

Exhibit No. _____
Issue: Company Background, Improvements,
Property Tax, Auditing and Tax Preparation
Fees, Capital Structure, Cost of Capital,
AFUDC, Revenue Requirement, Rate Design,
Rate Case Expense
Witness: Josiah Cox
Type of Exhibit: Direct Testimony
Sponsoring Party: Raccoon Creek
Case No.: SR-2016-0202
Date: September 30, 2016

Missouri Public Service Commission

Direct Testimony

of

Josiah Cox

On Behalf of

Raccoon Creek Utility Operating Company, Inc.

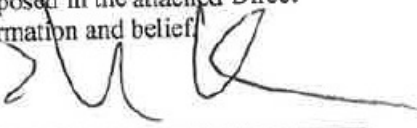
September 30, 2016

JOSIAH COX
DIRECT TESTIMONY

AFFIDAVIT

STATE OF MISSOURI)
)
COUNTY OF St. Louis) ss

I, Josiah Cox, state that I am the President of Raccoon Creek Utility Operating Company, Inc. and, that the answers to the questions posed in the attached Direct Testimony are true to the best of my knowledge, information and belief.



Subscribed and sworn to before me this 29th day of September, 2016.



Notary Public

My Commission Expires: January 31, 2017



TABLE OF CONTENTS

WITNESS INTRODUCTION.....	1
PARTIAL DISPOSITION.....	8
PURPOSE.....	8
RACCOON CREEK BACKGROUND.....	9
OWNERSHIP AND IMPROVEMENT OF ASSETS.....	10
EXISTING RATES.....	25
PROPERTY TAXES.....	25
AUDITNG AND INCOME TAX PREPARATION FEES	26
CAPITAL STRUCTURE.....	28
COST OF CAPITAL (DEBT)	31
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC).....	35
REVENUE REQUIREMENT.....	36
RATE DESIGN	36
RATE CASE EXPENSE	37

**DIRECT TESTIMONY OF
JOSIAH COX
RACCOON CREEK UTILITY OPERATING COMPANY, INC.**

WITNESS INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Josiah Cox. My business address is 500 Northwest Plaza Drive
Suite 500. St. Ann MO, 63074

**Q. WHAT IS YOUR POSITION WITH RACCOON CREEK UTILITY OPERATING
COMPANY, INC. (RACCOON CREEK OR COMPANY)?**

A. I hold the office of President of Racoon Creek and Central States Water
Resources, Inc.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
EXPERIENCE.**

A. I received a Bachelor of Science with a major in Environmental Science from the
University of Kansas. After graduation and a brief tenure at the Kansas
Biological Survey, I was employed by Fribis Engineering, a Civil Engineering
Firm in Arnold, MO. I spent approximately two and a half years working with
Fribis Engineering. I was involved during that time in various facets of the land
development process to include permitting, entitlement, civil design, project
management, and construction management. I focused mainly on the water and
wastewater side of the civil engineering business and participated in every part of
the civil business from wasteload allocation studies (now known as the anti-

1 degradation processes), design, permitting, project management, and
2 construction management. I also ran the environmental consulting division and
3 was the second private consultant to submit a water quality impact study in the
4 state of Missouri in 2003. At Fribis Engineering, I joined the executive leadership
5 team and helped run all of the operations of the firm. Thereafter, in 2005, I raised
6 money from a group of investors and formed Trumpet LLC. Trumpet LLC was a
7 full service civil engineering, environmental consulting, general contracting, and
8 construction management firm. In early 2006, I started the Executive Masters of
9 Business Administration (MBA) program at Washington University in St. Louis. I
10 graduated with my MBA from Washington University in the 2007. At Trumpet
11 LLC, as the Chief Operating Officer and finally Chief Executive Officer, I obtained
12 extensive experience with rural communities in every facet of the water and
13 wastewater compliance process including environmental assessment, permitting,
14 design, construction, operation and community administration of the actual water
15 and wastewater (sewerage) systems. At Trumpet, we performed stream
16 sampling and built waste-load allocation models to determine receiving water-
17 body protective permit-able effluent pollutant loads. We have done full
18 engineering design of multiple whole community wastewater and water
19 infrastructure systems including wells, water distribution, water treatment, water
20 storage, wastewater conveyance, and wastewater treatment plants and taken
21 these designs through federal and state administered permitting processes in
22 Missouri. Trumpet also administered the construction of these water and
23 wastewater systems from green field site selection all the way through system

1 startup and final engineering sign off. In 2008, I took over the operations on an
2 existing rural sewer district and I still currently operate a system actually
3 managing the functioning, testing, and maintenance of the system. Finally, I also
4 act as the administrator for this system performing all the billing, emergency
5 response, accounts payable / accounts receivable, collections, budgeting,
6 customer service, and public town meetings required to service the community.

7 **Q. PLEASE DESCRIBE YOUR POSITION AT CENTRAL STATES WATER**
8 **RESOURCES, INC.**

9 A. I have been the President of Central States Water Resources, Inc. (CSWR),
10 which manages First Round CSWR, LLC (First Round), for approximately two
11 and a half years. First Round, though its subsidiaries, has completed three
12 acquisition and financing cases with the Missouri Public Service Commission
13 (Commission) and one rate case.

14 **Q. WHAT IS THIS ORGANIZATION'S BUSINESS PLAN?**

15 A. The plan is to pursue the purchase and recapitalization of failing water and
16 wastewater utilities across the state of Missouri under the regulated utility small
17 rate case technical format. As an example of market size and future plans,
18 Central States estimates there to be 52 PSC regulated small sewer companies in
19 Missouri (Central States defines small sewer companies as sewer companies
20 servicing under 8,000 customers by firms that are not publically traded). Out of
21 those 52 small companies, 7 are currently in state appointed receivership and in
22 the immediate danger of being closed down for Missouri Department of Natural
23 Resources (MDNR) regulatory reasons. The average tariff rate (individual

1 customer utility rate approved by the Commission) in the remaining 44 systems
2 has not been changed for approximately 10 years. This means most of the
3 Commission-regulated small sewer companies in the state have not been in a
4 rate case for over a decade. Based on recent regulatory permit changes, Central
5 States estimates 40 of the entire 52 regulated small sewer companies are
6 currently out of, or about to be out of, federal and state regulatory pollution or
7 dispense permit compliance. As the vast majority of permitted water and sewer
8 operations in the state are unregulated, these 40 targets are just a small portion
9 of the potential Central States utility targets.

