop. I estimate the cost to install each corporation stop will be approximately four hundred ten dollars
63 (\$410). There are currently two hundred ten (210) spigots in the development for which corporation
64 stops will need to be installed. The Company plans to install the shut-off valves over a two (2) year
65 period beginning in mid-November 1998.

66 Q WHAT COSTS DID THE COMPANY INCUR TO PUT THE PLANT IN PLACE?

67 A The costs summarized in Schedule 1 to Mr. Harwig's testimony represent capital expenses associated
68 with the water plant. By capital expenses, I mean all the costs associated with making an improvement
69 or addition to the well system that will have a useful life of more than one (1) year. To derive these
70 costs, I reviewed the Realty Company's accounting records for the period beginning on or about
71 August 1, 1979 and ending on or about December 31, 1996, and I used my judgment based on my best
72 recollection of the facts to determine for what purpose the costs were incurred. I do not believe that
73 any of the costs included in Schedule 1 represent expenses for normal repair and maintenance.

74 Q TO HOW MANY CUSTOMERS DOES THE COMPANY MAKE WATER SERVICE
75 AVAILABLE?

76 A The Company provides water availability to two hundred thirty-five (235) customers. Currently, the
77 Company sends invoices to approximately one hundred eighty (180) customers, because fifty-five (55)
78 customers have consistently refused to pay past invoices, so the Company's predecessor stopped
79 invoicing them to save money. Of the 180 invoiced customers, one is the swimming pool, which is
80 owned and operated by the Gascony Association, Inc. (Association). The Association is the property
81 owners' association of Gascony Village and I have invoiced them for the swimming pool's water
82 service in the past. Of the remaining 180 customers, approximately one hundred twenty (120)
83 customers receive both water service and electric service, approximately forty-four (44) customers
84 receive water service but do not have electric service, and approximately fifteen (15) customers do not
85 have a spigot but are invoiced for water availability.

165
164

86 Q WHAT IS THE SIGNIFICANCE OF THE DISTINCTION BETWEEN THOSE CUSTOMERS WHO
87 RECEIVE WATER SERVICE BUT NOT ELECTRIC SERVICE AND THOSE CUSTOMERS WHO
88 RECEIVE BOTH WATER SERVICE AND ELECTRIC SERVICE?

89 A Because meters are not installed for each customer, I have used this distinction in the past as the basis
90 for my former rate design for the water service I have been providing to customers prior to making this
91 application. The significance of this distinction is that the customers who receive both water and
92 electric service tend to use more water, and thus, I have charged them a higher rate in the past. I do not

93 provide the electric service; I merely use the presence of an electric meter as a gauge to determine a
94 customer's likelihood of increased water consumption.

95 Q HOW MANY FULL-TIME RESIDENTS LIVE IN THE VILLAGE?

96 A Approximately twenty (20) customers are full-time residents of the Village.

97 Q HOW MANY INVOICED CUSTOMERS RECEIVE BOTH WATER AND ELECTRIC SERVICE?

98 A In addition to the full-time residents, approximately one hundred (100) customers receive both water
99 and electric service.

100 Q HOW MANY INVOICED CUSTOMERS RECEIVE WATER SERVICE BUT NOT ELECTRIC
101 SERVICE?

102 A Approximately forty-four (44) customers receive water service, but do not receive electric service.

103 These customers usually sleep in tents and take showers at the swimming pool facilities when they stay
104 at the Village.

105 Q HOW MANY CUSTOMERS DO NOT HAVE A SPIGOT BUT RECEIVE AN INVOICE FOR
106 AVAILABILITY OF WATER SERVICE?

107 A Approximately twenty-five (25) customers do not currently have a spigot on their property. Of those
108 25, approximately fifteen (15) customers receive an invoice for a water availability charge.

109 Q WHAT HAS BEEN THE COMPANY'S EXPERIENCE WITH UNCOLLECTIBLE ACCOUNTS IN
110 THE PAST?

111 A Based on my years of experience with the Company, approximately fifty-five (55) customers have
112 regularly refused to pay the water availability charge.

113 Q HOW MANY PEOPLE DOES THE COMPANY CURRENTLY EMPLOY?

114 A I am the only regular employee of the Company. From time to time, I retain temporary help on behalf
115 of the Company for the purpose of installing water lines, making repairs to the water system, or
116 assisting with the billing. I also retain an accountant to keep the Company's books, and lawyers and
117 consultants to assist with regulatory matters.

