

Exhibit No.: \_\_\_\_  
Witness: Derek Sherry  
Type of Exhibit: Direct  
Issue: Connection Fee  
Sponsoring Party: Timber Creek Sewer Company  
Case No.: SR-2008-0080

MISSOURI PUBLIC SERVICE COMMISSION  
UTILITY DIVISION

TIMBER CREEK SEWER COMPANY  
CASE NO. SR-2008-0080

DIRECT TESTIMONY OF  
DEREK SHERRY

December 21, 2007

My Commission expires:\_\_\_\_\_

**TIMBER CREEK SEWER COMPANY**

**SR-2008-0080**

**DIRECT TESTIMONY OF DEREK SHERRY**

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Derek C. Sherry. My address is 14398 Lucille Ct, Olathe,  
3 Kansas 66062.

4  
5 **Q: PLEASE STATE YOUR QUALIFICATIONS.**

6 A: I graduated with an Engineering degree from University of Missouri - Rolla  
7 in 1985. I worked for 5 years as an engineer for Johnson County  
8 Wastewater in Johnson County, Kansas which serves over 150,000  
9 customers. I was the engineer for rehabilitation projects, project manager  
10 for new construction, completed planning analysis for potential new service  
11 areas, performed feasibility and financial analysis for numerous  
12 undertakings (capital improvements plan, new administration building, new  
13 8-10 mgd plant and interceptors, etc) and led environmental studies for  
14 sensitive watersheds. Additionally, I've held numerous executive positions  
15 at Johnson County and Sprint for the past 15 years.

16  
17 **Q: ON WHOSE BEHALF ARE YOU APPEARING?**

1 A: Timber Creek Sewer Company.

2  
3 **Q: WHAT IS YOUR POSITION WITH TIMBER CREEK SEWER**  
4 **COMPANY?**

5 A: I am Vice President and am a representative of the Company for Missouri  
6 Rate Case SR-2008-0080.

7  
8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A: I am appearing to support a negotiated permanent increase in the  
10 Connection Fee from \$1,050 to \$2,650.

11  
12 **Q: WHAT IS THE COMPANY'S BASIS FOR THE INCREASE IN THE**  
13 **CONNECTION FEE (CIAC)?**

14 A: Connection fees or CIAC is money paid by developers and builders in order  
15 to construct shared infrastructure for service. The costs for building the  
16 existing infrastructure in the Platte County service area has been  
17 approximately \$3.1 million through September 30th, 2007. In addition,  
18 Timber Creek has incurred financing costs of approximately \$482,000 for a  
19 total of \$3.582 million.

20  
21 **Q. WHAT IS THE STATUS OF THE CURRENT PLANT'S CAPACITY?**

1 A. The current plant's design capacity in Platte County at Prairie Creek is for  
2 500,000 gallons per day or equivalent to 1351 residential home connections.  
3 The number of connections paid as of September 30th, 2007 has consumed  
4 and will shortly exceed the current plant's capacity. The CIAC collected as  
5 of September 30th, 2007 for 2092 connections is approximately \$2.55  
6 million. Thus, the gap between total cost of the current infrastructure and  
7 the CIAC collected is approximately \$1,032,000. Obviously, when the  
8 majority of vacant lots for which the connection fee has already been paid  
9 become occupied or if the DNR requires it earlier, it will be necessary to  
10 expand the plant by at least another 500,000 gallons per day.

11  
12 **Q. DO YOU ANTICIPATE INCREASED CONSTRUCTION COSTS WHEN**  
13 **IT IS NECESSARY TO CONSTRUCT THE ADDITIONAL CAPACITY?**

14 A. Construction costs have increased since the previous plant expansion. For  
15 example, two developers contributed treatment plants to Timber Creek  
16 which were constructed in Clay County in 2006. The costs for the  
17 treatment plant only (not including land, buildings, pump stations, mains,  
18 equipment, etc) were \$355,000 for 104 residential lots and \$302,000 for 76  
19 residential lots. This is equivalent to \$3413 and \$3974 per lot respectively  
20 for plant capacity. Thus, we anticipate that construction costs for the  
21 second phase of the Prairie Creek treatment plant will be significantly

1 higher than that of the existing plant and, consequently, a substantial  
2 increase in connection fees to support the new infrastructure is necessary.  
3

4 **Q: HOW WAS THE CONNECTION FEE OF \$3,200 INITIALLY**  
5 **PROPOSED BY THE COMPANY ESTABLISHED?**

6 A: The Company advised the PSC Staff that even though the current plant is  
7 sold to design capacity, the connection fees are over \$1 million dollars short  
8 of the cost of the plant, thus indicating that previous connection fees were  
9 much too low. Further, this shortfall of CIAC revenue is based on  
10 construction data from 2002-2003, which is no longer relevant for  
11 construction costs now.

12 Based on its recent experience with the construction of the treatment plants  
13 in both Platte County and Clay County and its general experience with the  
14 marketplace, the Company estimated that current construction costs for the  
15 next plant expansion to be approximately \$5,000,000 or \$10 per gallon/day  
16 of treatment capacity (\$3,700 per residential lot). The Company proposed to  
17 invest \$500 of that cost and collect the additional \$3,200 in connection fees.

18 **Q. HOW WAS THE INTERIM CONNECTION FEE OF \$2,650**  
19 **ESTABLISHED.**

20 A. An extensive audit of the Company was performed by the Missouri Public  
21 Service Commission Staff reviewing all Company financials, operations and

1 maintenance practices and procedures, customer service and billing, on-site  
2 review of records, on-site review of personnel performing company functions,  
3 and on-site review of service area and subdivisions. Additionally, a  
4 thorough review of the CIAC collected, number of connections sold, current  
5 plant capacity, and current debt to finance construction was completed.  
6 After extensive negotiations, the Company and PSC agreed for the time  
7 being to an \$8 per gallon/day (\$2960 per residential lot) estimation for  
8 construction costs where the Company contributes \$310 per residential lot  
9 to establish a \$2650 connection fee per residential lot.  
10 However, it was also agreed that once the Company received bids for the  
11 next plant expansion the Company could request a review for a potential  
12 increase in the connection fee or the establishment of a potential capacity  
13 charge in addition to the connection fee. Thus, Company was agreeable to a  
14 connection fee of only \$2,650 at this time.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

16 **A.** Yes it does.  
17