10 **Q. WHAT IS FIRST ROUND'S EXPERIENCE WITH WASTEWATER/SEWER**
11 **SYSTEMS?**

12 **A.** On the wastewater side of the business, First Round has purchased five
13 wastewater treatment plants (WWTP) with associated sewer pumping stations,
14 gravity force mains, and gravity conveyance lines. The companies have
15 designed, permitted, and completed construction, with Missouri Department of
16 Natural Resources approval, of approximately \$2.1 million of sanitary sewer
17 systems since March of 2015. These improvements include wastewater line
18 repairs to remove infiltration and inflow, building sewer main extensions, the
19 repair of multiple lift stations, the construction of lift stations, the closure of an
20 existing regulatory impaired WWTP, building two fully activated sludge plants,
21 constructing two moving bed bio-reactor plants (MBBR), converting two failing
22 WWTP's into sludge storage/flow equalization and treatment basins, and
23 constructing various other wastewater supporting improvements.

1 **Q. WHAT IS FIRST ROUND'S EXPERIENCE WITH WATER SYSTEMS?**

2 A. On the drinking water side of the business, the companies have designed,
3 permitted, and is completing construction with Missouri Department of Natural
4 Resources approval of approximately \$2.6 million of drinking water systems
5 since March of 2015. These improvements include construction of three new
6 ground water storage tanks, construction of three sets of drinking water
7 pressurization pump assemblies, drilling a deep water well, erecting two new
8 well-houses, closing two failed well-houses, closing an exposed failed deep
9 water drinking well, rehabbing an existing impaired well-house, closing a failing
10 booster pump station house, replacement of over 700 meter pits with new
11 meters, replacement/rehabbing almost 60 existing water service lines, installing
12 numerous isolation valve systems, installing multiple flush hydrants, repairing
13 almost 100 leaks and repairing or building various other supporting drinking
14 water system improvements.

15 **Q. HAS YOUR ORGANIZATION BEEN ASKED BY THE COMMISSION STAFF**
16 **TO ASSIST WITH ANY OTHER SYSTEMS?**

17 A. Yes. In the spring of 2016, at the request of the Commission water and sewer
18 staff, we negotiated a purchase contract and immediate operations takeover of
19 Smithview H2O Company, a Commission-regulated drinking water system.
20 Thereafter, we were able to get Smithview off a MDNR mandated emergency boil
21 order. Since March of 2016, the organization has invested over \$41,000 in
22 disinfection system installation, emergency line repairs, emergency electrical

1 repairs, and operational services to keep Smithview operating and off a potential
2 MDNR mandated boil order.

3 **Q. HAS THE ORGANIZATION TAKEN STEPS TO IMPROVE SERVICES AT THE**
4 **SYSTEMS IT NOW OPERATES?**

5 A. Yes. In addition to the capital improvements made on all of the systems, the
6 organization has built from scratch customer service systems at each utility that
7 comply with the Commission's Chapter 13 rules and provide benefits to the
8 customers. This includes 24hr emergency service phone lines for potential
9 service issues, on-call emergency service contractor personnel, customer
10 dissemination of MDNR mandated drinking water testing information, on-line bill-
11 pay options, up-to-date website bulletins about current service status, and
12 service initiation or discontinuance procedures that are Commission compliant.

13 **Q. DOES CSWR/FIRST ROUND PLAN TO MAKE ADDITIONAL ACQUISITIONS?**

14 A. Yes. CSWR/First Round currently has nine water and wastewater utility
15 purchase contracts in place. These contracts represent three systems in
16 Commission receivership, (some with active Missouri Attorney General (AG)
17 enforcement actions), another with an active AG enforcement action, and
18 Smithview (as discussed above) that was taken over to lift an emergency MDNR
19 mandated boil order. In addition, CSWR is in various phases of due-diligence on
20 numerous other small, failing water and wastewater utilities across the state of
21 Missouri. Missouri Utilities is one of the systems that CSWR has under contract.
22 It is a system in commission appointed receivership, and an utility with AG
23 enforcement actions. The below pictures show a portion of its drinking water

1 system that provides drinking water for 152 residences in a community just south
2 of the city limits of Sedalia, Missouri. For residential drinking water, the
3 community is serviced by a leaking bolted railroad tanker car acting as a
4 pressurized tank sitting on concrete serviced by a 1HP pump that has to be
5 switched on manually by the existing operator every day to keep water reassured
6 for customers. This system is a good example of the type of systems CSWR is
7 currently working on.

MISSOURI UTILITIES, COMMISSION RECEIVERSHIP, CSWR CONTRACT SYSTEM

Drinking Water Tank for Elm Hills
Subdivision Consisting of 151
Residences outside of Sedalia, MO

One HP Pump
that Must be
Manually
Turned on Daily
For
Approximately
300 People's
Drinking Water



Concrete Blocks Supporting
Railroad Tanker Car Show Leaks



Bolted Railroad Tanker Car with
Visible Corrosion Serves as
Drinking Water Pressure Tank

PARTIAL DISPOSITION

Q. HAS RACCOON CREEK BEEN ABLE TO REACH AGREEMENT IN REGARD TO ANY RATE CASE ISSUES?

A. A few. On August 30, 2016, the Staff of the Public Service Commission filed a Partial Disposition Agreement, which addressed some rate case issues.

Q. IS IT YOUR UNDERSTANDING THAT THE STAFF WILL FILE DIRECT TESTIMONY IN SUPPORT OF THAT PARTIAL DISPOSITION AGREEMENT?

A. Yes.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will first provide the Missouri Public Service Commission (Commission) with a description of Raccoon Creek and its operations. I will further describe the improvements that have been made to the sewer systems owned by Raccoon Creek. I will then provide testimony concerning certain issues that were not included in the agreement with the Staff. Those issues are as follows: (1) Property Taxes; (2) Auditing and Income Tax Preparation Fees; (3) Capital Structure; (4) Cost of Capital (equity and debt); (5) Allowance for Funds Used During Construction (AFUDC); (6) Revenue Requirement; (7) Rate Design; and, (8) Rate Case Expense.

It is my understanding that the Office of the Public Counsel (Public Counsel) will identify additional issues it wishes to raise in this case. Raccoon Creek will address those issues in its rebuttal testimony.

RACCOON CREEK BACKGROUND

Q. PLEASE DESCRIBE RACCOON CREEK.

A. Raccoon Creek provides sewer service to approximately 466 residential customers and 34 apartment customers, through three collection and treatment systems located near Sedalia, Missouri. Raccoon Creek is a "sewer corporation," and a "public utility" as those terms are defined in Section 386.020, RSMo.

Q. IS RACCOON CREEK A PART OF A LARGER ORGANIZATION?

A. Yes. As discussed above, Raccoon Creek is an indirect subsidiary of First Round CSWR, LLC, which also is the ultimate parent of Hillcrest Utility Operating Company, Inc. Central States Water Resources, Inc. is the manager for First Round CSWR, LLC. I commonly refer to this business organization as a whole by the name "Central States" or "CSWR."

