

Exhibit No.: _____
Issues: Rate Case Expense, Plant in Service,
Contributions in Aid of Construction
Witness: Larry W. Loos
Exhibit Type: Surrebuttal
Sponsoring Party: Algonquin Water Resources of
Missouri, LLC
Case No.: WR-2006-0425 & SR-2006-0425
(Consolidated)
Date: January 12, 2006

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2006-0425
SR-2006-0426
(Consolidated)**

SURREBUTTAL TESTIMONY

OF

LARRY W. LOOS

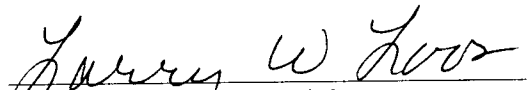
ON BEHALF OF

ALGONQUIN WATER RESOURCES OF MISSOURI, LLC

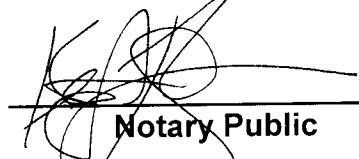
JEFFERSON CITY, MISSOURI

AFFIDAVIT OF LARRY W. LOOS

Larry W. Loos, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Larry W. Loos"; that said testimony and schedules were prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge.


Larry W. Loos

State of Arizona
County of Maricopa
SUBSCRIBED and sworn to
Before me this 10th day of January 2007.



Notary Public
My commission expires:
March 1, 2010.

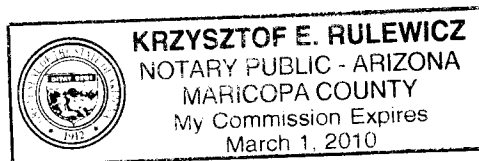


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1 Before the Missouri Public Service Commission

2 CASE NO. WR-2006-0425

3 SR-2006-0426

4 (Consolidated)

5 Surrebuttal Testimony of Larry W. Loos

6 **Introduction**

7 **Q. Please state your name and business address.**

8 A. Larry W. Loos, 11401 Lamar, Overland Park, KS 66211.

9 **Q. Are you the same Larry W. Loos who previously filed direct and rebuttal**
10 **testimony in this matter?**

11 A. Yes, I am.

12 **Q. What is the purpose of your prepared surrebuttal testimony?**

13 A. To the extent I did not do so in my prepared direct and/or rebuttal testimony, I
14 will respond to issues raised in the prepared rebuttal testimony of various staff
15 witness. I generally limit my surrebuttal testimony to those issues that I did
16 not previously address in my direct or rebuttal testimony and to points that I
17 previously did not make.

18 The Staff Witness and issues I address include:

19 1) Staff Witness Agyenim Boateng - Rate Case Expense

20 2) Staff Witnesses – Cary G. Featherstone and Graham A. Vesely

21 • General Rate Base Issues

- 1 • Pre 1993 Plant
- 2 • Contributions in Aid of Construction

3 **Rate Case Expense**

4 **Q. Do you have any observations regarding Mr. Boateng's rebuttal**
5 **testimony regarding rate case expense?**

6 A. Yes, I have several, including:

- 7 1) Mr. Boateng's mischaracterization of the Company's proposal as to the
- 8 recovery of rate case expense;
- 9 2) Mr. Boateng's objection to the Company's use of consultants and legal
- 10 counsel.

11 **Q. How does Mr. Boateng mischaracterize the Company's proposal?**

12 A. At Page 2 (Line 13), Mr. Boateng states that the Company is recommending a
13 rate case expense of \$180,000 amortized over four years. The Company is
14 in fact proposing a rate case expense of \$225,000 amortized over 5 years.

15 **Q. In what way does Mr. Boateng object to the Company's use of**
16 **consultants and legal counsel?**

17 A. At Page 3 (Line 6), Mr. Boateng, in support of his claim that Algonquin should
18 have filed for an increase under the Commission's small company rate case
19 procedure, indicates that the Company would save money relating to the cost
20 of the rate case by avoiding consultant and legal fees.

