

Exhibit No.: \_\_\_\_\_

Issues: (1) Company/Staff  
"Partial" Disposition  
Agreement  
(2) Staff's Change in  
Position re: Revenue  
Increase  
(3) The Company's Cost  
of Service  
(4) Discovery Issues  
(5) Affiliated Company  
Issues

Witness Name: Dale W. Johansen

Type of Exhibit: Supplemental Direct &  
Rebuttal Testimony

Sponsoring Party: Central Rivers  
Wastewater Utility, Inc.

Case No.: SR-2014-0247

Date of Testimony: December 5, 2014

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

**In the Matter of Central Rivers        )  
Wastewater Utility, Inc.'s Small        )  
Company Rate Increase Request        )**        **Case No. SR-2014-0247**

**Supplemental Direct & Rebuttal Testimony of  
Dale W. Johansen**

**Presented on Behalf of  
Central Rivers Wastewater Utility, Inc.**

**December 5, 2014**

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

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

**In the Matter of Central Rivers     )  
Wastewater Utility, Inc.'s Small    )  
Company Rate Increase Request     )**

**Case No. SR-2014-0247**

**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, LLC and have been retained to present testimony on behalf of Central Rivers Wastewater Utility, Inc. in this proceeding.

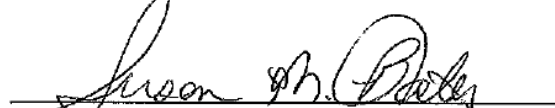
(2) That I participated in the preparation of the following Supplemental Direct & Rebuttal Testimony, which consists of the following: (a) a Table of Contents; (b) twelve pages of questions and answers; and (c) one schedule.

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

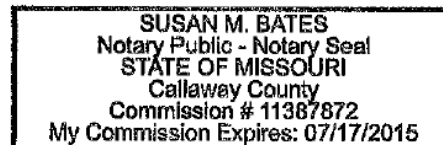
(4) That I have knowledge of the information presented in the answers and schedule, and that such information is true and correct to the best of my knowledge, information and belief.

  
Dale W. Johansen

Subscribed and sworn to before me this 5th day of December 2014.

  
Notary Public

My Commission Expires: 07-15-2015



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**SUPPLEMENTAL DIRECT & REBUTTAL  
TESTIMONY OF DALE W. JOHANSEN**

**CASE NO. SR-2014-0247**

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**SUPPLEMENTAL DIRECT & REBUTTAL  
TESTIMONY OF DALE W. JOHANSEN**

**CASE NO. SR-2014-0247**

**INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS MAILING ADDRESS.**

A. Dale W. Johansen, 915 Country Ridge Drive, Jefferson City, MO 65102.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am the owner of Johansen Consulting Services, LLC (JCS). For the purposes of this case, I have been retained by Central Rivers Wastewater Utility, Inc. (Company) to provide assistance to the Company in reaching a resolution of the case.

**Q. PLEASE DESCRIBE THE TYPES OF SERVICES JCS PROVIDES.**

A. Since starting JCS upon my retirement from the Missouri Public Service Commission (PSC or Commission), the types of services I have provided include the following: (1) training municipal natural gas system operators in pipeline safety rules compliance for the Security Integrity Foundation of the American Public Gas Association; (2) managing/operating a small PSC-regulated water and sewer company, as the court-appointed receiver; (3) managing/operating two small PSC-regulated sewer companies, as the court-appointed receiver; (4) assisting small PSC-regulated water and sewer companies in matters before the Commission, including the resolution of small company rate cases; and (4) providing expert testimony in civil litigation involving purported inappropriate actions by a PSC-regulated natural gas utility.



discussed in the Direct Testimony of Commission Staff witnesses Merciel and Young; and  
(5) the affiliated company issues discussed in the Direct Testimony of Commission Staff  
witness Young.