Q. DOES RACCOON CREEK HAVE ANY OF ITS OWN EMPLOYEES?

A. No.

Q. HOW DOES IT PROVIDE SERVICE?

A. Raccoon Creek hired a local third party Operations and Maintenance (O&M) firm that carries the mandatory MDNR licenses and appropriate insurance to manage the daily wastewater operations. The O&M firm has a 24-hour emergency service line for service disruption services that forwards all service issues to me, as president of Raccoon Creek. Raccoon Creek also hired a billing and customer service firm to send out bills and handle customer service related to billing questions. Moreover, Raccoon Creek has setup an online billing system to

1 receive credit card and e-checks and customer service email accounts specific to
2 Raccoon Creek to field on-going customer interactions.

3 All of the management, financial reporting, underground utility safety and location
4 services, Commission regulatory reporting, MDNR regulatory reporting,
5 environmental management, operations oversight, utility asset planning,
6 engineering planning, on-going utility maintenance, total utility record keeping,
7 and final customer dispute management is done out of the corporate office with
8 proportional costs passed down to Raccoon Creek.

9
10 **OWNERSHIP AND IMPROVEMENT OF SYSTEMS**

11 **Q. HOW DID RACCOON CREEK ACQUIRE ITS SEWER SYSTEMS?**

12 A. Raccoon Creek acquired its three sewer systems from West 16th Street Sewer
13 Company (West 16th or WSS), W.P.C. Sewer Company (W.P.C.), Village Water
14 and Sewer Company, Inc. (Village), all of which were public utilities regulated by
15 the Commission. The Commission provided approval of this transaction in its
16 File No. SM-2015-0014.

17 **Q. WHAT APPROVAL DID RACCOON CREEK SEEK FROM THE COMMISSION**
18 **IN FILE NO. SM-2015-0014?**

19 A. Raccoon Creek sought the Commission's permission to acquire the wastewater
20 assets of West 16th, W.P.C. and Village, and to issue indebtedness and to
21 encumber those acquired assets in order to fund the construction necessary to
22 bring the systems into regulatory compliance. Raccoon Creek's proposed
23 financing was examined by the participants in that case. Ultimately, a Stipulation

1 was reached and the Commission approved the transactions, with conditions, by
2 its Order Regarding Stipulation and Agreement and Certificate of Convenience
3 and Necessity issued November 24, 2014, effective December 24, 2014.

4 **Q. ON WHAT DATE DID RACCOON CREEK CLOSE ON THESE**
5 **TRANSACTIONS?**

6 A. The transfers that are the subject of Case No. SM-2015-0014 were completed on
7 the following dates: West 16th Street Sewer Company - March 16, 2015; W.P.C.
8 Sewer Company - March 16, 2015; and, Village Water and Sewer Company, Inc.
9 - March 13, 2015.

10 **Q. WHAT WAS THE CONDITION OF THE WEST 16TH SEWER SYSTEM WHEN IT**
11 **WAS ACQUIRED BY RACCOON CREEK?**

12 A. WSS was a wastewater conveyance and treatment system built to service
13 approximately 164 homes. The conveyance system mainly consisted of 20 plus
14 year old PVC pipping with a small section of homes serviced by a wastewater
15 sanitary lift station that pumped into a manhole connected to the existing gravity
16 sewer conveyance system. At the time of acquisition, WSS was a distressed
17 extended aeration package plant with internal clarification and no disinfection
18 systems. The previous owner did not supply original design drawings and MDNR
19 did not have any original design records. The plant was built below a flood plain in
20 an earthen bowl and below the flowline of plant's effluent receiving stream. The
21 plant was regularly over flowing untreated waste into the receiving creek. On
22 CSWR's first visit, the entire floor of the earthen bowl was covered in dried
23 sludge created by wastewater flushing the entire plant onto the ground - a MDNR

1 violation. The WSS plant was visibly, structurally damaged. By installing the
2 WWTP below the flow line of the effluent receiving stream and not anchoring the
3 plant on a foundation, the plant was subject to "floating" as the result of
4 hydrostatic pressure from the surrounding groundwater. You could see where
5 the entire steel superstructure had been compromised by the plant being forced
6 up due to the hydrostatic pressure. After the last very large plant float, the
7 previous owner had forced the plant back into the original excavation area and
8 built a tie-down anchor-like structure with winching capability to attempt to
9 prevent more plant flotations. The main aeration chamber had a different steel
10 super structure than the clarification and return tanks. The anchor was only
11 attached to the main superstructure in the far northeast section of the plant. The
12 clarification and return tanks had continued to float without anchoring, which had
13 more severely damaged the superstructure of those tanks and left them out of
14 grade with the main aeration tanks. It seemed the operators had used
15 improvised pipes to connect the clarifier and some lift pumps to overcome the
16 break between the tankage. The plant's discharge pipe was being fed into an
17 unpermitted mini pump in order to allow the waste to go over the existing earthen
18 bowl, overcoming being below the receiving stream, and the original discharge
19 pipe had been abandoned to prevent creek water from flooding the plant during
20 rain events. Half of the blower equipment was not functioning prior to the
21 acquisition and the sludge holding tankage had been abandoned for some type
22 of improvised out of ground plastic farm tankage. Flow monitoring demonstrated
23 the plant was regularly surcharging due to infiltration and inflow problems from

1 the existing collection system. Monitoring reports showed that WSS was unable
2 to consistently treat for ammonia and nitrogen. Flow data showed that the plant
3 could not treat all of the receiving flows surcharging waste into the receiving
4 creek during almost every rain event. Subsequent smoke testing showed
5 numerous areas where pipe breaks, broken clean outs, and various other issues
6 inside the collection system caused the collection of rainwater.

7 **Q. WHAT WAS THE CONDITION OF THE W.P.C. SEWER SYSTEM WHEN IT**
8 **WAS ACQUIRED BY RACCOON CREEK?**

9 A. WPC is made up of two collection systems and two original plants servicing two
10 adjoining neighborhoods. The neighborhoods are Walnut Hills Subdivision and
11 Woodland Lake Estates. Both neighborhoods were inside the original certificated
12 sewer service area of WPC, but the original owner was not providing service to
13 Woodland Lake Estates even though Woodland Lake Estate's WWTP was
14 approximately only 200 feet from an existing gravity sewer collection line.
15 The original Walnut Hills Subdivision system consisted of an approximately 25yr+
16 gravity collection system made of PVC pipe feeding a makeshift poured in place
17 and steel extended aeration plant servicing 68 residents. The concrete tankage
18 was no connected to the package plant and thus seemed to be a relic. This plant
19 had an ultraviolet disinfection system added on in a separate poured-in-place
20 tankage assembly, which fed a discharge pipe that runs approximately 1,000'
21 below the adjoining golf course. The previous owner did not supply original
22 design drawings and MDNR did not have any original design records. The plant
23 seemed to have been constructed in two different time periods. Two poured-in-