1 Mr. Boateng in large part repeats what he says in his direct testimony. I
2 explain in my rebuttal testimony why the small rate case procedure is not the
3 prudent path for the Company in this instance.

4 **Q. At Page 6, Mr. Boateng cites his belief that the small rate case process**
5 **worked well because Silverleaf never filed pursuant to the formal rate**
6 **case procedure. Do you find Mr. Boateng's argument persuasive?**

7 A. No, I do not. In my rebuttal testimony, I outline Silverleaf's small rate case
8 history. This history suggests to me anything but a satisfactory outcome from
9 Silverleaf's perspective.

10 **Q. How so?**

11 A. On April 4, 1997, Silverleaf filed a request for an increase in annual water and
12 sewer rates pursuant to the Commission's small company procedure.
13 Silverleaf's combined request amounted to \$326,810. On July 16, 1998,
14 Silverleaf and Staff filed an agreement which allowed Silverleaf to increase
15 rates by \$66,416, or about 20% of Silverleaf's original request. The proposed
16 effective date for the increase to take effect was September 1, 1998 or nearly
17 17 months after Silverleaf filed for the increase.

18 On August 3, 2000, Silverleaf filed a small company case. Apparently,
19 Silverleaf's request was never addressed. Instead, on April 26, 2002, Staff
20 filed a request to open an earnings investigation which resulted in a finding by
21 Staff on June 26, 2003 of a net under earnings. By order effective November
22 30, 2003, the Commission found that no further action was necessary. Thus,

1 Silverleaf's request in August 2000 resulted in a finding by Staff some three
2 years later that some rate relief was appropriate. However, no relief resulted.
3 Silverleaf followed in December 2003 and April 2004, with requests. Not
4 withstanding the Staff's finding of under earnings, Silverleaf failed to get these
5 requests processed. .

6 With this history, I can't believe that Silverleaf believes that the small
7 company process met its needs, nor should Staff.

8 Based on this history, Algonquin certainly does not. The fact that Staff
9 uses a process, and is satisfied with the outcome, does not mean that the
10 utility who is involved is satisfied. Even if the utility agrees and settles for an
11 increase, it does not mean the utility is satisfied. It merely means that based
12 on management's (the utility's) experience with regulatory matters and their
13 perception of the facts; management believes the company will be better off
14 agreeing to a certain outcome rather than pursuing other options. The fact
15 that utilities apparently rely on this process without the benefit of the outside
16 legal counsel, and to a lesser degree technical experts, demonstrates to me
17 that Staff may be able to make use of its superior resources in these
18 situations.

19 **Q. At Page 5, Line 12, Mr. Boateng suggests that "because of the 'informal'**
20 **nature of the small company rate case procedure," the small company**
21 **avoids expenditures for legal and consulting services. Do you agree**
22 **with his suggestion?**

1 A. No, I do not. Silverleaf's history with the small rate case procedure
2 demonstrates that the small company is well advised to seek the advice of
3 competent legal counsel. Silverleaf submitted two requests using the small
4 company procedure that the Commission rejected. Without legal counsel,
5 Silverleaf was unable to "get in the door." Had Silverleaf retained competent
6 counsel, they would have most likely complied with the Commission's
7 regulations, would have had a case under consideration, and not experienced
8 the frustration of filing a second request which was also rejected by the
9 Commission as being deficient.

10 Further, with the 11 month statutory requirement for Commission action on
11 formal cases, small companies should consider which path will best serve
12 their interests.

13 **Q. Mr. Boateng states on Page 12 of his rebuttal testimony, that Staff does**
14 **not believe that the Commission should encourage small companies to**
15 **retain high-cost consultants to come before it to describe the**
16 **Company's history or give background information. Do you agree?**

17 A. Yes, in part. Mr. Boateng states that I devote nine or so pages in my direct
18 testimony to background and other information. Mr. Boateng is mistaken. I
19 devote eight pages (Page 5, Line 6 through Page 12, Line 6).

20 Mr. Boateng is correct, I did not need to include this information in my
21 testimony. However this is the very information that I rely on (in part) in my
22 subsequent analysis and recommendations. Further, it demonstrates my
23 familiarity with the systems that I am testifying about.

