

Exhibit No.: 101
Issue: Rate Design
Witness: Curtis B. Gateley
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: WR-2017-0259
Date Testimony Prepared: October 13, 2017

MISSOURI PUBLIC SERVICE COMMISSION

**COMMISSION STAFF DIVISION
WATER AND SEWER DEPARTMENT**

DIRECT TESTIMONY

OF

CURTIS B. GATELEY

Staff Exhibit No. 101
Date 11-27-17 Reporter XF
File No. WR-2017-0259

INDIAN HILLS UTILITY OPERATING COMPANY

CASE NO. WR-2017-0259

*Jefferson City, Missouri
October 2017*

1 **DIRECT TESTIMONY**
2 **OF**
3 **CURTIS B. GATELEY**
4 **INDIAN HILLS UTILITY OPERATING COMPANY**
5 **CASE NO. WR-2017-0259**

6 Q Please state your name and business address.

7 A. Curtis B. Gateley, 200 Madison Street, Suite 440, Jefferson City, MO 65101.

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

9 A. I am a Utility Policy Analyst II for the Missouri Public Service Commission
10 ("Commission").

11 Q. Please describe your educational background, work experience, and any cases
12 in which you have previously filed testimony before this Commission.

13 A. My credentials and a listing of cases in which I have filed testimony previously
14 before this Commission are attached to this direct testimony as Schedule CBG-d1.

15 Q. What knowledge, skills, experience, training and education do you have in the
16 areas in which you are testifying as an expert witness?

17 A. I have received continuous training at in-house and outside seminars on
18 technical ratemaking matters since I began my employment at the Commission. I have
19 prepared rate design for numerous small water and sewer rate cases during the three years
20 I have been employed with the Commission.

21 Q. What is the purpose of your direct testimony?

22 A. The purpose of my direct testimony is to describe Staff's position on rate
23 design for the Indian Hills Utility Operating Company ("Indian Hills" or "Company").

1 Q. Please provide some background on the usage and other characteristics of the
2 customers of Indian Hills.

3 A. Staff has determined that an annualized customer number of 715 is the
4 appropriate number of customers. Water sales data was not available from the test year due to
5 meters which were beyond their useful life and were not providing accurate data. Because the
6 customers have metered rates, some volume of water sales must be used to calculate rates.
7 Since an expected water sales volume is necessary in order to update the current metered rate,
8 Staff was forced to develop an assumed water sales volume. In this case, water sales were
9 assumed to be 3,000 gallons per month per customer. $3,000 \text{ gallons per month} \times 12 \text{ months}$
10 $\text{per year} \times 715 \text{ customers} = 25,740,000 \text{ gallons per year.}$

11 The customer make-up of Indian Hills is approximately 49% part-time customers.
12 According to the Company and customer comments, the part-time customers are typically
13 using the properties during some summer weekends and rarely using the properties during the
14 winter. This means the average usage for those customers will be far below the 4,000-5,000
15 gallons of usage normally seen with full-time customers. Additionally, some full-time
16 customers commented that they believe they use less than 4,000 gallons per month. While the
17 actual average usage may be less than 3,000 gallons per month, this value is a reasonable,
18 conservative assumption.

19 Q. Is this the only time Staff has been forced to estimate anticipated volume sold?

20 A. No, I am personally aware of at least one other case. For the Branson Cedars
21 Resort Utility Operating Company in WA-2015-0049, Staff estimated the volume of water
22 expected to be sold as part of designing rates for this previously unregulated company.

1 Q: What did Staff examine to determine cost allocations in this case?

2 A. Staff examined the various components of revenue requirement; in particular,
3 what costs are variable depending on water produced and what costs are fixed regardless of
4 the amount of water produced. This, along with customer types and usage patterns, is used in
5 determining allocation of costs to recover between customer charge and commodity charge.
6 There are commercial and residential customers, although their expected use of the system is
7 similar and therefore there are not separate classes. All meters are reportedly the same size, at
8 5/8". The resulting rate design is shown in the attached Schedule CBG-d2.