1 place concrete structures were adjacent to the steel aeration package-type plant.
2 The concrete tankage was not connected to the aeration plant. The plant was
3 regularly surcharging untreated waste into the receiving creek. On CSWR's first
4 visit, the ground around the plant was covered in dried sludge created by
5 wastewater surcharges flushing the entire plant onto the ground directly into the
6 adjacent stream bypassing the extension pipe, a MDNR violation. The concrete
7 tankage was apparently abandoned as sludge holding tankage replaced with a
8 non MDNR design compliant improvised out of ground plastic farm tank. We
9 could not find piping connecting the concrete tankage to the existing extended
10 aeration systems. Flow data showed that the plant could not treat all of the
11 receiving flows surcharging waste, thus bypassing the effluent pipe into the
12 receiving creek during almost every rain event. Subsequent smoke testing
13 showed numerous areas where pipe breaks, broken clean outs, and various
14 other issues inside the collection system issues were collecting rainwater.
15 The Woodland Lake Estates System is made up entirely of a force main
16 collection system powered collectively by each house's pump, which sends gray
17 water into the collection system while collecting solids at each house in small
18 individual septic tanks. This force main collection system then feed a
19 recirculating sand filter WWTP followed by a tablet chlorination and
20 dechlorinating system. This sand filter system was installed using wooden walls
21 with some type of possibly Thermoplastic polyolefin (TPO) roofing material as the
22 WWTP membrane linier. The wooden walls were visibly failing, and some of the

1 membrane material was exposed. Recirculating sand filter systems are not
2 designed to treat sanitary waste for nutrient removal.

3 **Q. WHAT WAS THE CONDITION OF THE VILLAGES SEWER SYSTEM WHEN IT**
4 **WAS ACQUIRED BY RACCOON CREEK?**

5 A. Villages is a wastewater conveyance and treatment system servicing
6 approximately 253 residences. The conveyance system mainly consists of 20-30
7 plus year old PVC pipping with a small section of homes serviced by a force main
8 collection system powered collectively by each house's pump, which sends gray
9 water into the collection system while collecting solids at each house in small
10 individual septic tanks that pumps into a manhole that connects to the existing
11 majority gravity sewer conveyance system. The gravity sewer system fed a three
12 cell aerated lagoon system with a poured in place concrete chlorine and
13 dechlorinating disinfection system. At the time of acquisition, the lagoon only had
14 one cell with functioning aeration. The sludge in each lagoon cell had built up to
15 the point that sludge deposits reached above the waterline of the first lagoon cell
16 and just below the surface of each adjoining cell reducing the amount of
17 treatment area across the system. Monitoring reports showed that the Villages
18 was unable to consistently treat for ammonia as nitrogen. The existing
19 disinfection system was not covered allowing organic material into the discharge
20 forcing even more nutrients into the effluent. Flow data showed that the plant
21 could not treat all of the receiving flows, thus surcharging waste into the receiving
22 creek during almost every rain event. Subsequent smoke testing showed
23 numerous areas where pipe breaks, broken clean outs, residential gutter

1 downspout ties ins, and various other issues inside the collection system issues
2 were collecting rainwater.

3 **Q. WERE RACCOON CREEK'S SYSTEMS OUT OF COMPLIANCE WITH MDNR**
4 **IN REGARD TO THE WASTEWATER SYSTEMS?**

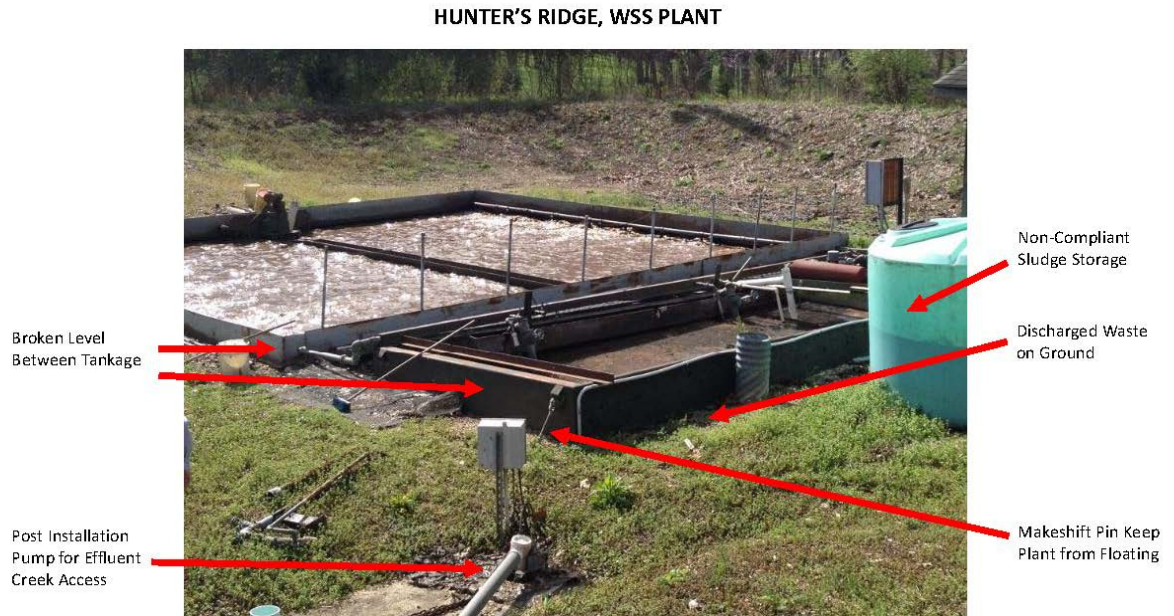
5 A. Yes, each system had an individual list of MDNR compliance requirements:

6 **West 16th(WSS) --**

7 West 16th(WSS) was under a MDNR schedule of compliance for two wastewater
8 National Pollution Discharge Elimination System (NPDES) regulated pollutants
9 (fecal coliform and ammonia as nitrogen). WSS had missed its schedule of
10 compliance deadline to address these pollutant issues. Effluent sampling data
11 showed WSS had violated MDNR-mandated ammonia levels and fecal coliform
12 issues. WSS was violating NPDES permits on sanitary storm overflows
13 discharging untreated sanitary waste onto the ground and into the plant's
14 receiving stream. WSS had had a major plant failure in that the entire plant
15 "floated" or came out of the ground due to being built below the receiving streams
16 flow line creating hydrostatic pressure during a rain event. In addition WSS had
17 non-complaint sludge storage on site, and un-permitted pump discharge
18 modification.