1 **Q. Do you have any recommendation regarding this point raised by Mr.**
2 **Boateng?**

3 A. Yes, I do. If the fact that I presented eight pages of testimony of background
4 and other information is the reason Staff objects to the Company's recovery
5 of about \$225,000 in rate case costs, the Company will reduce its request for
6 recovery by \$2,500, or slightly over 1% of its estimated costs. This \$2,500
7 amount represents the maximum amount of my fees that I estimate relate to
8 the preparation of those eight pages.

9 **Rate Base Issues - General**

10 **Q. Do you have any observations regarding the rate base issues (plant in**
11 **service and contributions) in this case?**

12 A. Yes, I do. The difference between the positions taken by Staff witnesses and
13 me regarding rate base is a fundamental difference regarding what is of value
14 and what is not. As an engineer and an expert in the valuation of utility and
15 other property, I view value from the perspective of the assets purchased and
16 used to provide service. The staff witnesses equate value to the records
17 which have been maintained by the owner (whoever that may be) from the time
18 property was originally installed.

19 Very simply, regardless of the accounting records which have been
20 maintained, so long as an asset is in service and used in providing service,
21 that asset has value and the utility should be able to recover its investment in
22 that asset. That asset has value to the service provider (utility), to the
23 customers served, and to a potential buyer. Staff would have the

1 Commission ignore, to the extent that records are not available to definitively
2 determine the cost of original construction, the value of assets in service and
3 used in providing service to customers.

4 **Q. Is Algonquin proposing rate recovery on any acquisition adjustment as**
5 **suggested by Mr. Featherstone's response to the question at the bottom**
6 **of Page 15 of his rebuttal testimony?**

7 A. No, Algonquin is not. Algonquin is seeking the opportunity to recover what
8 Algonquin believes is the original cost investment in the plant that it uses to
9 provide service to the public. Some of that investment, Staff believes should
10 be reported on Algonquin's books and for rate purposes as an acquisition
11 adjustment.

12 At various places in both Mr. Featherstone's and Mr. Vesely's rebuttal
13 testimony, they suggest that Algonquin is proposing or doing something that
14 is contrary to Commission or customary practice. Algonquin is not.
15 Algonquin is challenging Staff's interpretation and position. For example:

16 1) On Page 24, Line 14 of his rebuttal testimony, Mr. Vesely states that "Staff
17 recommends against increasing the value of plant in service that has been
18 established over the course of years for these systems, beginning in the
19 Certificate Cases of 1993 and 1994" -- Staff may have established a
20 value, and Silverleaf may have agreed to a set of rates that Staff
21 developed based on that value, but I am unaware of any agreement by
22 Silverleaf or order by the Commission which specified an amount. The
23 value Mr. Vesely recommends against increasing, is the value Staff

1 ascribes to the property, an amount that the Company has not endorsed,
2 nor to my knowledge has the Commission approved.

3 2) On Page 5 of his rebuttal testimony, Mr. Featherstone states that "the
4 Company's proposal is nothing more than an attempt to seek recovery of
5 the acquisition adjustment that resulted when it purchased this property." -
6 - The Company is not proposing to recover any acquisition adjustment.
7 Unlike Staff, the Company does not believe it paid an acquisition premium
8 for the property.

9 3) On Page 23 of his rebuttal testimony, Mr. Featherstone states that
10 "despite the commitment that Algonquin made in the sale case not to seek
11 any recovery of any acquisition adjustment as determined by the
12 Commission, the Company is identifying the amount of plant investment at
13 the August 15, 2005, closing date of the acquisition to the purchase price
14 paid to Silverleaf for the Missouri properties." (Emphasis added) Again
15 while Staff believes that the price paid by Algonquin includes an
16 acquisition premium, Algonquin does not. Algonquin did not agree that it
17 would not seek recovery of amounts that Staff claims represent an
18 acquisition adjustment. Algonquin agreed to be bound by the
19 Commission's decision, regarding the amount, if any, of an acquisition
20 premium. To my knowledge, the Commission has not made such a
21 finding and I can find no evidence to the contrary in the Commission's
22 Order Approving Sale of Assets.