9 Q. Is Staff recommending a change to the rate structure currently in place for
10 Indian Hill's customers?

11 A. Yes. Staff is proposing to eliminate the 4,000 gallons of water included in the
12 minimum monthly customer charge. Staff proposes a simple monthly customer charge and a
13 commodity charge per 1,000 gallons of usage, with only one customer class.

14 Q. Why is this change being proposed?

15 A. As a general practice, a simple rate design is preferred by customers and utility
16 customers. Complexity should only be added when good cause exists. In this situation, a
17 minimum of 4,000 gallons of usage is not appropriate for many of the customers connected to
18 the utility.

19 Q. Did Staff receive comments from the Company or customers about the existing
20 rate design?

21 A. Yes. Soon after the Company filed the rate-increase request letter, I asked
22 Josiah Cox, president of the Company, how he felt about the current rate design, which they
23 had inherited upon purchasing from the previous owners. The Company was receptive to

1 simplifying the rate design. During the public comment period, several customers
2 commented that they did believe they used less than 4,000 gallons per month, and that being
3 billed for this volume was unfair. Some customers specifically requested a separate
4 commodity charge based on the amount of water they used.

5 Q. Is Staff proposing other changes to the rate design?

6 A. Yes, Staff is proposing to eliminate the rate for a “yard hydrant on unimproved
7 lot”. The occasional use of a yard hydrant for a recreational vehicle or other ephemeral use is
8 similar to the occasional water use associated with a part-time customer. The same costs exist
9 to deliver the water to the meter associated with a yard hydrant or a house. The current rate
10 structure unfairly burdens the other customers by shifting a portion of these costs away from
11 the yard hydrant customers.

12 Q. Are there currently commercial customers at Indian Hills?

13 A. Yes, but the company reports that these commercial customers have the same
14 5/8” meters as residential customers.

15 Q. Is Staff proposing a separate customer class for commercial customers?

16 A. No, Staff proposes to continue to have one customer class as is the case in the
17 current rate design. Staff identified no differences in cost to deliver service to the commercial
18 customers. Therefore no need exists for a separate commercial customer class.

19 Q. What would be the impact to rates if the Commission adopts Staff’s
20 recommended revenue requirement?

21 A. The impact of the increases in water revenues upon existing rates are reflected
22 in the tables below:

1

Water Charge	Current Rates	Proposed Rates	Proposed Amount of Rate Change
Monthly Minimum Charge	\$10.81	\$52.04	\$41.23
Usage per 1,000 gallons	\$1.89	\$7.87	\$5.98

2

3

Q. Does this conclude your direct testimony in this proceeding?

4

A. Yes, it does.

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


In The Matter of The Rate Increase Request Of)
Indian Hills Utility Operating Company, Inc.) Case No. WR-2017-0259

AFFIDAVIT OF CURT B. GATELEY

State of Missouri)
) ss
County of Cole)

COMES NOW Curt B. Gateley, and on her oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony*, and that the same is true and correct according to his best knowledge and belief.

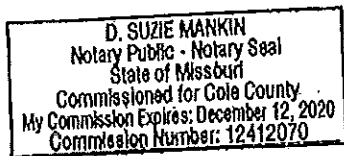
Further the Affiant sayeth not.



Curt B. Gateley

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 16th day of October, 2017.





NOTARY PUBLIC

Curtis B. Gateley

I am a Utility Policy Analyst II in both the Energy Resource Department and the Water & Sewer Department, in the Commission Staff Division of the Missouri Public Service Commission. I have been employed by the Missouri Public Service Commission since July of 2014. In the Water & Sewer Department my primary duties are to act as Case Manager for rate cases and transfer of assets cases, and also draft rate design, and conduct tariff reviews. I also work on regulation development, and liaise with the Department of Natural Resources and the U.S. Environmental Protection Agency on technical issues related to drinking water and sewer regulations. In the Energy Resources Department I assist with review of utility filings associated with the Missouri Energy Efficiency Investment Act, and rate adjustments under fuel adjustment clauses, as well as regulation development.