118 Q APPROXIMATELY HOW MUCH TIME DO YOU SPEND ON COMPANY BUSINESS
119 ANNUALLY?

120 A I spend approximately six hundred (600) hours per year on Company business. I am on call twenty-
121 four (24) hours per day year round, and I have to spend time on evenings and weekends handling the
122 Company's business. Based on market rates, I believe that a reasonable rate for my managerial
123 services is in the range of seventy-five (\$75) to one hundred (\$100) dollars per hour. However, at this
124 time, I am willing to accept twenty-five dollars (\$25) per hour for the services I provide to the
125 Company because I believe the system is currently too small to absorb market-based rates.

126 Q ARE YOU REQUIRED TO TRAVEL ON THE COMPANY'S BUSINESS?

127 A Because I live in St. Louis County, much of the Company's business requires me to travel to
128 Gasconade County. I travel on the Company's business approximately one hundred seventy (170)
129 miles per week on average (8,840 miles per year). I travel to the Village to inspect the system, deal
130 with problems, and many times, I must travel to another location, remote from the Village, to
131 effectuate repairs.

132 Q WHAT OTHER EXPENSES YOU INCUR ON THE COMPANY'S BEHALF AS AN EMPLOYEE?

133 A To date, I have been using my personal car for all the Company's business, although, the Company has
134 plans to purchase a truck. I also have a health insurance plan for which I pay one hundred seventy-one
135 dollars (\$171) per month (\$2,052 annually). As part of my benefits, the Company has agreed to pay a
136 portion of my health insurance premium proportionate to the time I spend working for the Company.
137 The Company also provides me two (2) weeks of vacation each year.

138 Q APPROXIMATELY HOW MANY HOURS DO TEMPORARY WORKERS WORK FOR THE
139 COMPANY EACH YEAR?

140 A Excluding professionals like my accountant, temporary workers work for the Company approximately
141 three hundred (300) hours per year. The rate of pay for these persons is between fifteen dollars (\$15)
142 and fifty dollars (\$50) per hour, depending on the work being done.

143 Q WHAT DO YOU ESTIMATE CLERICAL COSTS FOR THE COMPANY WILL BE ANNUALLY?

144 A I estimate that clerical costs will be approximately thirty-six hundred dollars (\$3,600) annually, based
145 on an hourly rate of twelve (\$12) to fifteen (\$15) dollars per hour and an estimated workload of two
146 hundred forty (240) to three hundred (300) hours per year. I project the Company's expenses for
147 temporary clerical help will increase over prior years' actual expenses due to the change from annual
148 to quarterly billing, and the increased accounting responsibilities imposed upon a regulated water
149 utility.

150 Q WHAT ARE THE COMPANY'S PROJECTED EXPENSES FOR PROFESSIONAL FEES?

151 A Based on estimates provided to me from the Company's accountant, the Company can expect to incur
152 approximately five hundred dollars (\$500) per year in professional accounting fees to prepare tax
153 returns, payroll tax returns, and to ensure that the Company is following the appropriate accounting
154 procedures for a regulated water utility. Based on my past experience with the Company, I project that
155 legal fees will be approximately two thousand dollars (\$2,000) per year to handle the Company's
156 various legal matters.

157 Q WHAT ARE THE COMPANY'S EXPENSES ASSOCIATED WITH THIS APPLICATION?

158 A Based on estimates provided to me from the Company's accountant, consultant, and attorneys, the
159 estimated professional fees associated with this application are seven hundred fifty dollars (\$750),
160 seven thousand five hundred dollars (\$7,500), and twelve thousand five hundred dollars (\$12,500),
161 respectively.

162 Q DOES THIS CONCLUDE YOUR TESTIMONY?

163 A Yes, it does.

Exhibit S

Gascony Village

A FISHING PARADISE!



Property starting at \$39⁹⁴ a month!*

Riverfront & Lakefront Property Available

Camping & Mobile Home Lots Available

- Central water & sewer
- Underground electric to every lot
- Super fishing lake & river
- Beautiful beach • 40' x 60' pool
- 2 launching ramps
- Sking • Picnic areas
- Bathrooms • Shower rooms
- Camper dump station
- Camper storage
- Deeded property (no membership)
- Company financing (no one turned down)
- 12 miles from Herrmann, MO

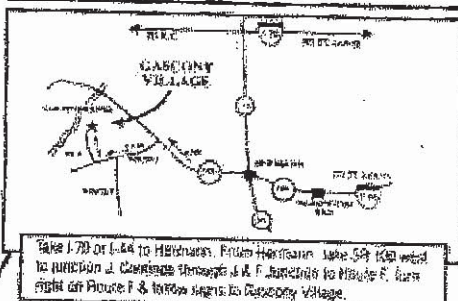
\$25⁰⁰ Cash Gift
for touring Gascony Village

If married, husband & wife must tour together. Only one gift per vehicle. Spenders, minors & persons over 21 are ineligible. This is a gift program to promote the sale of camping & mobile home lots.