1 **Q. Mr. Featherstone states on Page 23 that Staff does not believe that**
2 **Algonquin would be subsidizing Silverleaf. Do you have any**
3 **observation?**

4 A. Yes, the fact as suggested by Mr. Featherstone, that Staff made Algonquin
5 aware of its (Staff's) position regarding the amount of plant and other issues
6 does not affect whether or not Algonquin will subsidize Silverleaf. The simple
7 fact is that Silverleaf, as the largest customer, received compensation in the
8 amount of \$3.8 million for all of its Missouri utility assets. In the event
9 Algonquin does not recover this entire \$3.8 million in rates, Silverleaf will
10 receive a windfall at the expense of Algonquin.

11 **Q. At Page 24 of his rebuttal testimony, Mr. Featherstone, suggests that**
12 **Algonquin inconsistently accounted for unrecorded plant since**
13 **Algonquin adjusted its books but never declared unrecorded plant when**
14 **it filed its property tax assessment. Do you agree?**

15 A. No, I do not. I agree that the amounts shown on Algonquin's books (both with
16 and without the pre 1993 property) exceed the amounts Algonquin listed in
17 the Company's response to Staff data request 47.1. However, Mr.
18 Featherstone fails to disclose that of \$679,361 Algonquin declared for its
19 Holiday Hills property, DR 47.1 shows that \$243,557 is property with a
20 purchase date prior to 1993. For Ozark Mountain, of the \$351,584 declared,
21 \$333,249 shows a purchase date prior to 1993.

1 **Pre 1993 Property**

2 **Q. At the bottom of Page 13, Mr. Featherstone begins a discussion of**
3 **original cost. Do you believe his characterization is reasonable?**

4 A. Yes, I do. From a practical perspective, I believe our difference relates in
5 large part to what “first devoted to public service” means and how it should be
6 interpreted. Mr. Featherstone apparently believes that the property was
7 devoted to public service when Silverleaf originally constructed it. I disagree,
8 as I believe the property was not devoted to public service until Silverleaf
9 became subject to the Commission’s jurisdiction pursuant to the Certificate
10 Cases in 1993 and 1994. Had Algonquin, purchased the property prior to the
11 Commission’s order extending jurisdiction to Silverleaf, Algonquin would have
12 represented the entity which first devoted the property to public service. The
13 property’s original cost (pursuant to the definition in the Uniform System of
14 Accounts) would have been the amount Algonquin paid for that property.
15 Whether the amount paid was prudent is another issue.

16 **Q. On Page 15 (Line 10) of his rebuttal testimony, Mr. Vesely suggests that**
17 **the costs you are “trying to include in this case as rate base investment**
18 **were not anticipated being recovered through billings of utility**
19 **customers.” Do you agree with Mr. Vesely’s characterization?**

20 A. Yes, I do. With respect to the investment associated with the “unrecorded
21 plant,” these assets were placed into service prior to Silverleaf’s certification
22 as a utility. Thus these assets, purchased by Algonquin and relied upon to
23 provide service to customers, were by definition, not devoted to providing

1 service to the public, and Silverleaf, by virtue of not being a public utility had
2 no utility customers to bill. How Silverleaf accounted for these assets, prior to
3 the Certificate Case, is not material. These assets contribute value, are
4 integral to providing service to the public, and should be recognized as such.

5 **Q. Were these assets contributed as suggested by Staff?**

6 A. No, I don't see how they can be considered contributed. The assets
7 ("unrecorded plant") were constructed and placed into service prior to the
8 tariff provision that Staff cites to support its claim that the property should be
9 treated as contributed plant. Staff wants to retroactively apply this tariff
10 provision. The assets were used to provide service (non utility) prior to the
11 tariff provision taking effect. The tariff provision includes certain
12 requirements, none of which were met. The property is integral to providing
13 service and as such, Algonquin is entitled to recover its investment in the
14 property that it relies on to provide service.