**COMPANY/STAFF "PARTIAL" DISPOSITION AGREEMENT**

**Q. WHY DID YOU PUT QUOTATION MARKS AROUND THE WORD  
PARTIAL IN YOUR TITLE FOR THIS ISSUE?**

A. Because the disposition agreement executed by the Company and the Commission  
Staff essentially resolved the central issue in this case, that being the recommended increase  
in the Company's operating revenues.

**Q. WHAT ISSUES WERE LEFT UNRESOLVED BY THE AGREEMENT  
EXECUTED BY THE COMPANY AND THE COMMISSION STAFF, AND THUS  
SUBJECT TO HEARING PER THE AGREEMENT?**

A. The following paragraph from the agreement sets forth those issues.

Staff and the Company hereby state that the following items have not  
been resolved: (1) the refunding of previously collected connection  
fees in excess of the tariffed amount; (2) the amount of the connection  
fee to be included in the tariff; and (3) should other parties other than  
the Company's affiliated construction Company be allowed to install  
the STEP and STEG systems. Staff and the Company request that  
these items be addressed through the contested case process provided  
for in Commission Rule 4 CSR 240.3.050(21). Also, the contract  
operations salary amounts allowed in rate case expense remain  
possible for hearing.

**Q. WOULD RESOLUTION OF THE IDENTIFIED ISSUES AFFECT THE  
AGREED-UPON INCREASE IN THE COMPANY'S OPERATING REVENUES?**

1           A. The resolution of the rate case expense issue will definitely affect the finally  
2 approved increase in the Company's operating revenues, but I don't believe the resolution of  
3 the other issues would do so.

4           **STAFF'S CHANGE IN POSITION RE: REVENUE INCREASE**

5           **Q. WHAT IS THE IMPORTANCE OF REACHING AT LEAST A PARTIAL**  
6 **AGREEMENT WITH THE COMMISSION STAFF REGARDING A COMPANY'S**  
7 **OPERATING REVENUE INCREASE REQUEST?**

8           A. The most important aspect of reaching at least a partial agreement with the Staff,  
9 in my opinion, is that this results in less testimony, perhaps significantly less, needing to be  
10 filed by the company. The reason for this being that the Staff files testimony in support of  
11 the matters for which agreement has been reached between the Company and the Staff.

12           **Q. WERE YOU SURPRISED BY THE STAFF'S CHANGE IN POSITION?**

13           A. Shocked would be a better word to use.

14           **Q. WHY IS THAT?**

15           A. First, so far as I know, this action is unprecedented in the history of the small  
16 company rate case process. I know it is unprecedented with regard to the period of time I  
17 have been directly involved in small company rate cases. Second, the reasons given by the  
18 Staff's witnesses in this regard have been in existence to a great degree since before the time  
19 the Company and the Staff executed the disposition agreement. Third, many of the reasons  
20 given for the Staff's change in position were dealt with directly in the disposition agreement  
21 through the inclusion of conditions to which the Company agreed. And fourth, Staff

1 representatives did not inform Company representatives of this move. Rather, it was left  
2 for Company representatives to discover this unprecedented move by reading the Staff's  
3 testimony.

4 **THE COMPANY'S COST OF SERVICE**

5 **Q. IS IT YOUR OPINION THAT THE OPERATING REVENUE INCREASE**  
6 **CALLED FOR IN THE DISPOSITION AGREEMENT IS REASONABLE?**

7 A. Even though the Company compromised on certain cost-of-service items, and on  
8 other matters, I do believe the previously agreed-upon operating revenue increase is  
9 reasonable and would result in a just and reasonable rate for this Company, assuming that  
10 rate case expense is added to that operating revenue increase.