19 A picture depicting some of these issues follows:

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2

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W.P.C. --

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There were two plants inside WPC tariff area. The South Walnut Hills plant was under a MDNR schedule of compliance for one wastewater National Pollution Discharge Elimination System (NPDES) regulated pollutant (ammonia as nitrogen). WPC had missed its schedule of compliance deadline to address this pollutant issue. WPC was also violating NPDES permits on sanitary storm overflows discharging under-treated sanitary waste onto the ground and into the plant's receiving stream. Effluent sampling data showed WPC had violated

1 MDNR mandated ammonia levels. In addition WPC had non-complaint sludge
2 storage on site.

3 The Woodland Lake Estates plant was under a MDNR schedule of compliance
4 for one wastewater National Pollution Discharge Elimination System (NPDES)
5 regulated pollutant (ammonia as nitrogen). Woodland Lake Estates had missed
6 its schedule of compliance deadline to address this pollutant issue, and
7 Recirculating sand filters are not designed for nutrient removal.

8 A picture depicting some of these issues follows:
9

SOUTH WALNUT HILLS, WPC PLANT



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Villages --

The Villages plant was under a MDNR schedule of compliance for one wastewater National Pollution Discharge Elimination System (NPDES) regulated pollutant (ammonia as nitrogen). The Villages had missed its schedule of compliance deadline to address this pollutant issue. The Villages was also violating NPDES permits on sanitary storm overflows discharging under treated sanitary waste into the plant's receiving stream. Effluent sampling data showed Villages had violated MDNR mandated ammonia levels. Further, the lack of fully functioning aeration systems and sludge build-up both violated the existing permit conditions.

A picture depicting some of these issues follows:

1

THE VILLAGES AT WHITEMAN, VILLAGES PLANT



2nd Lagoon Cell With Failed Aerator



Sludge & Waste Over the Water Line of Lagoon

2

3 **Q. WAS RACCOON CREEK REQUIRED TO MAKE CERTAIN IMPROVEMENTS**
4 **WHEN IT ACQUIRED THE SYSTEMS?**

5 A. Yes. Attached as **Schedule JC-01** is each Missouri Department of Natural
6 Resources NPDES operating permit showing the effluent limits required at each
7 plant and additional conditions required of the individual wastewater systems.

8 **Q. WAS THE NECESSITY OF THE IMPROVEMENTS TO THE WASTEWATER**
9 **SYSTEMS KNOWN AT THE TIME RACCOON CREEK RECEIVED APPROVAL**
10 **OF THE TRANSACTION IN FILE NO. SM-2015-0014?**

1 A. Yes. The Application, as well as other documents in that matter, described the
2 issues, the planned improvements, and the cost of those improvements.
3 Racoon Creek provided the Commission Staff with copies of engineering
4 estimates and technology selections associated with each plant's required
5 improvements. Additionally, in the acquisition case, Racoon Creek proposed a
6 financing plan/transaction related to the improvements that was approved by the
7 Commission.

8 **Q. DID RACCOON CREEK MOVE FORWARD WITH IMPROVEMENTS TO THE**
9 **RACCOON CREEK SYSTEMS?**

10 A. Yes. Racoon Creek began construction on the wastewater improvements
11 approximately 40 days after it acquired systems.

12 **Q. WHAT IMPROVEMENTS WERE MADE AT EACH SYSTEM?**

13 A. The following improvements and construction were completed at each of the
14 systems:

15 **West 16th --**

16 1) Smoke testing was done to locate major sources of infiltration and the
17 identified areas including exposed lines, broken exposed cleanouts, and other
18 areas were fixed.

19 2) The existing wastewater treatment plant was converted to a flow
20 equalization (EQ) and treatment tank. This conversion included adding rock and
21 concrete to the bottom of the tankage to secure it from floating.

22 3) A new sewer lift station was added above the old plant above the
23 receiving stream flow line. This lift station feeds a new activated sludge

1 wastewater treatment plant installed to meet final MDNR permit requirements.

2 The lift station acts in tandem with the new WWTP to treat as much waste as
3 possible during high flow events, but allowing additional waste to pass via gravity
4 into the converted EQ basin to prevent surcharges into the receiving stream. As
5 the plant catches up with receiving flow volume the EQ basin back feeds the new
6 lift station via a gravity pipe allowing all the waste coming into the collection
7 system to be treated by the plant.

8 4) Ultraviolet disinfection was added after the integral clarification system
9 to disinfect all the waste.

10 5) The new activated sludge plant was built above the receiving stream's
11 flow line prevented future wash outs, gravity flowing effluent to the receiving
12 stream. The old clarification tankage has been converted to MDNR complaint
13 sludge storage and the improvised effluent pump was eliminated.

14 6) Communications equipment was installed to tie together the operations
15 of the lift station and activated sludge plant. This communications system also
16 monitors and alarms the system for Operations and Maintenance personnel.

17 **W.P.C. –**

18 1) Smoke testing was done to locate major sources of infiltration and the
19 identified areas including exposed lines, broken exposed cleanouts, and other
20 areas were fixed.

21 2) The existing wastewater treatment plant was converted to a flow
22 equalization (EQ) and treatment tank. This conversion included adding rock and
23 concrete to the bottom of the tankage to secure it from floating.

1 3) A new sewer lift station was added above the old plant above the
2 receiving stream flow line. This lift station feeds a new activated sludge
3 wastewater treatment plant installed to meet final MDNR permit requirements.
4 The lift station acts in tandem with the new WWTP to treat as much waste as
5 possible during high flow events, but allowing additional waste to pass via gravity
6 into the converted EQ basin to prevent surcharges into the receiving stream. As
7 the plant catches up with receiving flow volume, the EQ basin back feeds the
8 new lift station via a gravity pipe allowing all the waste coming into the collection
9 system to be treated by the plant.

10 4) The new activated sludge plant was built above adjoining receiving
11 stream's flow line prevented future wash outs, gravity flowing effluent to the
12 receiving stream. The old poured in place concrete tankage has been converted
13 to MDNR compliant sludge storage and connected to the new plant via air lift
14 pumps.

15 5) Communications equipment was installed to tie together the operations
16 of the lift station and activated sludge plant. This communications system also
17 monitors and alarms the system for Operations and Maintenance personnel.

18 6) The old Woodland Lake Estates WWTP was completely eliminated and
19 the flows directed into WPC's gravity conveyance system via a sewer main
20 extension to the plant's old location. The sand filter was decommissioned via
21 permit by MDNR with the old plant material being hauled off-site and the plant
22 area returned to vegetated field state.

23 **Villages –**

1 1) Smoke testing was done to locate major sources of infiltration and
2 the identified areas including exposed lines, broken exposed cleanouts, gutter
3 downspout connections, and other areas were fixed.

4 2) The existing lagoon cells were completely drained with
5 approximately 25+ years of sludge deposits removed and hauled off-site.

6 3) Power was converted to three-phase, new aeration built to service
7 the first lagoon cell, a moving bed bio-reactor (MMBR) was added to meet MDNR
8 nutrient limits, and a sanitary lift station built to address flow equalization
9 throughout the plant.