15 **Q. In developing your adjustment to reflect the cost of pre 1993 property,**
16 **do you abandon the original cost theory as suggested by Mr.**
17 **Featherstone, at Page 4 (Line 16) of his rebuttal testimony?**

18 A. No, I do not. I develop my recommended adjustment following an approach
19 that develops an estimate of the cost of the property, when originally
20 constructed. I can accept that Staff may not like the way I did it, and that I
21 relied on certain assumptions and estimates, however, the claim that I did not
22 follow original cost theory is simply wrong.

1 While Staff has established some very strenuous requirements for plant
2 cost to be included in rate base, the uniform system of accounts does not
3 specify such rigorous standards. For example, the NARUC Uniform System
4 of Accounts for Class A and B Water Utilities (1973, as revised in 1976)
5 provides as follows in the Utility Plant Instructions (emphasis added):

6 1) Section 1 (Classification of Utility Plant at Effective Date of System of
7 Accounts), Subsection C. "The detailed utility plant accounts (301 to 399,
8 inclusive) shall be stated on the basis of cost to the utility of plant
9 constructed by it and the original cost, estimated if not known, of plant
10 acquired as an operating unit or system."

11 2) Section 2 (Utility Plant To be Recorded at Cost), Subsection D. "Utility
12 plant contributed to the utility or constructed by it from contributions to it of
13 cash or, its equivalent shall be charged to the utility plant accounts at cost
14 of construction, estimated if not known."

15 3) Section 5 (Utility Plant Purchased or Sold), Subsection B (1) The original
16 cost of plant, estimated if not known, shall be credited to account 106,
17 Utility Plant Purchased or Sold, and concurrently charged to the
18 appropriate utility plant in service accounts..."

19 I believe that Algonquin's purchase of the Silverleaf property falls under
20 the Section 5 provision.

21 **Q. Do you agree with Mr. Vesely's assessment at Page 22 of his rebuttal**
22 **testimony that Algonquin did not intend to pay anything for the**

1 **“unrecorded plant because you had not notified Algonquin of its**
2 **existence?”**

3 A. No, I do not. Algonquin intended to purchase what Algonquin did in fact
4 purchase. Algonquin intended to and did in fact purchase and pay for all of
5 the utility property owned by Silverleaf. Algonquin took title to and
6 compensated Silverleaf for all property. Algonquin did not limit its purchase to
7 that property that Mr. Vesely can identify. Algonquin did not limit its purchase
8 to that property whose costs were recorded in Silverleaf’s books. Algonquin
9 purchased, paid for, and took title to all of the property required to provide
10 utility service.

11 **Q. At Page 22, Line 22, Mr. Vesely states that “this raises the question as to**
12 **how Algonquin could have any investment in plant, which – even if it**
13 **really does exist – it paid nothing for.” Do you have any observation?**

14 A. Yes, I do. I don’t believe there is a question, and I don’t believe Mr. Vesely
15 does either. First, with regard to the “unrecorded plant,” Mr. Vesely
16 acknowledges that the physical assets exist by virtue of his statements:

17 1) Rebuttal testimony Page 17, Line 7 – “These documents, which bear a
18 date of 1984, are direct evidence of Silverleaf’s pre-1993 utility
19 investments,”

20 2) Direct testimony Page 31, Line 7 – “Staff’s audit memorandum and work
21 papers produced in that small case acknowledged that utility plant had
22 been in service at these two resorts as far back as 1984,”

1 Second, his claim that Algonquin paid nothing for this plant couldn't be
2 further from the truth. Mr. Vesely (and Mr. Featherstone – see Page 17, Line
3 18) may believe that Algonquin should have paid nothing for it, but Algonquin
4 in fact paid \$3.8 million for all of the assets owned by Silverleaf including:

- 5 1) The assets Mr. Vesely includes in his original cost value,
- 6 2) The assets Mr. Vesely considers contributed, and
- 7 3) The assets Mr. Vesely terms unrecorded plant.