11 **Q. PLEASE PROVIDE EXAMPLES OF THE TYPES OF MATTERS FOR**  
12 **WHICH THE COMPANY AGREED TO A COMPROMISE?**

13 A. The cost-of-service item that comes to mind first, is the under-recovery of the  
14 billed contract expenses related to the overall operation of the Company. Based on  
15 information included in the Staff's Auditing Unit Recommendation Memorandum, which was  
16 apparently included in the EMS run, it appears to me the Company's decision to compromise  
17 on this matter resulted in a reduction in the revenue increase of just under \$26,000. A related  
18 item the Company did not pursue because of the disposition agreement was the analysis of  
19 the positions and pay rates used by the Staff in its attempt to "re-price" the terms of the  
20 contract between the utility company and the construction company, which was part of the  
21 basis for the Staff's calculation of the allowable contract expenses.



1           **Q. IF THE COMPANY'S POSITION ON THESE IDENTIFIED ISSUES WAS**  
2           **USED TO DEVELOP A REVENUE REQUIREMENT FOR THE COMPANY, WHAT**  
3           **WOULD BE THE RESULTING OPERATING REVENUE INCREASE?**

4           A. *Before adding rate case expense*, the "new" operating revenue increase would be  
5           approximately \$60,460.

6           **Q. ARE THERE ANY OTHER ISSUES THAT YOU BELIEVE NEED**  
7           **FURTHER REVIEW BEFORE A DETERMINATION IS MADE ON THE**  
8           **OPERATING REVENUE INCREASE THE COMPANY SHOULD RECEIVE?**

9           A. Yes. It has come to my attention in just the last two days that the Company has  
10          concerns as to whether its investment in at least some of the sewage treatment plants has  
11          been properly captured by the Staff's plant in service and rate base calculations. However, I  
12          have not yet had the time to analyze this matter. If the Company's concerns are legitimate, I  
13          can say that the operating revenue increase would be higher than previously agreed to.

14          **Q. WHAT IS YOUR VIEW REGARDING HOW THE STEP SYSTEM**  
15          **INSTALLATION CHARGES COLLECTED BY THE COMPANY SHOULD BE**  
16          **BOOKED FOR RATEMAKING PURPOSES?**

17          A. I believe the approach taken by the Staff, if I understand it correctly, is  
18          appropriate.

19          **Q. AND WHAT IS THAT APPROACH?**

20          A. The charges collected by the Company, whether the charges set out in the tariff or  
21          the "excess" charges, have been treated as both plant in service and CIAC. I believe this  
22          approach is fair both to the Company and the overall body of customers.

1           **Q. REGARDING THE CONTRACT FOR SERVICES BETWEEN THE**  
2 **UTILITY COMPANY AND THE CONSTRUCTION COMPANY, DO YOU**  
3 **BELIEVE THE CHARGES SET FORTH IN THE CONTRACT ARE**  
4 **REASONABLE?**

5           A. Based on bids the Company received from three other companies and my review  
6 of the Staff's audit memorandum, I believe they are. Copies of those bids were included as  
7 schedules to Company witness Mark Geisinger's Direct Testimony. I will discuss the audit  
8 memorandum later in my testimony. I will also note here, that the charges included in the  
9 Company's contract with the construction company are comparable to the charges for like  
10 services that I pay to contractors as the court-appointed receiver for Rogue Creek Utilities,  
11 M.P.B., Inc. and P.C.B., Inc.

12           **Q. WHAT IS THE COMPANY'S POSITION REGARDING THE RATE CASE**  
13 **EXPENSE ISSUE THAT WAS SPECIFICALLY SET OUT IN THE DISPOSITION**  
14 **AGREEMENT AS AN UNRESOLVED ISSUE?**

15           A. First, the following rate case expenses should be recovered through the  
16 Company's new customer rates: (a) the fees incurred for time spent by construction company  
17 personnel working on the rate case on behalf of the Company, which are being tracked  
18 separately; (b) the fees incurred for legal representation related directly to the rate case; and  
19 (c) the fees incurred for consulting services related directly to the rate case. Second, the rate  
20 case expense "recovery period" should extend to at least the filing date of the reply briefs for  
21 the case. And, third, the rate case expense to be recovered should be amortized over a three-  
22 year period, rather than being treated as a normalized expense.



