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May 17, 2013

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Service Commission

Exhibit No.:

- Issues: (1) Legal Fees
(2) Rate Case Expense
(3) Hollister Treatment Expense
(4) Rate Design
(5) Sewer Commodity Charge
"Overcharges"

Witness Name: Dale W. Johansen

Type of Exhibit: Rebuttal Testimony

Sponsoring Party: Emerald Pointe Utility Company

File No.: SR-2013-0016, et. al.

Date Testimony Prepared: April 11, 2013

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

In the Matter of the Request for)
an Increase in Sewer Operating)
Revenues of Emerald Pointe) File No. SR-2013-0016, et. al.
Utility Company)

**Rebuttal Testimony of
Dale W. Johansen**

**Presented on Behalf of
Emerald Pointe Utility Company**

April 11, 2013

Johansen Consulting Services
915 Country Ridge Drive
Jefferson City, MO 65109

Company Exhibit No. 16
Date 5-9-13 Reporter SB
File No. SR-2013-0016

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

In the Matter of the Request for an Increase in)
the Sewer Operating Revenues of Emerald)
Pointe Utility Company)

File No. SR-2013-0016, et. al.

AFFIDAVIT OF DALE W. JOHANSEN

STATE OF MISSOURI)
) SS
COUNTY OF COLE)

COMES NOW Dale W. Johansen, being of lawful age, and on his oath states:

(1) That I am the owner of Johansen Consulting Services and have been retained to present testimony on behalf of Emerald Pointe Utility Company in this proceeding.

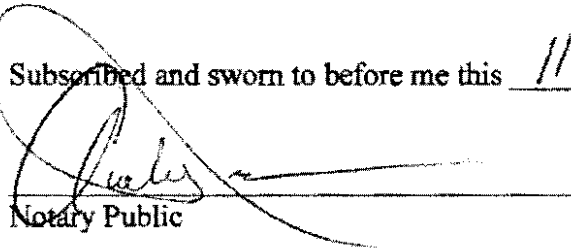
(2) That I participated in the preparation of the following Rebuttal Testimony, which consists of the following: (a) a Table of Contents; (b) ten pages of questions and answers; (c) a summary of the attached schedules; and (d) five schedules.

(3) That I provided the answers given in the testimony and prepared the schedules included with the testimony.

(4) That I have knowledge of the information presented in the answers and schedules, and that such information is true and correct to the best of my knowledge, information and belief.


Dale W. Johansen

Subscribed and sworn to before me this 11th day of April 2013.


Notary Public

My Commission Expires: 12/16/16

AUTUM GEMES
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires 12/16/2016
Commission # 12425060

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DALE W. JOHANSEN**

FILE NO. SR-2013-0016, et. al.

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8

**REBUTTAL TESTIMONY OF
DALE W. JOHANSEN**

FILE NO. SR-2013-0016, et. al.

1 **INTRODUCTION**

2 **Q. Please state your name and business mailing address.**

3 A. Dale W. Johansen, Johansen Consulting Services, 915 Country Ridge Drive,
4 Jefferson City, MO 65102.

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

6 A. I am the owner of Johansen Consulting Services. For the purposes of this
7 consolidated case, I have been retained by Emerald Pointe Utility Company (Company) to
8 provide assistance to the Company in reaching a resolution in the case.

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

10 A. Yes, I have. I filed Direct Testimony on behalf of the Company.

11 **EXECUTIVE SUMMARY**

12 **Q. Please summarize the Rebuttal Testimony you are presenting.**

13 A. In response to the Direct Testimony of Staff witnesses Lisa Hanneken, Leslie
14 Rose and James Russo, I am presenting an update regarding the following matters that I
15 addressed in my Direct Testimony: (1) legal fees; (2) rate case expense; (3) the new
16 wholesale sewage treatment expense; and (4) rate design. Additionally, I am providing
17 testimony on certain aspects of the sewer commodity charge "overcharges" issue addressed
18 in the Direct Testimony of Staff witness James Busch.

19 **Q. Is anyone else providing rebuttal testimony on behalf of the Company?**

20 A. Yes. Company witnesses Gary Snadon, Bruce Menke and Larry Pittman are also
21 providing rebuttal testimony on various issues.