8 Algonquin's investment amounts to \$3.8 million, nothing more, and
9 nothing less. The issue is what portion of this \$3.8 million should ultimately
10 be recovered from rate payers? Mr. Vesely and Mr. Featherstone believe that
11 only a fraction of the total should be recovered from customers, including from
12 Silverleaf who received the \$3.8 million. I believe, based on the cost of the
13 property when originally constructed, that the entire amount should be
14 considered for recovery.

15 **Q. At Page 20 of his rebuttal testimony, Mr. Featherstone states that**
16 **“Algonquin did not pay for any of this investment to the extent that it**
17 **ever existed as utility property.” How does this statement differ from**
18 **the similar statement made on Page 22 of Mr. Vesely's rebuttal**
19 **testimony?**

20 A. Mr. Featherstone has introduced some further dynamics. First of all, I
21 disagree that Algonquin paid for investment. Algonquin did not take title to
22 investment but to physical property. Algonquin paid for property, all of

1 Silverleaf's utility property' regardless of whether the cost of that property was
2 reflected on Silverleaf's books, or recognized by Staff.

3 Mr. Featherstone also questions whether the cost of that property ever
4 existed as utility property. It didn't until Silverleaf became a utility pursuant to
5 the 1993 and 1994 Certificate Cases. While at one time the property did not
6 exist as utility property, it most certainly exists as utility property today. If not,
7 I would think that Algonquin is free to dispose of it as it sees fit.

8 **Q. What significance do you attribute to the \$3.8 million amount?**

9 A. The \$3.8 million amount represents the maximum investment (as of August
10 15, 2005) that I believe that Algonquin should be permitted to recover
11 following the original cost ratemaking formula.

12 **Q. Do you agree with Staff's position that "any plant investment must be**
13 **supported with adequate evidence, such as invoices, checks,**
14 **construction contracts, bids, etc. in order to be included in plant in**
15 **service," as set forth in Mr. Vesely's rebuttal testimony Page 2?**

16 A. No, I do not. The Uniform System of Accounts specifies a much lower hurdle,
17 even permitting estimates. Staff's requirements are especially onerous when
18 applied to property installed prior to it becoming devoted to public service. I
19 believe, unlike Staff, the Uniform System of Accounts reasonably
20 accommodates this situation and as such where appropriate, reasonable
21 estimates should be used.

1 **Q. Beginning on Page 15 of his rebuttal testimony, Mr. Vesely cites**
2 **evidence that Silverleaf had documents documenting costs associated**
3 **with the “unrecorded” plant. Do you believe that such documents cast**
4 **question on your analysis?**

5 A. Review of any such documentation may indicate that my estimates should be
6 modified. However, since Staff does not question the amount of the
7 adjustment I propose, but merely the veracity of including any adjustment, I
8 can only assume that the adjustment I propose is reasonable. Had the
9 information been available, at the time I was preparing my direct testimony, I
10 would have certainly considered it in developing my recommended
11 adjustment.

12 **Q. At Page 13 of his rebuttal testimony, Mr. Vesely suggests that Silverleaf**
13 **did not challenge certain aspects of its certificate case and subsequent**
14 **rate cases. Does Silverleaf’s actions, or inactions, bear on the**
15 **reasonableness of your proposed adjustment for unrecorded plant?**

16 A. None what-so-ever. Silverleaf was and is in the resort business. As I
17 suggested earlier in my surrebuttal testimony, the consideration that went into
18 Silverleaf’s decisions as to what to challenge or how to challenge certain
19 potential issues were matters of its familiarity with the issues being raised in a
20 forum that they can not be expected to have a great deal of familiarity with. In
21 my view, what Silverleaf did or didn’t do, has no bearing as to what positions
22 that might have reasonably taken at that time by someone more familiar with
23 asset value, regulation, and regulatory history.

1 **Q. Do you agree with Staff's position that plant should be valued at the**
2 **original cost when first placed in service as set forth on Page 2 of Mr.**
3 **Vesely's rebuttal testimony?**

4 A. No, I do not. However, for the purpose of this case, I do not propose to value
5 plant at an amount in excess of the cost when first placed into service.

