

1 **DIRECT TESTIMONY**

2 **OF**

3 **GEORGE R. HOESCH**

4 **GASCONY WATER COMPANY, INC.**

5 **CASE NO. WR-2017-0343**

6 **Q. Please state your name and address.**

7 A. George R. Hoesch, 4948 Theis Road, Saint Louis, Missouri 63128.

8 **Q. Are you the same George R. Hoesch who previously filed Direct**
9 **testimony in this case?**

10 A. Yes.

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

12 A. The purpose of my surrebuttal testimony is to rebut portions of the
13 Rebuttal testimony of Missouri Public Service Commission Staff ("Staff") Members
14 Matthew R. Young related to rate base and depreciation, Michael Jason Taylor related to
15 salary expense and rent expense, and the rebuttal testimony of Office of the Public
16 Counsel ("OPC") witness John A. Robinett related to rate base and depreciation.

17 **RATE BASE-LAND**

18 **Q. Is Mr. Young's statement on Page 5 of his rebuttal testimony that**
19 **states "...Gascony Water is also related to CMC Water Co., LLC ("CMC Water"),**
20 **which is owned by the children of Mr. Hoesch..." factually correct?**

21 A. No, it is not. Gascony Water Company, Inc. ("Gascony Water" or
22 "Company") is not related to CMC Water Co., LLC ("CMC Water"). CMC Water is a
23 company separately owned by my children.

1 **Q. Do you agree with Mr. Young’s testimony on page 6 that implies all**
2 **parties to the Certificate of Convenience and Necessity (“CCN”) case number WA-**
3 **97-510 CCN case that all parties agreed and the Commission approved that all**
4 **existing tangible plant at that time was recovered through lot sales?**

5 A. No, I do not. I have reviewed the *Stipulation and Agreement* filed by the
6 parties on December 18, 1998, and cannot find anything that even remotely supports this
7 false conclusion by Staff.

8 **Q. Did the Company recover any cost of the original plant through the**
9 **sale of lots?**

10 A. Yes. I discussed this in my direct testimony filed in the CCN case. The
11 predecessor to the Company recorded a \$70,000 reserve for the completion of the water
12 system. A portion of this reserve was assigned to each lot to recover some of the costs
13 related to the installation of water plant.

14 **Q. Did this reserve fully recover the investment in plant by the**
15 **Company’s predecessor?**

16 A. No, as I recall Staff disallowed some plant items totaling approximately
17 \$50,000 for lack of supporting documentation. This disallowance for lack of supporting
18 documentation clearly shows not all investment in plant was recovered by the
19 predecessor.

20 **Q. Do you agree with Mr. Young as he states numerous times in his**
21 **rebuttal testimony that lot 27 is included in the water plant in the CCN case, at**
22 **times he even cites your testimony filed in the CCN case?**

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1 A. No. The predecessor to the Company did not own lot 27 at the time of the
2 CCN case and therefore did not include it in the CCN case.

3 **Q. Do you agree that Mr. Young acknowledges on pages 10 and 11 of his**
4 **rebuttal testimony that the Company and its predecessor did not own lot 27?**

5 A. Yes.

6 **Q. Do you agree with Mr. Young's characterization of your testimony in**
7 **the CCN case that you would transfer lot 27 to Gascony Water?**

8 A. No. On page 3, lines 52 thru 59 of my direct testimony filed in the CCN
9 case I stated the Company will own certain assets including the land on which the well is
10 situated. I made a blanket statement on lines 54 and 55 of my testimony that incorrectly
11 included the land as being carried on the books of my realty company. I should have
12 excluded the land in that statement as the realty company did not own that asset.

13 **Q. Do you agree with Mr. Young's statement in his rebuttal testimony on**
14 **page 17, lines 13 thru 17 that you stated in your testimony in the CCN case that**
15 **Gasc-Osage recovered all the costs of development, including lot 27 through lot sales**
16 **and that there is no unrecovered investment to recover from ratepayers?**

17 A. No. This is another attempt by Mr. Young to mis-state my filed testimony
18 in the CCN case and put into evidence that I somehow owned lot 27. Again, neither
19 Gasc-Osage nor I owned lot 27 as of 1987.