1 being available because of the nature of the contract. Again, Mr. Geisinger is providing  
2 additional testimony on this matter.

3 **Q. ARE YOU FAMILIAR WITH THE TYPE OF OPERATIONS CONTRACT**  
4 **THAT EXISTS BETWEEN THE CONSTRUCTION COMPANY AND THE UTILITY**  
5 **COMPANY?**

6 A. Yes, I am. As the court-appointed receiver for M.P.B, Inc. and P.C.B, Inc. I have  
7 a similar arrangement with the company with which I have a contract for the operation of  
8 those companies' sewer systems (of which there are seven). While there are services  
9 provided for which detailed invoices are needed, such as sludge hauling and equipment  
10 replacement, the main service provided under the contract is the routine operation and  
11 maintenance of the systems and that is undertaken on a fixed-price basis and is simply  
12 invoiced in that way.

13 **AFFILIATED COMPANY ISSUES**

14 **Q. DOES THE COMMISSION HAVE AN AFFILIATE TRANSACTION**  
15 **RULE THAT APPLIES TO REGULATED SEWER COMPANIES?**

16 A. No, it does not.

17 **Q. TO YOUR KNOWLEDGE, HAS THE COMMISSION EVER**  
18 **CONSIDERED PROMULGATING AN AFFILIATE TRANSACTION RULE**  
19 **THAT WOULD APPLY TO REGULATED SEWER COMPANIES?**

20 A. Yes, it did; however, it never did formally pursue promulgation of the rule.

1           **Q. DO YOU BELIEVE CONTRACTURAL ARRANGEMENTS BETWEEN A**  
2 **PSC-REGULATED COMPANY AND AN UNREGULATED COMPANY WITH**  
3 **COMMON OWNERSHIP SHOULD BE SCRUTINIZED IN THE CONTEXT OF**  
4 **SETTING RATES FOR THE REGULATED COMPANY?**

5           A. Yes, I do.

6           **Q. DO YOU AGREE WITH STAFF WITNESS YOUNG'S ASSERTION IN**  
7 **HIS DIRECT TESTIMONY THAT THE CONTRACTUAL RELATIONSHIP**  
8 **BETWEEN THE "AFFILIATED" CONSTRUCTION COMPANY AND THE**  
9 **UTILITY COMPANY ALLOWS THE CONSTRUCTION COMPANY "TO MAKE**  
10 **ALL DECISIONS AND CONTROL ALL ASPECTS OF THE REGULATED SEWER**  
11 **OPERATIONS" AND THAT "ALL DECISION MAKING AUTHORITY RELATED**  
12 **TO UTILITY MATTERS RESIDES NOT IN CENTRAL RIVERS, BUT WITH THE**  
13 **CONSTRUCTION COMPANY"?**

14          A. No, I do not. The contract controls the actions of the construction company.

15          **Q. DO YOU AGREE WITH STAFF WITNESS YOUNG'S ASSERTION**  
16 **THAT "THE VAST AMOUNT OF THE EXPENSES INCURRED BY CENTRAL**  
17 **RIVERS IS UNDER THE DIRECT CONTROL OF THE CONSTRUCTION**  
18 **COMPANY"?**

19          A. No, I do not. The expenses incurred by the Company as a result of the contract  
20 are controlled by the terms of the contract.

21          **Q. DO YOU AGREE WITH STAFF WITNESS YOUNG'S ASSERTION IN**  
22 **HIS DIRECT TESTIMONY THAT "THE PRICES ESTABLISHED FOR SERVICES**

1 **PROVIDED BY THE CONSTRUCTION COMPANY TO CENTRAL RIVERS ARE**  
2 **NOT COMPETITIVE"?**

3 A. No, I do not. Review of the bids received from three other companies for  
4 provision of the services that the construction company provides to the Company show that  
5 the contract prices are both competitive and reasonable. (As mentioned previously, copies of  
6 these bids were included as schedules to Company witness Geisinger's Direct Testimony, and  
7 it is my understanding they were also previously provided to the Staff.)