Great fishing on the Gasconade river, just minutes from home for only \$39⁹⁴ a month!

* Sale price	\$1,500.00
Down payment	200.00
Amount financed	1,300.00
Finance charge (8% monthly)	600.00
Total of payments	2,300.00
Deferred payment price (12% interest)	\$2,500.00
Amount of payment - only	\$39.94

Open Saturday, Sunday & Monday 10 A.M. - 3 P.M.
OFFICE **294-6606** NO APPOINTMENT NECESSARY



Bulk Rate
U.S. Postage
PAID
Akron, Ohio
Permit No. 29

"Get **\$25.00 CASH** JUST FOR LOOKING" **Monday's \$35.00 CASH** or Sat.-Sun. Before 11:30

GENERAL WARRANTY DEED

This GENERAL WARRANTY DEED (this "Deed"), dated as of July 1, 2017, is made and entered into by and between, C MC water, a Missouri limited partnership ("Grantor") and Gascony Water Co. Inc. A Missouri corporation Missouri corporation ("Grantee").

WITNESSETH:

Grantor, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration paid by Grantee, the receipt and sufficiency of which are hereby acknowledged, does by these presents GRANT, BARGAIN AND SELL, CONVEY AND CONFIRM unto Grantee, the real estate (the "Real Estate") situated in the County of GASCONADE, State of Missouri:

Lot 27 GASCONY VILLAGE MOBIL HOME PARK of GASCONY VILLAGE as per plat thereof recorded in the Gasconade County Recorder's Office.

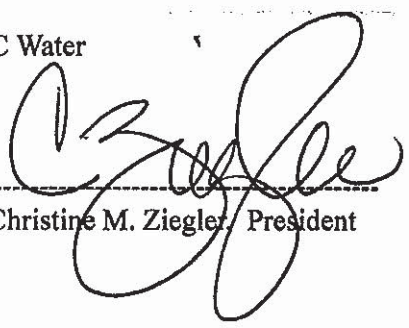
TO HAVE AND TO HOLD the Real Estate, together with all rights and appurtenances to the same belonging, unto Grantee and to the successors and assigns of Grantee forever. Grantor hereby covenants that it and its successors and assigns shall and will WARRANT AND DEFEND the title to the Real Estate unto Grantee and Grantee's successors and assigns forever, against the lawful claims of all persons whomsoever claiming an interest in the Real Estate.

IN WITNESS WHEREOF, Grantor has executed and delivered this Deed as of the day and year first written above.

CMC Water

By: _____

Christine M. Ziegler, President



SIGNATURE PAGE FOR
GENERAL WARRANTY DEED

IN WITNESS WHEREOF, Grantor and Grantee have executed and delivered this Deed as of the day and year first above written.

"Grantor"

CMC Water

By: _____

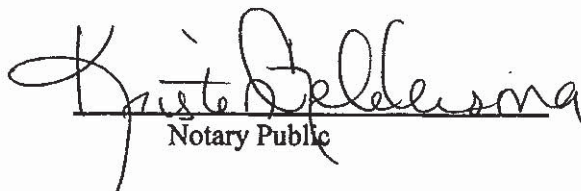

Christine M. Ziegler President

STATE OF MISSOURI)

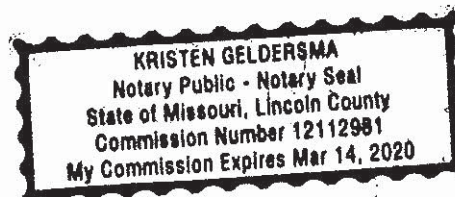
COUNTY OF ST. LOUIS)

On this 14 day of July, 2017 before me personally Christine M. Ziegler being by me duly sworn, did say that she is the President of CMC WATER, a Missouri limited partnership and that the seal affixed to the foregoing instrument is the seal of said LLP, and that said instrument was signed and sealed in behalf of said LLP by authority of its Board of Directors; and said Christine M. Ziegler acknowledged said instrument to be the free act and deed of said LLP.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.


Notary Public

My Commission Expires:



Schedule MRY-r5

1 TESTIMONY IN SUPPORT OF STIPULATION AND AGREEMENT

2 James A. Merciel, Jr.

3 Gascony Water Company, Inc.

4 CASE NO. WA-97-510

5
6 Q. Please state your name and address.

7 A. James A. Merciel, Jr., P. O. Box 360, Jefferson City,
8 Missouri, 65102.

9 Q. Are you the same James A. Merciel, Jr. who submitted
10 Rebuttal Testimony in this case?

11 A. Yes.

12 Q. What is the purpose of this testimony?

13 A. The purpose of this testimony is to support the
14 Stipulation and Agreement (Stipulation) that was filed in this
15 case, and agreed upon between the Staff, the Company, and the
16 Office of the Public Counsel. Specifically, I will explain the
17 difference between the expenses used to calculate rates in the
18 Stipulation, as compared to those in the Direct Testimony of
19 Gascony Water Company (Company) witness Ernest Harwig, and those in
20 my Rebuttal Testimony.