Educational Background and Work Experience

I have a Bachelor of Science degree in Fisheries and Wildlife from the University of Missouri-Columbia. Prior to joining the Public Service Commission I was employed by the Missouri Department of Natural Resources from 2000-2014, as an Environmental Specialist and a Unit Chief. During my time with the agency I worked in compliance and enforcement, industrial and domestic wastewater permits, industrial stormwater permits, and eventually oversaw a staff of eight Permit Writers. I have served as expert witness before the Administrative Hearing Commission in permit appeal cases, as well as expert witness in State and Federal enforcement cases.

Previous Testimony Before the Public Service Commission

Case No.	Company	Type of Filing	Issue
SR-2014-0153	Peaceful Valley	Live Testimony in Evidentiary Hearing	Compliance with Dept. of Natural Resources regulations
WR-2015-0301	Missouri American Water Company	Direct and Rebuttal Testimony	Class Cost of Service Report
SR-2016-0202	Raccoon Creek Utility Operating Company	Direct and Rebuttal Testimony	Rate Design and Tariff Review
WO-2017-0236	Ridge Creek Water Company LLC	Live testimony	Petition for Interim Receiver
WR-2017-0110	Terre Du Lac Utilities Corporation	Direct Testimony	Rate Design and Tariff Review

INDIAN HILLS UTILITY OPERATING COMPANY
CASE NO. WR-2017-0259

Indian Hills Utility Operating Company, Inc.
Rate Making Income Statement

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	92,555
2	Other Operating Revenues *	\$	4,736
3	Total Operating Revenues	\$	97,291
4	* See "Revenues - Current Rates" for Details.		

Cost of Service

Item	Amount							
5	Misc Source of Supply Expense	\$	200	0.00	\$	-	\$	200
6	Pumping	\$	13,681	0.00	\$	-	\$	13,681
7	Chemicals	\$	5,381	0.00	\$	-	\$	5,381
8	Operation Labor & Expense	\$	71,104	0.30	\$	21,331	\$	49,773
9	Operation Supervision & Engineering	\$	800	0.50	\$	400	\$	400
10	Contract Water Testing	\$	630	0.80	\$	504	\$	126
11	Maintenance of Structure and Improvements	\$	26,532	0.50	\$	13,266	\$	13,266
12	Maintenance Pumping	\$	5,071	0.00	\$	-	\$	5,071
13	Maintenance Supervision and Engineering	\$	495	0.50	\$	248	\$	248
14	Maintenance of Transmission & Distribution	\$	127	0.50	\$	64	\$	64
15	Billing & Collections	\$	17,961	0.80	\$	14,369	\$	3,592
16	Bank Fees	\$	4,932	0.00	\$	-	\$	4,932
17	Administrative & General Expenses	\$	124,314	1.00	\$	124,314	\$	-
18	PSC	\$	1,025	1.00	\$	1,025	\$	-
19	Business License	\$	74	1.00	\$	74	\$	-
20	Sub-Total Operating Expenses	\$	272,327		\$	175,594	\$	96,733
21	SS & Medicare	\$	4,396	0.80	\$	3,517	\$	879
22	Unemployment	\$	1,373	0.80	\$	1,098	\$	275
23	Property Taxes	\$	4,956	0.80	\$	3,965	\$	991
24	Income Taxes	\$	18,418	0.80	\$	14,734	\$	3,684
25	Sub-Total Taxes	\$	29,143		\$	23,314	\$	5,829
26	Depreciation	\$	98,735	0.80	\$	78,988	\$	19,747
27	Amoritzation	\$	21,011	0.80	\$	16,809	\$	4,202
28	Interest	\$	171,090	0.60	\$	102,654	\$	68,436
29	Sub-Total Depreciation/Interest/Amortization	\$	290,836		\$	198,451	\$	92,385
30	Return on Equity	\$	61,461	0.80	\$	49,169	\$	12,292
31	Total Cost of Service	\$	653,767		\$	446,528	\$	207,239
32	Cost to recover in rates	\$	649,031		\$	446,528	\$	202,503
33	Overall Revenue Increase Needed	\$	556,476		\$	353,973	\$	202,503

INDIAN HILLS UTILITY OPERATING COMPANY
CASE NO. WR-2017-0259

Indian Hills Utility Operating Company, Inc.