20 **Q. Do you agree with Mr. Young's rate base treatment of the land that**
21 **the storage building resides on as stated in his rebuttal testimony on page 20?**

22 A. No. The Company believes this would establish a dangerous precedent for
23 all regulated utilities. This is a bona fide purchase of land by the Company to have a

1 storage facility for the Company's equipment, tools and plant inventory, a small
2 workshop with a workbench and a place where the emergency backup generator is
3 installed. These events have occurred years after the CCN case and through no stretch of
4 the imagination are related to that case or related to lot sales by the predecessor.

5 **RATE BASE-TRENCHER**

6 **Q. You stated in the CCN case that the trencher would be owned by the**
7 **water utility. Why did you wait as long as you did for the Company to acquire this**
8 **asset?**

9 A. At the time of the CCN case I fully intended to have the water utility
10 acquire the trencher. However, I declined to complete the transaction when I realized
11 that this asset was not going to receive any valuation by Staff in that case.

12 **Q. Are there any other reasons why you believe the trencher was never**
13 **owned by Gascony Water?**

14 A. Yes. For instance, all of the maintenance and repairs required to be done
15 to the trencher were paid for by Gasc-Osage Realty Inc and not by Gascony Water.

16 **Q. Both Staff witness Mr. Young and OPC witness Mister Robinett**
17 **attempt to cast doubt on the valuation of trencher because in part the purchase can**
18 **be considered an affiliated transaction. How do you respond to their statements?**

19 A. Even though there is no affiliated transaction rule for water utilities I agree
20 this is an affiliated transaction. However, a simple review of company's selling this type
21 of trencher would indicate that the sale price is in the low range for this equipment.
22 Attached to my surrebuttal testimony is schedule SUR-gh1 that shows a similarly
23 equipped trencher currently available for sale.

1 **Q. Both Staff witness Mr. Young and OPC witness Mister Robinett refer**
2 **to the promissory note for the trencher being dated 2017 and the in-service date of**
3 **2015. Please explain this discrepancy.**

4 A. The promissory notes are for one-year terms and have been renewed
5 annually.

6 **RATE BASE-UTILITY TRANSPORT VEHICLE (“UTV”)**

7 **Q. There seems to be some confusion on the UTV that the Company is**
8 **attempting to place in plant. Will you please provide a brief history of the purchase**
9 **of this asset?**

10 A. Yes, I originally purchased an UTV in 2007 with the idea of using it in the
11 water utility. However, during the 2013 rate case that was pulled by the Company, Staff
12 informed the Company that Staff would disallow this asset as it was also being used by
13 the realty company. I decided after this case to eliminate any confusion on usage and
14 ownership of this type of asset that I would go ahead and purchase a UTV to be solely
15 owned and used by the water utility. The UTV currently used by the Company was
16 purchased in 2015.

17 **Q. Both Staff witness Mr. Young and OPC witness Mister Robinett**
18 **attempt to cast doubt on the valuation of UTV because in part the purchase can be**
19 **considered an affiliated transaction. How do you respond to their statements?**

20 A. The purchase of the UTV that the Company is placing in plant was
21 purchased from a private party. In addition, attached to my surrebuttal testimony is
22 schedule SUR-gh2 that shows a similarly equipped trencher currently available for sale.