21 Q. What is the total annual revenue?

22 A. The total annual revenue in the Stipulation is
23 \$33,817. The Company originally requested \$75,675, and the Staff
24 originally proposed \$26,649.

25 Q. What plant is included as rate base, and what is the
26 amount?

Testimony in Support of Stipulation and Agreement
James A. Merciel, Jr.

1 A. In the Stipulation, rate base includes \$20,000 as
2 startup costs, consisting of legal and consulting expenses, and
3 \$1,000 for three meters that the Company will install immediately
4 for commercial customers. The Company agreed to install meters in
5 order to accurately determine actual water usage for the swimming
6 pool, a kitchen, and the recreational vehicle dump station. The
7 meters will allow metered rates to be set to produce the
8 appropriate revenue in a future rate case. However, at this point
9 in time we do not know actual water usage, and it is thus necessary
10 to utilize flat rates so that the Company collects the proper
11 amount of revenue. In testimony, an estimated water use amount for
12 the swimming pool was used to determine a flat rate. For the
13 Stipulation, estimated water use amounts provided by the Company
14 were also used to determine flat rates for the kitchen and the dump
15 station. These customers were previously included as low-use
16 commercial customers. Meters are included in the proposed
17 depreciation schedule.

18 The Company took the position that there is rate base,
19 consisting of undepreciated and non-contributed plant, with
20 original cost of \$229,656. The return as proposed by the Company
21 was \$10,103, and depreciation was \$4,376. The Company included
22 startup costs as an annual expense. The Staff took the position
23 that there was no rate base, and included startup costs as a four-
24 year amortized expense of \$4,000 annually. The meters were not
25 included in any of the testimony.

1 In the Staff's rate calculations the startup cost
2 amortization was originally included as a part of the "customer
3 charge" component, dividing this expense equally among all
4 customers. In the Stipulation, the startup costs are treated as
5 rate base and included in the "commodity charge" component, which
6 shifts more of the expense to customers who use more water.

7 Q. What operating expenses are significantly different?

8 A. A comparison of expenses is included as Schedule 1.
9 The estimated expenses that were modified for settlement are:
10 salary for management, operations, and clerical, which was strictly
11 a negotiated estimated amount; office equipment, a negotiated
12 amount that the Company had included in rate base; postage, a
13 rounded amount to account for the increase in postage costs
14 proposed by the US Postal Service; income taxes, to adjust for the
15 change in both parties' positions regarding rate base; ongoing
16 annual legal and accounting expenses, a negotiated estimate;
17 miscellaneous expense, increased from the Company's proposed
18 expense because the Company had not included materials and supplies
19 on hand; uncollectibles, to adjust to an estimated 2 percent of
20 annual revenue; and the PSC assessment, adjusted to the actual
21 current rate for water utilities.

22 Q. Are there other charges included in the Stipulation?

23 A. Yes, there is a charge of \$425 which reflects the
24 cost of installing a meter box and yoke. The purpose is to provide
25 a valve with which service may be turned on and off. This charge

Testimony in Support of Stipulation and Agreement
James A. Merciel, Jr.

1 would apply to new connections. In addition to this charge, new
2 customers would pay for the service connection to the main and the
3 pipeline between the main and the meter box, which will be owned
4 and maintained by the Company after the initial installation.

5 The \$425 charge also applies to any customer who has been
6 disconnected for any reason, for example non-payment of water
7 bills, and wants to be reconnected. It is my understanding that
8 valves are installed on some or all service lines, but they are
9 buried and not accessible. The valve on a meter yoke is
10 accessible, and may be locked in the off position. The
11 installation of the meter box and valve is necessary for the
12 Company to be able to enforce bill collection, and compliance with
13 other rules.

14 It is not being proposed to meter all customers at this
15 time; however meters could be easily installed in the meter boxes
16 in the future. If the Company initiated a meter installation
17 program, then meter boxes would need to be installed for all
18 customers.

19 Q. Do you have any other comments?

20 A. Yes. This is a certificate case, and expenses
21 are estimated, as opposed to a rate case where rates are determined
22 by auditing actual expenses. The expenses used to support the
23 recommended rates were negotiated between the parties for
24 settlement purposes. Since the expenses are estimates, the
25 Stipulation requires the Staff to review actual expenses within

Testimony in Support of Stipulation and Agreement
James A. Merciel, Jr.