6 **Q. Mr. Vesely suggests at Page 15 of his rebuttal testimony that Silverleaf**
7 **expensed all of its costs associated with the pre 1993 property and cited**
8 **Staff's review of income tax returns to confirm that all outlays**
9 **associated with the pre 1993 property were expensed. Do you agree**
10 **that Silverleaf expensed the cost of this plant?**

11 A. I don't know. However, I would be surprised if they did not deduct these costs
12 for income tax purposes, either directly in the year the costs were incurred, or
13 indirectly as time intervals were sold. The fact that Silverleaf wrote off its cost
14 for income tax purposes, does not mean that the plant does not exist and that
15 under utility accounting conventions the investment is not included in plant.

16 Silverleaf's expensing costs associated with this plant for income tax
17 purposes is no different than the deferred tax treatment that utilities typically
18 follow to recognize timing differences between book depreciation and
19 accelerated depreciation for tax purposes. The only difference is that the tax
20 life used by Silverleaf was effectively zero years, instead of whatever longer
21 period was specified by the then current IRS regulations.

1 **Q. If Silverleaf expensed the cost of this property for book purposes prior**
2 **to becoming a regulated utility, what are the implications on the value of**
3 **the pre 1993 property?**

4 A. None. The property is in existence today, and was constructed when
5 Silverleaf was not a utility subject to jurisdiction of the Commission. The
6 property was not devoted to public service until such time as the Commission
7 certificated Silverleaf. Had Silverleaf sold the property prior to the 1993 and
8 1994 Certificate Cases, the original cost would have been recorded at the
9 cost incurred by the purchaser to acquire it.

10 **Q. Mr. Featherstone at Page 12, Line 9, characterizes your proposed**
11 **adjustment for unrecorded plant as “extraordinary and unprecedented.”**
12 **Do you agree with his characterization?**

13 A. No, I do not, though I will certainly agree that it is unusual. However, as I
14 have previously discussed, estimating the original cost of facilities is
15 something that the uniform system of accounts contemplates. As an
16 example, the Federal Power Commission (FPC) required all of the natural gas
17 companies subject to its jurisdiction to file reclassification and original cost
18 studies. These studies were required in part as a result of the FPC’s switch
19 from “fair value” to “investment value rate base” and pursuant to the Uniform
20 System of Accounts prescribed for natural gas companies effective January
21 1, 1940. The amounts submitted by the Companies to the FPC, generally
22 exceeded those submitted by the FPC Staff. Ultimately the amounts
23 determined by the Commission were deemed to be “actual original cost.” The

1 uniform system of accounts proscribed by FERC for electric and gas utilities
2 are very similar to the system of accounts proscribed by NARUC for water
3 and sewer utilities.

4 **Q. Are you proposing to include the full amount of the “unrecorded plant”**
5 **adjustment?**

6 A. Yes, I am, contrary to the statement that Mr. Featherstone makes at Page 21,
7 Line 19 of his rebuttal testimony. When I adjusted the \$4,108,718 net cost to
8 \$3.8 million, I did not adjust plant, I adjusted reserve. I understand the
9 Company, when it booked this amount reported the full \$6,310,970 as plant in
10 service, and the full \$2,202,252 as depreciation reserve, and reported the
11 difference, \$308,718, as a credit to (negative) acquisition adjustment. The
12 Company is not proposing to recover any amount in excess of the \$3.8 million
13 it paid for the property.

14 **Contributions in Aid of Construction**

15 **Q. Do you agree with Mr. Vesely’s conclusion that any plant that does not**
16 **meet the test he sets forth at the top of Page 2 of his rebuttal testimony**
17 **should be treated as contributed plant?**

18 A. No, I do not. As I suggested in my rebuttal testimony, Staff wants to impose a
19 double standard. On the one hand, for an asset to be included in plant (as
20 added value to the utility), the investment must be supported by definitive
21 evidence. However, Staff requires no evidence for plant to be considered
22 contributed (a reduction in value to the utility). Staff cites the Company's tariff
23 as justification to reduce value by these phantom contributions. But in

determining the amount of contributions, Staff ignores the clear language of the tariff regarding the procedures and documentation associated with the requirement for contributions to be made to the utility.