1 **Q. Both Staff witness Mr. Young and OPC witness Mister Robinett refer**
2 **to the promissory note for the UTV being dated 2017 and the in-service date of 2015.**

3 **Please explain this discrepancy.**

4 A. The promissory notes are for one-year terms and have been renewed
5 annually.

6 **DEPRECIATION**

7 **Q. Do you agree with Mr. Young's statements on page 28 regarding the**
8 **depreciation treatment of the trencher and UTV?**

9 A. No.

10 **Q. Why do you disagree with Staff's position on the trencher?**

11 A. I decided after the CCN not to transfer the trencher into the water plant
12 accounts for two reasons. First. Staff did not allow any valuation for the asset, or for that
13 matter any other asset, to be included in rate base during the certificate case. The
14 Company was allowed \$20,000 in start-up costs. Second, Staff included 3.8 hours of
15 backhoe time at \$60 per hour when Staff developed the connection/reconnection charge
16 of \$425 that is listed in the Company's current tariff. A copy of Staff's worksheet
17 developing the connection/reconnection charge is attached to my surrebuttal testimony as
18 Schedule SUR-gh3. The inclusion of rental backhoe equipment in this Commission
19 approved charge indicated to me that Staff agreed this asset was not included in the water
20 utility plant.

21 **Q. Why do you disagree with Staff's position on the UTV?**

22 A. Mr. Young is confused by which UTV should be included in the water
23 utility plants. As I explained in my testimony above, I did not include the UTV

1 purchased in 2007 because Staff indicated to me that they would not allow it in plant
2 because the UTV was also being used by the realty company. I went ahead and
3 purchased another UTV in 2015 solely to be used by the water Company.

4 **SALARY EXPENSE**

5 **Q. Please explain why you only listed three activities on your timesheets**
6 **as discussed in Mr. Taylor's rebuttal testimony on page 5?**

7 A. I finally realized the importance of timesheets after I closed case no WR-
8 2015-0020 in late December, 2014. I only listed three activities to save time and quite
9 frankly, I never kept timesheets in my life and did not realize more detail would be
10 helpful. I plan on breaking my time down more in the future. As stated in Mr. Taylor's
11 rebuttal testimony on page 6, Staff realizes my operational activities are more involved.

12 **Q. Please explain what is involved in reading the meter.**

13 A. I go to the well house read the master meter and record the number in the
14 master meter log. In addition, I inspect the equipment in the wellhouse, for things such
15 as leaks, inspecting the electrical panel and if any general maintenance such as painting
16 equipment, cleaning, sweeping and removing trash around the wellhouse need to be
17 completed. I also watch the drawdown on the storage tank and listen to the pump cycling
18 on and off. I also inspect and check the storage building on my visits to the wellhouse.
19 Reading the meter and the activities related to this task typically take ½ to 1 hour.

20 **Q. Please explain what is involved in checking the property?**

21 A. First, when I say property I am referring to the Company's distribution
22 system. I drive the property on the UTV the Company purchased in 2015. The Company
23 has approximately 6 and ½ miles of water mains. I am looking for water leaks not only

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1 on the Company's water mains but I am also looking to see if any of the water spigots
2 owned by the customers are leaking. I also look to see that customers are not hooking up
3 multiple campers and vehicles on multiple lots. It is not unusual for customers to stop me
4 and discuss items related to the water utility. I am looking for things that are unusual or
5 out of the ordinary. To completely drive around and inspect the water system takes three
6 to six plus hours depending on what I discover. I inspect the entire water system at least
7 once a week.

8 **Q. Please explain what is involved in mail as listed on your timesheet?**

9 A. This is the time I spend assisting my employee with the preparation and
10 mailing of the quarterly bills. Mr. Russo will discuss this further in his surrebuttal
11 testimony.

12 **Q. Do you agree with Mr. Taylor's statement on page 6 that the 493**
13 **average hours on your timesheet includes the management activities that you**
14 **perform?**

15 A. No, as stated in the Company's direct testimony, I neglected to record the
16 time related to my management activities. Mr. Taylor also admits in his rebuttal
17 testimony at a minimum on page 9, lines 19 thru 21, page 10, lines 17 thru 19, page 11,
18 lines 5 thru 10 that I neglected to record my management activities.

19 **Q. Do you agree with Mr. Taylor's assertion on page 13 of his rebuttal**
20 **testimony that your management hours were significantly inflated?**

21 A. No. As the owner and the person that actually performs the management
22 and operational duties of this Company I am in the best position to know how much time
23 I spend on these management and operational duties.