1 eighteen (18) months to determine the reasonableness of the rates.
2 In order to determine actual expenses, the Staff needs reasonable
3 documentation of such things as telephone calls, equipment use,
4 employee time, and vehicle use. It is imperative that the Company
5 keep records and use forms similar to those that were included as a
6 part of the Stipulation so that the Staff can verify actual
7 expenses.

8 Q. What is your recommendation?

9 A. I recommend the Commission approve the Stipulation.
10 The Staff, of course, is available to answer questions as desired.

11 Q. Does this conclude your Testimony in Support of
12 Stipulation and Agreement?

13 A. Yes.

Hoesch WA-97-510
COMPARISON OF EXPENSES

01/05/99

Expenses	STIPULATION	Company Direct	Staff Rebuttal
Return	2,310	10,103	-
Deprec	4,040	4,376	-
Electric	500	500	500
Mgt -Operator-Cerical	15,000	19,767	12,000
Maintenance	1,500	500	1,500
Vehicle	2,829	2,829	2,829
Testing	500	500	500
Rent	1,500	(incl in rate base)	1,500
Office Equip - Supplies	400	200 plus rate base	200
Telephone	600	600	600
Postage	300	230	250
Insurance	-	600	-
Taxes other than Income	70	70	70
Income Taxes	552	6,182	-
Legal, Accounting	1,500	2,500	1,000
Misc, Contingency, M & S	1,200	500	1,200
Uncollectible	676	4,836	-
PSC Assessment	340	634	500
Startup Costs	(incl in rate base)	20,750	4,000
Design Revenue	33,817	75,677	26,649

Hoesch WA-97-510
RATE COMPARISON

01/05/99

Quarterly Rates	STIPULATION	Company Direct	Staff Rebuttal
Part Time Customers	36.88	21.98	32.82
Full Time Customers	103.33	130.86	65.38
Swimming Pool	368.16	687.69	139.67
Kitchen	58.39	(Included as part time customer)	
Dump Station	170.74	(Included as part time customer)	

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
George Hoesch, for a Certificate of)
Convenience and Necessity Authorizing)
Him to Own, Operate, and Maintain a) Case No. WA-97-510
Water System for the Public, Located in)
an Unincorporated Area of the County of)
Gasconade, Missouri.)

AFFIDAVIT OF JAMES A. MERCIEL, JR.

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., of lawful age, on his oath states: that he has participated in the preparation of the foregoing Testimony in Support of Stipulation and Agreement, in question and answer form, consisting of 5 pages and 1 Schedule, to be presented in the above case; that he has knowledge of the matters set forth in such answers; and that such answers are true to the best of his knowledge and belief.


James A. Merciel, Jr.

Subscribed and sworn to before me this 5th day of January 1999.


Notary Public

CHRISTINE E BRAUNER
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP JULY 22 2001

My commission expires

MEMORANDUM

TO: Randy Hubbs
Assistant Manager Water & Sewer Department

THROUGH: Joan Wandel *JW*
Accounting Department Manager

FROM: James M. Russo *JM*
Dana Eaves *DE*
Accounting Department Staff

SUBJECT: Accounting Department's Recommendation
18-month review of WA-97-510
Gascony Water Company.

DATE: August 22, 2001

BACKGROUND

On May 27, 1997, George Hoesch (Applicant) filed an application requesting Commission approval of a certificate of public convenience and necessity to operate a sewer system in an unincorporated Campground owned by the Applicant in Gasconade County. On December 17, 1998, at the request of the Applicant, Gascony Water Company (Company) was substituted for George Hoesch. There were 180 customers at the time and the Company expected very little growth in the future.

As the result of a prehearing conference held on December 3, 1998, Staff filled a recommendation that the commission approve the Company's application including:

- ❖ An approved rate for water service of \$368.16 per quarter for the pool, \$58.39 per quarter for the kitchen, \$170.74 per quarter for the dump station, \$103.33 per quarter for full-time residential and \$36.88 per quarter for part-time residential (based on 180 customers)
- ❖ A requirement that the Company file tariffs
- ❖ A requirement that the Company maintain its books and records in accordance with the Uniform System of Accounts
- ❖ An approval of Staff's proposed depreciation rates
- ❖ A requirement that the Company install meters at the pool, kitchen and dump station before the rates took effect
- ❖ A requirement that the company maintain employee time sheets, telephone usage logs, vehicle logs, equipment use logs, work orders, continuing property records and customer complaint records

- ❖ A Staff review of rates and expenses within 18 months after the granting of a certificate
- ❖ Reserving the right to consider ratemaking treatment in future proceedings.

The Commission subsequently approved the Staff's recommendations and granted a certificate in an Order effective March 9, 1999.