1 **LEGAL FEES**

2 **Q. Please provide a brief update regarding the legal fees issue.**

3 A. As noted in my Direct Testimony, this issue is related to the amount of legal fees
4 included in the Commission Staff's cost-of-service calculations for both water service and
5 sewer service. Based on a review of the updated cost-of-service schedules that the Staff filed
6 on April 1, 2013, the Staff has not changed the amounts included for this expense. As a
7 result, the Company's position regarding this issue remains that the amount of legal fees
8 included in the Staff's current cost-of-service calculations does not adequately capture the
9 amount of such expenses. In particular, the Company does not believe the legal fees related
10 to the Company's "pipeline project" certificate case (File No. SA-2012-0362) and the
11 Company's recent finance case (File No. SF-2013-0346) are properly reflected in the Staff's
12 cost-of-service calculations. These are necessary and prudent expenses incurred by the
13 Company and should be recovered through rates in some manner. The Company does,
14 however, remain hopeful that this issue can be resolved, at least as far as the Company and
15 the Staff are concerned, through further discussions.

16 **RATE CASE EXPENSE**

17 **Q. Please provide a brief update regarding the rate case expense issue.**

18 A. As noted in my Direct Testimony, this issue is related to the amount of rate case
19 expense currently included in the Commission Staff's cost-of-service calculations for both
20 water service and sewer service. For this consolidated case, these expenses would include
21 legal fees directly related to the case and my fees for work done in conjunction with the case.
22 Based on a review of the updated cost-of-service schedules that the Staff filed on April 1,

1 2013, the Staff has now included amounts for this expense; however, those amounts do not
2 yet reflect all the expenses incurred by the Company to date.

3 The Company's position regarding this issue is that the reasonable and prudent rate
4 case expenses should be included in the cost-of-service calculations and that these expenses
5 should continue to be updated as close as possible to the end of this consolidated case. The
6 Company also remains hopeful that this issue can be resolved, at least as far as the Company
7 and the Staff are concerned, through further discussions and through the Company's
8 provision of additional information to the Staff.

9 **HOLLISTER SEWAGE TREATMENT EXPENSE**

10 **Q. Please provide a brief update regarding the Hollister sewage treatment**
11 **expense issue.**

12 A. As noted in my Direct Testimony, this issue is solely related to the volumes used
13 in calculating the sewage treatment expense resulting from the wholesale treatment contract
14 between the Company and the City of Hollister (Hollister). Based upon a review of the
15 updated cost-of-service schedules that the Staff filed on April 1, 2013, and related work
16 papers, the volumes now used by the Staff to calculate this expense are the same as the
17 volumes being used in the design of the proposed sewer commodity charge, as originally
18 proposed by the Company. However, based on the wholesale treatment bill received from
19 Hollister for the month of January, the Company is concerned that the volumes being used to
20 calculate this expense will result in a rather large understatement of the expense. As a result,
21 the Company is proposing an increase in this expense based upon a 20% increase in the
22 volumes being used to calculate it. A copy of the Hollister sewage treatment bill for January,

1 which also includes the Company's corresponding water sales to its combo water/sewer
2 customers, is attached to this testimony as Rebuttal Schedule DWJ-1. A worksheet showing
3 the Company's new proposed sewage treatment expense amount is attached to this testimony
4 as Rebuttal Schedule DWJ-2.

5 **RATE DESIGN**

6 **Q. Are there any outstanding rate design issues?**

7 A. Based on recent discussions with the rate design representatives of the
8 Commission Staff and the Office of the Public Counsel (OPC), the Company, the Staff and
9 the OPC have reached an agreement with regard to the methodology to be used to design the
10 water rates and sewer rates. However, the actual rates that will be produced through the
11 agreed-upon rate design will be dependent on the final determination of the amount of
12 various cost-of-service items that are at issue.

13 **SEWER COMMODITY CHARGE "OVERCHARGES"**

14 **Q. Please provide a brief description of the sewer commodity charge**
15 **"overcharges" issue that Staff Witness Busch addressed in his Direct Testimony.**

16 A. This issue generally pertains to whether the Company has been charging a
17 commodity rate for its sewer service that was not approved as a part of Emerald Pointe's last
18 rate case (Case No. SR-2000-595), which was completed in May 2000. The Staff's position,
19 as detailed in Mr. Busch's testimony, is that the Company charged an unapproved rate and
20 should thus be required to refund monies collected through that rate during the past five
21 years. Additionally, the Staff is proposing that interest be added to the monies collected in

1 determining the total amount to be refunded. Specifically, the Staff has calculated
2 overcharges of \$187,683 and interest of \$69,567, for a total amount of \$257,250.