1 **Q. Do you agree with Mr. Taylors statements on page 20 of his rebuttal**
2 **testimony referencing your testimony in the 1997 CCN case stating you spend**
3 **approximately 600 hours a year on Company business?**

4 A. I agree I made that statement to the best of my beliefs at that point in time.
5 The 600 hours was my best guess on how I was spending time on the water utility.
6 However, the reality is I did not start keeping time records until 2015 and I had no idea
7 how much time I was actually spending on the management and operations of the
8 Company. The Company is now a regulated Company and I have to maintain additional
9 records and do additional management and operational duties that I did not have to
10 perform as a non-regulated utility. In addition, the water plant is twenty years older
11 which requires me to keep a closer eye on the water system.

12 **Q. Do you agree with Mr. Taylor's assertion on pages 23 and 24 that you**
13 **and Mr. Russo fabricated and inflated your hours?**

14 A. No. I have previously addressed the amount of time I spend managing and
15 operating this system. Staff may not like how much time it takes to manage and operate
16 the Company, but that dislike does not change the facts.

17 **Q. How do you respond to Mr. Taylor's testimony at the top of page 24**
18 **that the Company did not assert the hours on the time sheets were incorrect until**
19 **after Staff presented its case?**

20 A. The Company did not realize management hours were not addressed until
21 the Company met with Staff and Staff was presenting its findings to the Company. In
22 fact, the Small Utility Rate Case Timeline filed by Staff in this case requires the utility
23 and OPC to inform the Staff of any known errors and omissions on day 100. Day 100 is

1 ten days after Staff provides the utility and OPC Staffs initial findings. The question to
2 Mr. Taylor is how can the utility be expected to point out any errors and omissions prior
3 to the Company seeing any of Staff's findings?

4 **RENT EXPENSE**

5 **Q. Why do you utilize your house in Gascony Village as an office?**

6 A. There are several reasons. First, commercial space is not available in the
7 area. Second, my residence provides an area for my employee to conduct her job. Also,
8 there is a huge convenience factor for the customers giving them a place to meet with the
9 Company.

10 **Q. How do you respond to Mr. Taylors statements on page 24 of his**
11 **rebuttal testimony concerning the rent on the original office trailer being increased**
12 **due to the consumer price index ("CPI")?**

13 A. First, Mr. Taylor does not realize that that rent developed in the CCN case
14 was for a small room located in a small single wide trailer that I owned at the time of the
15 CCN case. I wrongly believed at the time of the CCN case that I could utilize this small
16 space for all of the business operations of the Company.

17 **Q. Please expand on your comment above.**

18 A. I quickly realized how inconvenient and impractical this trailer was. The
19 trailer was cramped and the configuration of the room did not provide adequate space for
20 Company personnel and customers to be seated. This trailer also did not allow me
21 adequate living space during my visits to the water system. I moved the office to my
22 current residence in Gascony Village which currently meets the requirements of the
23 Company. In addition, I also quickly realized that I would have to continue to do

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1 business out of my Saint Louis office. I found that in addition to the Company CPA,
2 many other business' work traditional business hours. This has resulted in me
3 performing some of my management activities in the Saint Louis office.

4 **Q. How do you respond to Mr. Taylors statements on page 25 of his**
5 **rebuttal testimony regarding the Company's response to staff data request number**
6 **1?**

7 A. I was simply responding to what Staff included in the CCN case. I realize
8 now that my response was not complete.

9 **Q. How do you respond to having the books and records available for**
10 **review in the Gascony Village office?**

11 A. The auditors performing the rate case review are from the Commissions
12 Kansas City office. I went ahead and provided the auditors with the financial records in
13 Gascony Village as a matter of convenience. I would have used the Saint Louis office if
14 the Saint Louis auditors performed the review.

15 **Q. Does this conclude your surrebuttal testimony?**

16 A. Yes, it does.