FINDINGS

Staff has completed its review of the Company's revenues and expenses for appropriateness as ordered by the Commission. The Company did experience slight growth and the number of customers served by the Company has increased by eight to a total of 188. Staff made appropriate adjustments to the Company's revenues and expenses.

Staff noted that the Company was not collecting all revenues due from customers. There were 5 customers with over 90 days arrears averaging \$163.00 per customer. The Company has not kept equipment use logs or work orders as agreed in the approved stipulation and agreement. Staff was unable to determine the total cost of additional services being provided and did not allow these expenses in the review of the Company. Staff believes that with proper tracking of these expenses the Company's revenue shortfall would increase substantially. The Company is maintaining adequate vehicle logs and has a separate telephone dedicated to the Company. The Company does not have any employee's at this time and does not need to maintain employee time sheets. We would recommend time sheets be maintained if the Company hires any employees.

The Accounting Staff has concluded the Company experienced a revenue requirement shortfall in calendar year 1999 of approximately \$1,268 and experienced a revenue requirement shortfall of \$329 for calendar year 2000. Staff estimates a revenue requirement shortfall in calendar year 2001 of approximately the same amount as calendar year 2000 as there have been no significant changes to the Company's system. Staff's examination results in the following recommendation to the Company records:

- The Company maintain equipment use logs and work orders as agreed to in the approved stipulation and agreement.
- The Company and its affiliate, Gascony-Osage Realty Company maintain detailed records and supporting documentation on all affiliated transactions

Since an over earnings situation does not exist and it is incumbent upon the Company to file for an increase in its rates, the Staff finds the monthly rates for water service as ordered by the Commission 18 months ago are still appropriate.

GENERAL WARRANTY DEED

DATE: July 27, 2017

GRANTOR: Gasc-Osage Realty Co., Inc., a Missouri Corporation

GRANTEE: Gascony Water Company, Inc., a Missouri Corporation

ADDRESS OF GRANTEE: 1907 Apache Trail
Hermann, MO 65041

LEGAL DESCRIPTION:

Part of Section 15, Township 45 North, Range 6 West of the 5th P.M., in Gasconade County, Missouri, and being part of Gascony Village described as follows: Beginning at the southeast corner of Lot 27 of Gascony Village Mobile Home Park; thence with the lot line North 47 degrees 41 minutes 15 seconds West 47.8 feet; thence leaving the lot line South 89 degrees 04 minutes East 70.93 feet; thence South 0 degrees 58 minutes West 33.93 feet; thence North 89 degrees 02 minutes 10 seconds West 35.0 feet to the point of beginning, containing 0.04 acres as per survey in Gasconade County Surveyor's Record Book 23 page 21 by Vincent Klott in May 2017.


THIS DEED WITNESSETH, that Grantor, for and in consideration of the sum of Twenty Dollars and other valuable considerations paid by the said Grantee, the receipt of which is hereby acknowledged, does by these presents GRANT, BARGAIN AND SELL, CONVEY AND CONFIRM unto Grantee, and to the successors and assigns of such Grantee, the aforescribed land situated in Gasconade County, Missouri.

TO HAVE AND TO HOLD the same, together with all rights and appurtenances to the same belonging, unto the said Grantee and to the successors and assigns of such Grantee, forever.

The said Grantor, hereby covenanting that said Grantor, and the successors and assigns of said Grantor, shall and will WARRANT AND DEFEND the title to the premises unto the said Grantee, and to the successors and assigns of said Grantee, forever, against the lawful claims of all persons whomsoever.

IN WITNESS WHEREOF, these presents have been executed by the said corporation pursuant to due authority, and said individual, this 27th day of July, 2017.

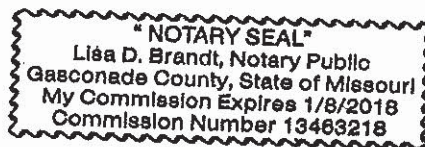
Gasc-Osage Realty Co., Inc.


George R. Hoesch, President

STATE OF MISSOURI, County of Gasconade, ss.:

On July 27, 2017, before me personally appeared George R. Hoesch, to me personally known, who being duly sworn did say that he is the President of Gasc-Osage Realty Co., Inc., and that said instrument was executed on behalf of said corporation, by authority of its Board of Directors, and the said George R. Hoesch acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year last above written.




Notary Public

GEORGE HOESCH
DESCRIPTION OF 0.04 ACRES

Part of Section 15 Township 45 North Range 6 West of the 5th P.M. in Gasconade Co. Mo. and being part of Gascony Village described as follows:

Beginning at the SE corner of Lot 27 of Gascony Village Mobile Home Park, thence with the Lot line N 47° 41' 15" W 47.8', thence leaving the lot line S 89° 04' E 70.93', thence S 0° 58' W 33.93', thence N 89° 02' 10" W 35.0' to the point of beginning containing 0.04 acres as per Survey in Gasconade Co. Surveyor's Record Book 23 Page 21 by Vincent Klott in May 2017

Subject to restrictions of record; if any.