8 Additionally, the Staff's Auditing Unit Recommendation Memorandum, which is  
9 attached to the partial disposition agreement executed by the Company and the Staff,  
10 included the following two sentences regarding this matter – "Staff found that the rates  
11 charged to non-affiliated entities under negotiated arms-length transactions are equivalent,  
12 and in some cases slightly higher, than the rates the Construction Company is currently  
13 charging its regulated affiliate Central Rivers. *This comparison addressed the concern that*  
14 *the contract between the Construction Company and Central Rivers could be potentially*  
15 *detrimental to the utility company and its customers and beneficial to the Construction*  
16 *Company.*" (emphasis added) Based on this information, one wonders why this has now  
17 become such a big issue, and why the conditions in the partial disposition related to this  
18 matter are no longer considered sufficient to address it.

19 **Q. IS STAFF WITNESS YOUNG'S "CALCULATED" MARKET VALUE OF**  
20 **THE SERVICES PROVIDED BY THE CONSTRUCTION COMPANY THE ONLY**  
21 **WAY TO DETERMINE THE REASONABLENESS OF THE PRICES PAID FOR**  
22 **THOSE SERVICES?**

1           A. I don't believe so. In my view, the evaluation of the bids from the other service  
2 companies, and the Staff's findings regarding the prices the construction company charges  
3 "non-affiliated" clients, provide a more than sufficient reasonableness check regarding the  
4 contract prices. In fact, this may be a better reasonableness check as compared to a  
5 theoretical market value calculation, especially the one done by Mr. Young that I believe  
6 includes some flawed assumptions/inputs.

7           **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THIS**  
8 **GENERAL ISSUE?**

9           A. While I agree the contract between the utility company and the construction  
10 company should be subject to scrutiny, I believe the Staff's approach of essentially  
11 comparing this situation to the Enron situation, of going to the extremes it did to try to come  
12 up with a "calculated" market value of the contract services, and essentially ignoring the  
13 existence of the competitive bids for the contract services and its own findings about the  
14 prices charged to other construction company clients goes a bit too far for a sewer company  
15 that serves approximately 250 customers.

16           **Q. DOES THAT CONCLUDE YOUR SUPPLEMENTAL DIRECT AND**  
17 **REBUTTAL TESTIMONY?**

18           A. Yes, it does.  
19

**SCHEDULES FOR THE SUPPLEMENTAL DIRECT &  
REBUTTAL TESTIMONY OF DALE W. JOHANSEN**

**CASE NO. SR-2014-0247**

**LISTING AND DESCRIPTION OF SCHEDULES**

Schedule DWJ-1: Education & Work Experience Summary



**EDUCATION & WORK EXPERIENCE**  
**SUMMARY FOR DALE W. JOHANSEN**

**COLLEGE EDUCATION**

**Associate of Arts in Pre-Engineering Studies**

State Fair Community College – Sedalia, Missouri

**Bachelor of Science in Agricultural Engineering**

University of Missouri @ Columbia – School of Engineering

**REGULATORY/UTILITY WORK EXPERIENCE**

**Johansen Consulting Services**

Utility & Regulatory Consultant

October 2011 – Present

**Missouri Public Service Commission**

Gas Pipeline Safety Engineer

Energy Department – Gas Safety/Engineering

Utility Operations Division

September 2007 to September 2011

Manager - Water & Sewer Department

Utility Operations Division

June 1995 – August 2007

**Johansen Consulting Services**

Utility & Regulatory Consultant

March 1994 – May 1995

**Missouri One Call System, Inc.**

Executive Director

January 1992 – February 1994

**Missouri Public Service Commission**

Director of Utility Services Division

November 1990 – December 1991

Utility Division Case Coordinator

November 1987 – October 1990

Gas Pipeline Safety Program Manager

Gas Department – Utility Division

October 1980 – October 1987

Gas Pipeline Safety Engineer

Gas Department – Utility Division

May 1979 – September 1980