3 **Q. Does Mr. Busch reference any Commission rules in his testimony?**

4 A. Yes, he does. Mr. Busch notes that the Staff is relying on Commission Rule
5 4 CSR 240-13.025 to provide guidance on how to address this matter.

6 **Q. Does Commission Rule 4 CSR 240-13.025 state that it applies to sewer
7 utilities?**

8 A. As Mr. Busch mentions in his testimony, it does not.

9 **Q. To what utilities does Commission Rule 4 CSR 240-13.025 expressly apply?**

10 A. Electric, natural gas and water utilities.

11 **Q. In addition to being a sewer corporation, is Emerald Pointe also a water
12 corporation?**

13 A. It is.

14 **Q. Do sewer corporations have any characteristics that suggest they should be
15 treated differently from electric, natural gas or water utilities in regard to liability for
16 overcharges?**

17 A. Not that I am aware of.

18 **Q. Does Commission Rule 4 CSR 240-13.025 state that interest should be added
19 to customer overcharges in determining the amount a customer would be due?**

20 A. No, it does not.

21 **Q. Are there any other Commission rules that would address this situation?**

22 A. I don't believe so.

1 **Q. Have you reviewed any information pertaining to the Company's 2000 rate**
2 **case?**

3 A. Yes. I have reviewed the "work file" related to that case that is maintained by the
4 Commission's Water & Sewer Department.

5 **Q. Did you find any correspondence in that file that might shed some light on**
6 **the issue at hand?**

7 A. Yes, I did. I found a letter dated March 7, 2000 through which a proposed
8 settlement agreement and related revised tariff sheets were transmitted from the Staff to the
9 Company, and a letter dated March 20, 2000 through which a settlement agreement and
10 related revised tariff sheets were transmitted to the case file (this letter was filed with the
11 Commission on March 23, 2000). Additionally, I found Staff work papers related to the
12 Company's cost of providing service and related matters.

13 **Q. What revised sewer tariff sheets were included with the March 7, 2000**
14 **letter?**

15 A. A single revised tariff sheet setting out the "schedule of sewer rates" was included
16 with the letter.

17 **Q. Did the "schedule of sewer rates" included in that revised tariff sheet include**
18 **a sewer commodity charge?**

19 A. Yes, it did. It included a "usage charge" of \$3.50 per 1,000 gallons for all usage
20 over 2,000 gallons/month.

21 **Q. What revised sewer tariff sheets were included with the March 20, 2000**
22 **letter?**

1 A. A single revised tariff sheet setting out the "schedule of sewer rates" was included
2 with the letter.

3 **Q. Did the "schedule of sewer rates" included in that revised tariff sheet include**
4 **a sewer commodity charge?**

5 A. No, it did not.

6 **Q. Was there any correspondence from the Staff to the Company in the file you**
7 **reviewed regarding the change in the "schedule of sewer rates" reflected in the revised**
8 **sewer tariff sheet attached to the March 20, 2000 letter?**

9 A. No, there was not.

10 **Q. Was there any correspondence in the file you reviewed through which the**
11 **Company would have been provided a copy of the revised sewer tariff sheet that was**
12 **included with the March 20, 2000 letter?**

13 A. No, there was not.

14 **Q. Regarding the small company rate case process that existed in 2000, who**
15 **would have attached the revised sewer tariff sheet to the March 20, 2000 letter?**

16 A. Randy Hubbs of the Water & Sewer Department Staff would have done that.

17 **Q. What was shown in the Staff work papers pertaining to the Company's 2000**
18 **rate case in regard to the Company's cost of providing service?**

19 A. Those work papers show that the operating revenue increase needed to cover the
20 Company's full cost of providing sewer service was significantly higher than the increase
21 allowed under the then-existing small company rate case procedure. Specifically, based on
22 the information set out below that comes from the work papers, the Company would have

1 needed to receive an operating revenue increase of just over \$40,000 more than what it did
2 receive in order to collect its full cost of service (Gross Revenue Requirement minus Cost-of-
3 Service Recovery Allowed in Case).