PROMISSORY NOTE - BALLOON

1 July, 2017

CHASE OSAJE WATER

FOR VALUE RECEIVED, I, We, the undersigned Co. Inc., (Borrower) promises to pay to CHASE OSAJE REALTY CO. (Lender) the sum of \$8,000^{00/100} (\$) together with interest thereon at the rate of 18% (18%) percent per annum payable as follows:

6 months after the date hereof and from month to month thereafter for 6 months until 12/31, 2017, payments of interest only shall be due and payable in the amount of \$ 720^{00/100} and a final payment in the amount of \$ 8,000^{00/100}

This Note may be prepaid in whole or in part at any time without premium or penalty. All prepayments shall be applied first to interest, then to principal payments in the order of their maturity.

The undersigned agrees to pay all costs and expenses, including all reasonable attorneys' fees, for the collection of this Note upon default. All payments shall be made at 4948 THEISS RD. ST. LOUIS MO 63128, or at such other place as the holder hereof may from time to time designate in writing.

Each maker, surety, guarantor and endorser of this Note waives presentment, notice and protest, all surety ship defenses and agrees to all extensions, renewals, or releases, discharge or exchange of any other party or collateral without notice.

George Hoesch (PRESIDENT)

Witness Borrower

COLLATERAL: 1985 Ditch Witch 4010 TRACKER
Model: 4010 DD SERIAL#: 6D 0048
Backhoe: A 420 SERIAL#: 1D 0086
Tires: 31X15.50-15 8 ply REAR STEERING
6 way Blade x HEAVY DUTY ROCK CHAIN
DEUTZ DIESEL 40 HP

PROMISSORY NOTE - BALLOON

7-1, 20 17

CINCOBY WATER

FOR VALUE RECEIVED, I, We, the undersigned CO. INC., (Borrower) promises to pay to Case-OSAGE REALTY (Lender) the sum of 3,500 (\$) together with interest thereon at the rate of 18% (18%) percent per annum payable as follows:

6 months after the date hereof and from month to month thereafter for 6 months until 12-31, 20 17, payments of interest only shall be due and payable in the amount of \$ 315⁰⁰ and a final payment in the amount of \$ 3,500⁰⁰

This Note may be prepaid in whole or in part at any time without premium or penalty. All prepayments shall be applied first to interest, then to principal payments in the order of their maturity.

The undersigned agrees to pay all costs and expenses, including all reasonable attorneys' fees, for the collection of this Note upon default. All payments shall be made at 4948 THEISS Rd St. Louis, Mo 63128, or at such other place as the holder hereof may from time to time designate in writing.

Each maker, surety, guarantor and endorser of this Note waives presentment, notice and protest, all surety ship defenses and agrees to all extensions, renewals, or releases, discharge or exchange of any other party or collateral without notice.

G. K. Kessler (PRESIDENT)
Witness Borrower

Collateral: 6x4 BATOR Hydraulic Dump DIESEL 13HP

GASCONY WATER COMPANY, INC.
1907 Apache Trail
Herman, MO 65041
3031293

Full Company Name (Do not abbreviate, yet include any
Commission approved AKA/DBA/Fictitious Name, if applicable)

WATER and/or SEWER ANNUAL REPORT
SMALL COMPANY
TO THE
MISSOURI PUBLIC SERVICE COMMISSION

For the Year Ending December 31, 2007



Public submission



Non-Public submission pursuant to Section 392.210 RSMo.,
Section 93.140 RSMo, and the Rules at 4 CSR 240-3.540

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Company Name: _____

Describe MAJOR transactions occurring during the year which will have a major effect on operations, such as rate changes, replacement of equipment and other abnormal cash expenditures of \$250 or more.

JOHN DEERE GATOR

\$ 4,200⁰⁰ TXN

Submitting this Annual Report is an "option" through EFIS.

A registered official company representative is authorized to utilize this option, type in all necessary information below, including the Notary's information (pursuant to Sections 432.200 and 432.295). After submitting the Annual Report through EFIS, you will receive a BMAR (confirmation) number. Indicate that BMAR number on the original and retain for your records.

WATER and/or SEWER
Annual Report of Gascony Water Co. Inc
for the year ending December 31, 2007

VERIFICATION

The foregoing report must be verified by the oath of the President, Treasurer, General Manager or Receiver of the company. The oath required may be taken before any person authorized to administer an oath by the laws of the State in which the same is taken.