Q. Mr. Vesely suggests at Page 20, Line 21 that Silverleaf indicated to Staff that it intended to reflect contributions on its books. Did Silverleaf reflect contributions on its books?

A. Silverleaf did reflect contributions in reports that it submitted to the Commission. However, I can find no record of contributions in the detailed books and records I examined.

Q. Mr. Vesely continues by suggesting that Silverleaf acknowledged the tariffs require part of the plant to be contributed at no cost to the utility, by reporting in its 2004 Annual Report, contributions. Does the fact that Silverleaf filed a report which shows contributions suggest that Silverleaf acknowledged the requirement?

A. I don't believe so. Silverleaf may have accepted the requirement, or may have filed the report the way it did at the insistence of Staff. The fact that I did not see any evidence of contributions in the detailed data supplied by Silverleaf suggests the latter.

Q. From a valuation perspective, how are contributions considered?

A. In the condemnation of utility property, case law explicitly provides that contributions are not deducted when determining the amount the utility should receive in compensation for the property being condemned.

1 **Q. On Page 15, Line 13 of his rebuttal testimony, Mr. Vesely states that if**
2 **your “proposal is adopted in this case,” Algonquin “would recover**
3 **these development costs again from customers paying utility rates.” Do**
4 **you agree?**

5 A. Mr. Vesely's argument is ridiculous. How can Algonquin recover costs a
6 second time if it did not incur (and recover) the development costs originally?

7 If the development costs to which Mr. Vesely refers are “recovered again”
8 the “double recovery” took place when Algonquin purchased the property
9 from Silverleaf. According to Mr. Vesely’s definition, his proposed treatment
10 would result in a double recovery by Silverleaf. I do not suggest that
11 Algonquin include in rate base any amount that it did not pay for the property.
12 I simply propose that Algonquin be permitted to include in its rate base the
13 lesser of the original cost of the property it actually acquired or its investment
14 in the property that is devoted to public service (\$3.8 million).

15 **Q. Do you have any observations regarding the concept of cost recovery**
16 **as applied to Algonquin and Silverleaf?**

17 A. Yes, I do. Throughout their testimony, Mr. Featherstone and Mr. Vesely refer
18 to Silverleaf’s “recovery” of development costs. The recovery of costs I
19 believe represents an overused and somewhat inaccurate characterization.
20 The utility rate making process provides for rates sufficient to meet the utility’s
21 revenue requirement which includes an allowance sufficient for the utility to
22 cover certain costs. Whether, rates actually charged produce revenues
23 sufficient to offset all of these cost allowances is another issue.

1 Silverleaf, on the other hand, except for the limited extent it operated as a
2 utility from about 1994 through 2005, did not set rates. Silverleaf's revenues
3 are primarily based on the negotiated sale of time intervals. While Silverleaf,
4 ultimately knows the price it must realize to break even, depending on the
5 market, and other factors the ultimate sale price will be higher and in some
6 cases equal to or lower than this breakeven price.

7 As for Mr. Featherstone's and Mr. Vesely's suggestion that business
8 entities cannot operate without recovering their costs, I believe that the "dot-
9 com" craze demonstrates that enterprises can sometime survive and prosper
10 for extended periods of time with revenues that fall far short of their out of
11 pocket costs.

12 **Q. On Page 14, Mr. Vesely suggests that any costs associated with the pre**
13 **1993 property should be considered contributed plant. Do you agree?**

14 A. No, I do not. I can understand, but don't agree with, Mr. Vesely's argument
15 with respect to the \$729,427 of distribution and collection system costs I
16 recommend be included. I can't see any rational for considering the
17 \$1,184,606 in supply and treatment related plant as contributed. The tariff
18 provision that Mr. Vesely refers in support of his treatment addresses only
19 distribution and collection system costs, it does not provide for contributions
20 associated with supply and treatment.

21 **Q. Does this complete your surrebuttal testimony?**

22 A. Yes, it does.