10 4) Covers were built for the disinfection system and communications
11 equipment installed to tie together the operations of the lift station and MBBR.
12 This communications system also monitors and alarms the system for
13 Operations and Maintenance personnel.

14 **Q. WHEN WERE THESE IMPROVEMENTS COMPLETED?**

15 A. The improvements were completed on the following dates:

16 West 16th –The plant work was totally completed and placed in service in March
17 of 2016.

18 W.P.C. – The plant work was totally completed and placed in service in March of
19 2016.

20 Village -- The plant work was totally completed and placed in-service in March of
21 2016.

22 **Q. WHAT WAS RACCOON CREEK’S INVESTMENT IN THE NEW FACILITIES?**

1 A. Raccoon Creek has invested approximately \$1,406,700 in the facilities. The
2 original indebtedness Raccoon Creek sought and was authorized in File No. SM-
3 2015-0014 was \$1.6 million.

4
5 **EXISTING RATES**

6 **Q. WHAT ARE THE EXISTING RATES FOR THE SYSTEMS AND WHEN WERE**
7 **THESE RATES ESTABLISHED?**

8 A. The current rates are as follows:
9 West 16th - \$26.42 per month, beginning April 27, 2007 (SR-2007-0355);
10 W.P.C. - \$38.12 per month, beginning March 4, 2013 (SR-2013-0324); and,
11 Village - \$23.48 per month, beginning December 1, 1998 (SR-98-94).

12 **Q. HOW WAS THIS RATE CASE INITIATED?**

13 A. Raccoon Creek initiated this small company rate case by its letter to the
14 Commission dated February 2, 2016.

15 **Q. WILL THE RATES REQUESTED BY THE COMPANY RESULT IN AN**
16 **INCREASE FOR THE RACCOON CREEK CUSTOMERS?**

17 A. Yes, they will. All three sewer systems required a substantial rebuild to:
18 (1) to be operational for the provision of service to the customers; and, (2)
19 to comply with federal and state regulations related to those services.

20
21 **PROPERTY TAXES**

22 **Q. WHAT DISAGREEMENT DOES RACCOON CREEK HAVE WITH THE**
23 **COMMISSION STAFF IN REGARD TO PROPERTY TAX?**

1 A. Because property taxes were not paid in 2015, the Staff has not provided for
2 Pettis and Johnson County property taxes in Racoon Creek's revenue
3 requirement.

4 **Q. WILL RACCOON CREEK PAY PROPERTY TAXES IN 2016?**

5 A. Yes. Racoon Creek will pay approximately \$7,905.08 in property taxes to Pettis
6 and Johnson County. The breakdown is \$2,730.38 for WSS and \$2,473.83 for
7 WPC in Pettis County; and \$ 2,700.87 for the Villages in Johnson County. The
8 assessor's office of each Pettis County has submitted a signed document as to
9 the veracity of the taxes for WSS and WPC. Johnson County will have the final
10 assessed value to Racoon Creek in October.

11 **Q. WHAT IS THE APPROPRIATE TREATMENT OF THIS ISSUE?**

12 A. The Commission should order that an amount associated with Pettis and
13 Johnson County property taxes be included in the calculation of Racoon Creek's
14 revenue requirement because this cost will be incurred in 2016 and each year
15 thereafter.

16 **Q. WHAT AMOUNT SHOULD THE COMMISSION INCLUDE IN RACCOON**
17 **CREEK'S REVENUE REQUIREMENT FOR PROPERTY TAXES?**

18 A. \$7,905.08 (See Schedule JC-02).
19

20 **AUDITING AND INCOME TAX PREPARATION FEES**

21 **Q. WHAT DISAGREEMENT DOES RACCOON CREEK HAVE WITH THE**
22 **COMMISSION STAFF IN REGARD TO AUDITING AND TAX PREPARATION**
23 **FEES?**

1 A. The Staff has not included the direct audit and tax preparation fees for Raccoon
2 Creek, or Raccoon Creek's pro-rata share of tax and audit fees from Central
3 States.

4 **Q. ARE THESE AMOUNTS THAT ARE CURRENTLY BEING PAID?**

5 A. Yes, they have been paid. Attached hereto as Schedule JC-03 Proprietary are
6 the final invoices for tax and audit fees associated with Raccoon Creek and First
7 Round CSWR, LLC.

8 **Q. DID THE COMPANY TAKE ANY STEPS TO MINIMIZE ITS AUDITING AND**
9 **TAX PREPARATION FEES?**

10 A. Yes. The Company issued requests for proposals (RFP) and circulated those
11 RFP's to a variety of accountants and accounting firms in order to determine the
12 least expensive qualified firm for rate making purposes.

13 **Q. WHAT WAS THE LOWEST COST FOR THESE SERVICES RACCOON**
14 **CREEK FOUND THROUGH THE RFP PROCESS?**

15 A. The lowest price was provided by Mueller Prost.

16 **Q. WHAT IS RACCOON CREEK'S ANNUAL SHARE OF THOSE COSTS?**

17 A. \$16,125, which consists of \$4,000 for Raccoon Creek's tax preparation, \$10,000
18 for Raccoon Creek's Audit fees, a 17% allocation of Central States tax
19 preparation fees, and a 17% allocation of Central States Audit Fees.

20 **Q. WHY IS IT NECESSARY FOR RACCOON CREEK AND ITS PARENT TO HIRE**
21 **AN OUTSIDE ACCOUNTANT OR FIRM TO PERFORM THESE SERVICES?**

22 A. One of the major problems facing failing water and sewer companies is a lack of
23 professional management and attention to regulatory and statutory compliance.

1 The former owner of these systems did not correctly file taxes forms (as
2 discussed above), nor did they develop and maintain accurate financial records.
3 Tax preparation and audit fees are a normal course of business for a
4 professionally managed utility. This is particularly important for a utility, or group
5 of utilities, that is actively engaged in attempting to raise capital.

6 **Q. WHAT IS THE APPROPRIATE TREATMENT OF THIS ISSUE?**

7 A. The Commission should order that an amount to Raccoon Creek's share of the
8 actual audit and tax preparation fees be included in its revenue requirement.

9
10 **CAPITAL STRUCTURE**

11 **Q. WHAT DISAGREEMENT DOES RACCOON CREEK HAVE WITH THE**
12 **COMMISSION STAFF IN REGARD TO CAPITAL STRUCTURE?**

13 A. Instead of using Raccoon Creek's actual capital structure, Staff has
14 recommended a hypothetical capital structure with a higher equity ratio than is
15 actually being used by Raccoon Creek.

16 **Q. WHAT IS THE APPROPRIATE TREATMENT OF THE ISSUE?**

17 A. The Commission should use Raccoon Creek's actual capital structure. In this
18 case, Raccoon Creek's debt is at a higher cost than its return on equity. The
19 result of utilizing an artificially high equity ratio is to hamper Raccoon Creek's
20 ability to make payments on its loan obligations.