Revenue Annualizations at Current Rates-Water

Annualized Customer Counts and Customer Charge Revenues

Retail Metered Customers

		Bills per year	Total Bills	Rate *	Annual Revenue**
5/8" Meter	712	12	8,544	\$ 10.81	\$ 92,361
Hydrant only 5/8"	3	12	36	\$ 5.40	\$ 194
					\$ -
Total	715		8,580		\$ 92,555

*monthly service charge

**Revenue reflects some billing for less than 12 months per year, from the EMS

Annualized Commodity Sales - Volumes and Revenues

There were no sales in excess of base gallons included in Customer Charge in the test year

	Total Sales	Rate	Annual Revenue
-	-	\$ 1.89	\$ -
-	-		\$ -
-	-		\$ -
Net Annualized Commodity Revenues			\$ -

Other Operating Revenues

Misc Revenues	\$ 4,690
Primacy Fee	\$ 46
Total Other Revenues	\$ 4,736

Total Operating Revenues

Service Charges - Retail Customers	\$ 92,555
Commodity Revenues - Retail Customers	\$ -
Sub-Total Tariffed Rate Revenues	\$ 92,555
Other Operating Revenues	\$ 4,736
Total Operating Revenues	\$ 97,291

INDIAN HILLS UTILITY OPERATING COMPANY
CASE NO. WR-2017-0259

Indian Hills Utility Operating Company, Inc.

Development of Tariffed Rates-Water

Agreement is to modify rate design to include usage data now available per customer based on the currently metered customers average usage. In addition, the part time customer factor is now the same as sewer.

Revenues Generated by Current Tariffed Rates	\$ 92,555
Agreed-Upon Overall Revenue Increase	\$ 556,476
Percentage Increase Needed	601.238%

Metered Customer Rates

	Current Service Charge	Proposed Service Charge	Current Usage Rate	Proposed Usage Rate
5/8" Meter	\$ 10.81	\$ 52.04	\$ 1.89	\$ 7.87

Customer Charge	Number	Factor	Customer Equivalents	
5/8" Meter	715	1	715.0	\$ 52.04

715.0

Customer Charge Calculation:	\$ 446,528	\$ 52.04
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Commodity		Gallons (1,000)	
	\$ 202,503	25740.00	\$ 7.87

Based on an assumed average usage of 3,000 gallons per month, multiplied by 12 months, multiplied by 715 customers

Total Gallons	25740.00
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**INDIAN HILLS UTILITY OPERATING COMPANY
CASE NO. WR-2017-0259**

Indian Hills Utility Operating Company, Inc.

Revenue Annualizations at Proposed Rates-Water

Annualized Customer Counts and Customer Charge Revenues

Retail Metered Customers

	0	Bills per year	Total Bills	Rate *	Annual Revenue
5/8" Meter	715	12	8580	\$ 52.04	\$ 446,528
Total	715		8,580		\$ 446,528
monthly service charge					

Annualized Commodity Sales - Volumes and Revenues

Meter Size		Total Sales	Rate	Annual Revenue
Full Time, 5/8" Meter	25,740,000	25,740,000	\$ 7.87	\$ 202,503
Total	25,740,000.0	25,740,000.0		\$ 202,503
volumes adjusted as needed per net revenue annualization at current rates				

Other Operating Revenues

Total Other Revenues \$ -

Total Operating Revenues

Service Charges - Retail Customers	\$ 446,528
Commodity Revenues - Retail Customers	\$ 202,503
Sub-Total Tariffed Rate Revenues	\$ 649,031
Total Revenues at Proposed Rates	\$ 649,031

Revenue Check - Proposed Rates vs. Current Rates

Total Revenues at Proposed Rates	\$ 649,031
Tariffed Revenues at Current Rates	\$ 92,555
Increase In Revenues at Proposed Rates	\$ 556,476
Agreed-Upon Increase in Operating Revenues	\$ 556,476