4	1. Net Income (Loss) Available	\$(20,972)
5	(Operating Revenues minus Operating Expenses)	
6	2. Net Operating Income Requirement	\$55,384
7	(Return on Rate Base)	
8	3. Gross Revenue Requirement	<u>\$76,356</u>
9	(Total Operating Revenues Needed)	
10		
11	4. Annualized Rate Revenues	\$33,409
12	5. Increase in Rate Revenues Allowed in Case	\$ 2,500
13	6. Rate Revenue Recovery Allowed in Case	<u>\$35,909</u>
14	(line 4 + line 5)	
15	7. Gross Revenue Requirement Not Recovered in Case	\$40,447
16	(line 3 – line 6)	

17 **Q. How much of the above-referenced revenue shortfall would the Company**
18 **have collected on an annualized basis through the \$3.50/1,000 gallons sewer service**
19 **commodity charge?**

20 A. Based on the information available in the Staff work papers from the Company's
21 2000 rate case that I reviewed, the Company would have collected approximately \$18,000 on
22 an annualized basis. My calculation of this amount is shown in Rebuttal Schedule DWJ-3.

23 **Q. Based on the information contained in the Staff work papers that you**
24 **reviewed from the 2000 rate case, were you able to calculate what the commodity**
25 **charge to recover the Company's full cost of providing sewer service would have been?**

1 A. Yes. Based on the available information, the sewer service commodity charge
2 needed to recover the Company's full cost of service would have been \$7.92/1,000 gallons.
3 My calculation of this rate is shown in Rebuttal Schedule DWJ-4.

4 **Q. Have you reviewed the Company's Commission annual reports?**

5 A. Yes. I have reviewed the annual reports that are available electronically (those
6 from CY2003 through CY2011).

7 **Q. Do the revenues reported in the sewer system portion of the annual reports**
8 **you reviewed reflect revenues received from both the monthly base charges and the**
9 **commodity charge of \$3.50?**

10 A. I believe they do.

11 **Q. What do the annual reports show with regard to the Company's sewer**
12 **system operations?**

13 A. In all but one year, CY2003, the reports show a negative net operating income
14 (a loss), even considering the fact that the Company was collecting the disputed sewer
15 commodity charge (see Rebuttal Schedule DWJ-5). It should also be noted that the net
16 incomes/losses shown in the annual reports do not take into account the return on the
17 Company's investment in its net sewer plant in service (rate base). For example, in the
18 Company's 2000 rate case the Staff proposed a 10.25% return on rate base, which would
19 have resulted in a return of \$55,384, and that return would not have been reflected in the
20 Company's annual report for that year.

21 **Q. What do the annual reports show with regard to the Company's water**
22 **system operations?**

1 A. The reports show a positive net operating income in five years and a negative net
2 operating income (a loss) in four years (see Rebuttal Schedule DWJ-5). Here also, it should
3 also be noted that the net incomes/losses shown in the annual reports do not take into account
4 the return on the Company's investment in its net water plant in service (rate base). For
5 example, in the Company's 2000 rate case the Staff proposed a 10.25% return on investment,
6 which would have resulted in a return of \$29,252, and that return would not have been
7 reflected in the Company's annual report for that year.

8 **Q. What do the annual reports show when considering the combined water
9 system and sewer system operations?**

10 A. The reports show an overall positive net operating income in four years and a
11 negative net operating income (a loss) in five years (see Rebuttal Schedule DWJ-5).

12 **Q. What do you mean when you say that the net incomes/losses shown in the
13 annual reports do not take into account the return on the Company's investment in its net
14 plant in service (rate base)?**

15 A. In the annual reports, a company's return on rate base is not a component of the
16 net income/loss calculation. In other words, the return on rate base is not included as an
17 "expense" for the purpose of calculating a company's net income/loss. As a result, annual
18 report net incomes are overstated and annual report net losses are understated when
19 considering a company's full ratemaking cost of service, which does account for the return on
20 rate base.

21 **Q. Does this conclude your Rebuttal Testimony?**

22 A. Yes, it does.

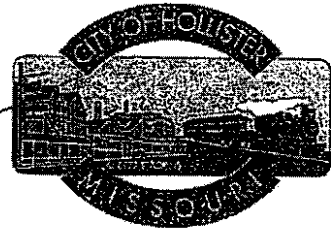
**SCHEDULES FOR THE REBUTTAL
TESTIMONY OF DALE W. JOHANSEN**

FILE NO. SR-2013-0016, et. al.