21 **Q. WHY SHOULD THIS BE IMPORTANT TO THE COMMISSION?**

22 A. I believe the state of Missouri is facing a crisis in small water and wastewater
23 systems across the state. Central States has intervened in two regulated water

1 systems, Hillcrest Utility Operating Company, Inc., and now Smithview H2O
2 Company, that were in the midst of months long boil orders. Another system, the
3 Indian Hills Lake Subdivision water system which is now owned by Indian Hills
4 Utility Operating Company, Inc., was kept out of MDNR major enforcement
5 actions because MDNR realized Central States was taking over and would make
6 the necessary improvements to bring the water system back into regulatory
7 compliance. I have come across both regulated and un-regulated community
8 utilities across the State that are violating minimum MDNR health and safety
9 standards, creating health risks for residents. In addition to individual health
10 risks, these failing systems are degrading the water quality and environmental
11 stability of the state's rivers and streams.

12 **Q. HOW DOES THIS SITUATION RELATE TO THE APPROPRIATE CAPITAL**
13 **STRUCTURE?**

14 A. For a utility to invest in basic water and wastewater infrastructure, the regulatory
15 environment must recognize the practical options that are available. Actual
16 market conditions dictate what investment criteria are needed to obtain the
17 capital investment necessary to make MDNR-mandated improvements required
18 to bring failing systems back to health, safety, stability, and environmental
19 compliance. Small, failing water and wastewater utilities represent a unique
20 situation.

21 **Q. HOW DOES THIS APPLY TO THE RACCOON CREEK SYSTEM?**

22 A. For perspective, Staff determined that Raccoon Creek had a net book value of
23 \$187,522 (all three wastewater systems combined), at the time of Raccoon

1 Creek's acquisition case. Raccoon Creek's net book value versus required
2 MDNR investment dollars represented an 11.7% equity basis. The annual reports
3 filled by the previous companies suggest the existing companies had an
4 Earnings Before Interest, Tax, and Amortization of less than \$5,000 annually
5 combined between the three companies. The utility represented a significant
6 commercial liability with MDNR compliance issues, on-going and past pollution,
7 and an actual public health risk (untreated waste being discharged into receiving
8 streams). In order to meet minimum MDNR environmental requirements
9 Raccoon Creek had to invest approximately \$1.406MM in a very short time frame
10 -- something that would be required of any entity that attempted to bring these
11 systems into compliance.

12 **Q. WHAT IS RACCOON CREEK'S ACTUAL CAPITAL STRUCTURE?**

13 A. Outside of AFUDC the rate base is \$1,595,295. With the correct AFUDC
14 calculation using actual debt net rate base is \$1,654,177. Debt consists of
15 \$1,406,700, plus \$58,882 of interest. I therefore calculate the actual capital
16 structure to be 88% Debt and 12% Equity.

17 **Q. DO THESE CIRCUMSTANCES, THE SIGNIFICANCE OF THE INVESTMENT,**
18 **AND THE TIME FRAME GIVE AN ACQUIRING COMPANY MANY OPTIONS**
19 **IN TERMS OF HOW IT ACCESSES CAPITAL?**

20 A. No. Prior to filing the first asset acquisition and financing case, I met with over
21 fifty specialized infrastructure institutional investors, private equity investors, and
22 investment bankers in an attempt to create a program to build water and
23 wastewater improvements to support distressed small water and wastewater

1 utilities in Missouri. In addition, I met with numerous traditional banks seeking
2 commercial bank financing. The capital structure Raccoon Creek is utilizing is
3 the only structure that could be found. Moreover, this is the same structure
4 Raccoon Creek presented to Commission in its acquisition and financing
5 application.

6 **Q. IN YOUR OPINION, WHAT IS NECESSARY FOR INVESTORS TO CONTINUE**
7 **TO PARTICPATE IN THIS PROCESS?**

8 A. Any potential investor has to have confidence that the actual capital structure
9 required to fix failing water and sewer utilities will be recognized for rate making
10 purposes. This is especially true for systems that are out of regulatory
11 compliance and carrying higher commercial liability risks with lower equity
12 basses. Furthermore, I believe that if the investment community has confidence
13 that regulators will use actual structures, it is possible that capital costs
14 associated with distressed small water and wastewater utilities may eventually
15 fall and new capital markets to open, both of which will lower utility customer
16 rates.

17
18 **COST OF CAPITAL (DEBT)**

19 **Q. WHAT DEBT COST SHOULD BE UTILIZED TO DEVELOP THE COST OF**
20 **CAPITAL?**

21 A. The actual cost of debt should be utilized in the weighted average cost of capital
22 (WACC) calculation.

23 **Q. WHAT IS RACCOON CREEK'S ACTUAL COST OF DEBT?**

1 A. Fourteen percent (14%).

2 **Q. IS DEBT AVAILABLE TO RACCOON CREEK AT A LOWER RATE?**

3 A. No.

4 **Q. WHY NOT?**

5 A. Small, distressed water and wastewater systems are shut off from traditional
6 capital markets. Failing water and wastewater systems are shut off from capital
7 markets because of the huge liability associated with existing health and
8 environmental compliance failures, a current lack of professional management or
9 even basic records retention, and a complex regulatory environment which
10 requires huge up-front investments in capital and operations by small entities,
11 regulated by multiple (sometimes opposing) agencies, before a utility is able to
12 recover any costs.

13 **Q. PLEASE DESCRIBE HOW THE REGULATORY ENVIRONMENT IMPACTS**
14 **THE CREDIT WORTHINESS OF A SMALL WASTEWATER UTILITY.**

15 A. Wastewater utilities are regulated by The Missouri Department of Natural
16 Resources (MDNR). MDNR is responsible for compliance with federal and state
17 mandated health, safety, service reliability, and environmental statutes and
18 regulations. The majority of these statutes and regulations are becoming
19 increasingly stringent over time. Some, like the Clean Water Act and its
20 associated regulations, become more stringent to reflect the results of continuing
21 scientific research into the dangers of pollutants to human health and the
22 environment. The increasing pressure also reflects the state of Missouri's
23 commitment to forcing utility providers to provide safe and reliable water

1 resources to customers. Addressing these realities requires huge upfront capital
2 investment with delayed and uncertain recovery of revenues necessary to recoup
3 those investments, usually from an entity with largely depreciated assets. Banks
4 cannot loan huge sums of money to entities with little equity in the form of net
5 book value, existing environmental issues, and without a guarantee on
6 recoupment.