OATH

State Of MISSOURI
County Of Gasconade } ss:

George Hoesch makes oath and says that
(Insert here the name of the affiant)

he is PRESIDENT
(Insert here the official title of the affiant)

of Gascony Water Co Inc
(Insert here the exact legal title or name of the respondent)

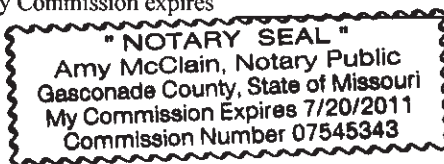
that s/he has examined the foregoing report; that to the best of his or her knowledge, information, and belief, all statements of fact contained in the said report are true and the said report is a correct statement of the business and affairs of the above-named respondent.

JANUARY 1, 2007, to and including DECEMBER 31, 2007

George Hoesch
(Signature of affiant)

Subscribed and sworn to before me, a NOTARY in and for the
State and county above named, this 10th day of JANUARY 20 08

My Commission expires July 20 20 11



Amy McClain
(Signature of officer authorized to administer oaths)

Missouri Revised Statutes § 392.210

Original in its entirety must be mailed (if not utilizing EFIS) to:
Manager of the Data Center
MoPSC, 200 Madison Street, Suite 100
Jefferson City, MO 65101 (P.O. Box 360, 65102-0360)

FILED³

JUN 25 2015

GASCONY WATER COMPANY, INC.
1907 Apache Trail
Herman, MO 65041
3031293

Missouri Public
Service Commission

Company Full Certificated Name

*Do not abbreviate and include any Commission approved
AKA/DBA/Fictitious Name, if applicable.*

WATER and/or SEWER ANNUAL REPORT

SMALL COMPANY

(Fewer than 8,000 customers)

TO THE

MISSOURI PUBLIC SERVICE COMMISSION

January 1 - December 31, 2014

Please indicate which type of service the Company is certificated to provide by checking the appropriate box(es). *(Check all that apply.)*

Water Service Provider

Sewer Service Provider

Please choose one of the following filing type options:

- Public Submission** *(NOT Highly Confidential)*
- Non-Public Submission** *(Highly Confidential / Filed Under Seal)*
For this filing to be considered Highly Confidential, additional submission of materials is required pursuant to Commission rule 4 CSR 240-3.335 and/or 4 CSR 240-3.640, Section 392.210, RSMo., and/or Section 393.140, RSMo.

Issue Date: 12/17 /2014
Revised: 2/5/15, 3/2/15, 3/11/15, 3/12/15, 3/16/15

(To be used when filing under seal.)

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Company Name: _____

Describe **MAJOR** transactions occurring during the year which will have a effect on operations, such as rate changes, replacement of major equipment and other abnormal cash expenditures of \$250 or more. (Dollar amounts to be recorded on Page W-5 and/or Page S-4 columns d and/or e.)

Purchase of TRENCHING MACHINE
\$ 8,000.00

Purchase of 4X6 JOHN DEERE GATOR
\$ 3,300.00

(To be used when filing under seal.)

Annual Report of

VERIFICATION

The foregoing report must be verified by the oath of the President, Treasurer, General Manager or Receiver of the company. The oath required may be taken before any person authorized to administer an oath (Notary Public) by the laws of the State in which the same is taken.

OATH

State Of MISSOURI }

County Of GASCONADE }

GEORGE HOESCH makes oath and says that
Name of Affiant (Company Official/Representative)

s/he is PRESIDENT
Official Title of the Affiant (Company Official/Representative)

of GASCONY WATER CO INC
Exact Legal Title or Name of the Respondent (Certificated Company Name)

and is located at 4948 THEISS RD ST. LOUIS MO 63128
Address and Telephone Number of the Affiant (Company Official/Representative)
314-402-5222

that s/he has examined the foregoing report; that to the best of his or her knowledge, information, and belief, all statements of fact contained in the said report are true and the said report is a correct statement of the business and affairs of the above-named respondent.

from January 1, 2014, to and including December 31, 2014
Month/Day Year Month/Day Year

JENNIFER TRUNK
Notary Public - Notary Seal
STATE OF MISSOURI
Jefferson County
My Commission Expires: February 4, 2018
Commission #14575021

George R Hoesch
Signature of Affiant (Company Official/Representative)
(If electronic signatures are used, you must use "/s/" before the name.)

Subscribed and sworn to before me, a Notary Public, in and for the State and County above named,
this 22 day of June, 2015.
My Commission expires Feb. 4, 2015

Jennifer Trunk
Signature of Notary Public
(If electronic signatures are used, you must use "/s/" before the name.)

Missouri Revised Statutes § 392.210 or §393.140

See the Instructions tab for more information to complete this page.