LISTING AND DESCRIPTION OF SCHEDULES

- Rebuttal Schedule DWJ-1: Hollister Sewage Treatment Bill
- Rebuttal Schedule DWJ-2: Hollister Treatment Expense Worksheet
- Rebuttal Schedule DWJ-3: Calculation of Annualized Revenues Collected through
Commodity Charge of \$3.50/1,000 gallons
- Rebuttal Schedule DWJ-4: Calculation of Sewer Commodity Rate to Recover
Full Cost of Service from 2000 Rate Case
- Rebuttal Schedule DWJ-5: Summary of Annual Report Net Incomes/Losses

3/4 → Long



Wynn

Office of the City Clerk

INVOICE - STATEMENT

January

IN ACCOUNT WITH

Date: February 28, 2013

Gary Snaden
118 State Dr
Hollister, MO 65672

Emerald Point Collection System

In accordance with our agreement, I hereby submit a bill for the sewage treatment services.

01/01/13 to 01/31/13 Total Gallons 1,013,000 Gallons x \$2.52 per 1,000 gallons = \$2,552.76

EP customer sales 691,440 gal.

TOTAL DUE

\$2,552.76

gross of

Bridget Epps
Bridget Epps, City Clerk

Rebuttal Schedule DWJ-1

City of Hollister Sewage Treatment Expense

Amount Included in Case at 04/01/13

Total Annual Water Sales	39,844,565 *
Annual Sales to Water Only Customers	9,709,980 *
Annual Sales to Combo W/S Customers	30,134,585 *
Allowance for Inflow & Infiltration	0
Total Annual Gallons to be Treated	30,134,585
Treatment Rate per 1,000 gallons	\$ 2.52
Annual Treatment Cost	\$ 75,939

* from Customer Usage worksheet - these volumes are also used in rate design workbook

Proposed Amount with 20% Inflow/Infiltration

Total Annual Water Sales	39,844,565
Annual Sales to Water Only Customers	9,709,980
Annual Sales to Combo W/S Customers	30,134,585
Allowance for Inflow & Infiltration (20%)	6,026,917
Total Annual Gallons to be Treated	36,161,502
Treatment Rate per 1,000 gallons	\$ 2.52
Annual Treatment Cost	\$ 91,127

Increase in Expense from 04/01/13 Amount	\$ 15,188
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Emerald Pointe Utility Company
Annualized Revenues at \$3.50 Commodity Rate
2000 Rate Case Information

1	Total Gallons Used by Customers	6,737,784
2	Gallons Included in Base Charges	1,629,723
3	Gallons to Which to Apply Commodity Charge	5,108,061
4	Commodity Charge Billing Units (line 3 ÷ 1,000)	5,108
5	Commodity Rate to be Charged (per billing unit)	\$ 3.50
6	Commodity Revenues Collected at \$3.50/1,000 gal. Rate (line 4 x line 5)	\$ 17,878

Emerald Pointe Utility Company
Sewer Commodity Charge Calculation
2000 Rate Case - Full Cost of Service

1	Gross Revenue Requirement (total operating revenues needed)	\$ 76,356
2	Cost of Service Recovered thru Monthly Base Charges	\$ 35,909
3	Cost of Service to Recover thru Commodity Charge	\$ 40,447
4	Total Gallons Used by Customers	6,737,784
5	Gallons Included in Base Charges	1,629,723
6	Gallons to Use to Calculate Commodity Charge	5,108,061
7	Commodity Charge Billing Units (line 6 ÷ 1,000)	5,108
8	Commodity Rate (line 3 ÷ line 7)	\$ 7.92

Emerald Pointe Utility Company
Annual Report Net Income (Loss) Summary

<u>Year</u>	<u>Sewer</u>	<u>Water</u>	<u>Combined</u>
CY2003	\$ 17,655	\$ (10,878)	\$ 6,777
CY2004	\$ (73,814)	\$ (31,402)	\$ (105,216)
CY2005	\$ (61,344)	\$ (16,011)	\$ (77,355)
CY2006	\$ (22,357)	\$ 23,792	\$ 1,435
CY2007	\$ (38,649)	\$ (23,008)	\$ (61,657)
CY2008	\$ (23,322)	\$ 23,181	\$ (140)
CY2009	\$ (43,418)	\$ 8,884	\$ (34,534)
CY2010	\$ (12,770)	\$ 43,052	\$ 30,282
<u>CY2011</u>	<u>\$ (14,214)</u>	<u>\$ 39,555</u>	<u>\$ 25,341</u>
TOTAL	\$ (272,233)	\$ 57,165	\$ (215,067)
AVERAGE	\$ (30,248)	\$ 6,352	\$ (23,896)