7 **Q. ARE THERE OTHER FACTORS AFFECTING SMALL UTILITIES' ACCESS TO**
8 **TRADITIONAL FINANCING?**

9 **A.** Yes, regulatory lag is an additional factor affecting small utilities' ability secure
10 financing. For example, Racoon Creek began construction on the
11 improvements that are the subject of this case in April of 2015. The direct costs
12 of operating the Racoon Creek systems resulted in a cash loss outside of any
13 overhead allocations of over \$17,000 dollars in 2015, and will result in a loss of
14 over \$25,000 in 2016. I estimate, based on experience and statutory guidelines,
15 that small, distressed utilities take 3-4 four months of engineering and permitting
16 with MDNR, and 5-6 months of construction. The small rate case format has a
17 target of 11 months from filing to new rates. This means that from initial
18 expenditures on engineering for MDNR permitting, through construction, then
19 through a rate case, a small distressed water and sewer company can expect to
20 lose money on professional operations and pay for major capital improvements
21 (in Racoon Creek's case over 5x net book value) for 17-21 months before any
22 cash flow stabilization.

23 **Q. DID YOU ATTEMPT TO ACCESS TRADITIONAL LENDING SOURCES?**

1 A. Yes. I made numerous attempts to secure debt and equity financing from
2 multiple sources, all of which were rejected.

3 **Q. HOW LONG HAVE YOU BEEN INVESTIGATING FINANCING OPTIONS FOR**
4 **SMALL WATER AND WASTEWATER SYSTEMS?**

5 A. I have been working on raising capital toward the acquisition and recapitalization
6 of small water and wastewater utilities since 2011. I was initially turned down by
7 eleven traditional commercial banks as a part of this process. I then approached
8 a number of mezzanine finance entities, which also declined to participate. I next
9 had our investment banker utilize the then equity partner's experience to seek
10 debt financing and ultimately accepted the debt offer that led to the financing for
11 Raccoon Creek.

12 **Q. HAVE YOU MORE RECENTLY SOUGHT TRADITIONAL DEBT FINANCING?**

13 A. Yes. I have continued to approach banks, as the business continues to build. I
14 continue to submit all of these records to the Missouri Public Service
15 Commission Staff on an on-going basis as a part of new utility acquisitions.
16 However, so far, these efforts have continued to be rejected by the banks. I have
17 also continued to try to attract other financing from multiple other investment
18 banks and mezzanine finance groups and have been unsuccessful.

19 **Q. WILL RACCOON CREEK PRESENT ANY OTHER EVIDENCE AS TO THE**
20 **REASONABLENESS OF THE 14% INTEREST RATE?**

21 A. Yes. Raccoon Creek will present the Direct Testimony of Mr. Phil Kain,
22 Managing Partner of Rush Street Capital and Mr. Michael E. Thaman, Sr., CEO
23 of Warson Capital Partners, LLC, which addresses the availability of traditional

1 financing in situations such as Raccoon Creek finds itself and the
2 reasonableness of this rate.

3 **Q. WHAT DO YOU ASK THE COMMISSISON TO DO?**

4 A. I ask that the Commission use Raccoon Creek's actual debt rate and loan terms
5 that were part of Raccoon Creek's previously approved financing case for
6 determining Raccoon Creek's appropriate rate of return for rate making
7 purposes. The actual debt rate is a reasonable rate under the circumstances
8 and the ONLY debt rate that was available to a utility of this size, in this
9 circumstance, and thus is the debt rate that should be used for the purpose of
10 setting rates.

11
12 **ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)**

13 **Q. WHAT IS AFUDC?**

14 A. AFUDC is essentially the costs of borrowing construction funds from the time the
15 construction loan is funded, until the time the subject project is placed in service.

16 **Q. WHAT IS THE APPROPRIATE TREATMENT OF THIS ISSUE?**

17 A. AFUDC should be calculated based on the actual loan terms associated with the
18 money borrowed by the Company.

19 **Q. WHY?**

20 A. The loan Raccoon Creek obtained and utilized to build the improvements is the
21 only loan available to it, provides the interest Raccoon Creek is required to pay,
22 reflects the loan submitted as part of the financing case, and is thus the rate at

1 which AFUDC should be determined. Anything less ignores the reality of what is
2 required to provide safe and adequate service.

3
4 **REVENUE REQUIREMENT**

5 **Q. WHAT IS THE APPROPRIATE REVENUE REQUIREMENT FOR RACCOON**
6 **CREEK?**

7 A. Raccoon Creek supports the accounting schedules attached as **Schedule JC-04**
8 for the establishment of Raccoon Creek's revenue requirement. These
9 schedules, in summary, provide for a Total Cost of Service on an annual basis of
10 including the above issues of Debt Cost, ROE, Capital Structure, AFUDC, tax
11 preparation fees, audit preparation fees, and property taxes. This total cost of
12 service would result in a revenue requirement increase of \$431,133 for a total
13 cost of service of \$591,269.

14
15 **RATE DESIGN**

16 **Q. WHAT RATE DESIGN SHOULD BE USED IN ESTABLISHING RATES FOR**
17 **RACCOON CREEK?**

18 A. The Commission should utilize one flat monthly rate for all of Raccoon Creek's
19 customers. While there are three wastewater/sewers systems within Raccoon
20 Creek, all three of those systems have had similar investments and
21 improvements since Raccoon Creek became the owner. Additionally, the three
22 systems are located in a fairly similar geographic area (within 12 miles of one
23 another) and are serviced by the same personnel and utilize the same systems.

1 Treating these customers as a single rate area will provide economies of scale in
2 the future that would not be available to any one of the systems on a standalone
3 basis.

4
5 **RATE CASE EXPENSE**

6 **Q. DOES RACCOON CREEK HAVE EXPENSES RELATED DIRECTLY TO THE**
7 **PROCESSING OF THIS RATE CASE?**

8 A. Yes. Raccoon Creek has expenses, such as those related to the individual
9 customer notices it provides. It also has incurred attorneys fees associated with
10 the processing of this case. Raccoon Creek has provided Staff with copies of the
11 invoices associated with this case that have been received thus far. Raccoon
12 Creek will continue to provide those invoices as they are received in the future.

13 **Q. DOES RACCOON CREEK KNOW WHAT THOSE EXPENSES WILL BE?**

14 A. Not at this time, as the case is far from complete.

15 **Q. WHAT DO YOU PROPOSE IN REGARD TO RATE CASE EXPENSES?**

16 A. The Company is incurring rate case expense in order to bring the matters in
17 dispute before the Commission. These expenses are reasonable. Accordingly,
18 an allowance for rate case expense (normalized over three years) should be
19 included in the revenue requirement in this proceeding that includes invoices of
20 Raccoon Creek's attorney and expenses related to the rate case (such as those
21 associated with customer notices). The Commission should bring these
22 expenses forward to a date that will allow the majority of costs to be captured in

1 the Commission's order, such as a cut-off date of at least one week after the
2 filing of post-hearing briefs.

3 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 **A.** Yes, it does.