

Exhibit No.:
Issue: Availability Charges
Witness: Cary G. Featherstone
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case Nos.: SR-2010-0110
WR-2010-0111
Date Testimony Prepared: March 12, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

CARY G. FEATHERSTONE

LAKE REGION WATER & SEWER COMPANY

CASE NOS. SR-2010-0110

and WR-2010-0111

Jefferson City, Missouri
March 12, 2010

Staff Exhibit No. 14
Date 3/30/10 *MLL*
File No. SR-2010-0110 + WR-2010-0111

1
2
3
4
5
6
7
8
9
10

TABLE OF CONTENTS OF
SURREBUTTAL TESTIMONY OF
CARY G. FEATHERSTONE
LAKE REGION WATER & SEWER COMPANY
CASE NOS. SR-2010-0110 and WR-2010-0111

EXECUTIVE SUMMARY 2

AVAILABILITY CHARGES 4

RECOMMENDATION 9

COSTS ASSOCIATED WITH AVAILABILITY CHARGES..... 11

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **CARY G. FEATHERSTONE**

4 **LAKE REGION WATER & SEWER COMPANY**

5 **CASE NOS. SR-2010-0110 and WR-2010-0111**

6 Q. Please state your name and business address.

7 A. Cary G. Featherstone, Fletcher Daniels State Office Building, 615 East
8 13th Street, Kansas City, Missouri.

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

10 A. I am a Regulatory Auditor with the Missouri Public Service Commission
11 (Commission).

12 Q. Are you the same Cary G. Featherstone who filed Direct testimony in
13 this proceeding?

14 A. Yes, I am. I filed Direct testimony in this case on January 14, 2010
15 sponsoring Staff's Cost of Service Report (Staff Report) for
16 Lake Region Water & Sewer Company's (Lake Region or Company) rate case filed
17 on October 7, 2009.

18 Q. What is the purpose of your Surrebuttal testimony?

19 A. The purpose of this Surrebuttal testimony is to address the
20 Rebuttal testimony filed by Lake Region witness John Summers, the Company's general
21 manager regarding the issue of the proper treatment of Availability Charges. Staff
22 witness James A. Merciel, Jr. will also be filing Surrebuttal testimony on the issue of
23 Availability Charges.

Executive Summary

Q. Please summarize your Surrebuttal testimony?

A. Staff has included an amount of Availability Charges in its revenue requirement calculation. Based on the Rebuttal and Surrebuttal testimony of Staff witness Merciel, Availability Charges are proposed to be included in the rate determination of Lake Region's operating systems -- Shawnee Bend Water and Sewer and Horseshoe Bend Sewer.

Q. What level of Availability Charges has Staff included in the Lake Region Water & Sewer rate cases?

A. Staff has included a total level of Availability Charges in the rate calculation of \$330,000. This amount was determined by taking the number of undeveloped lots by the price charged each lot owner by month, which is 1,200 lots, a \$10 per month availability charge for water resulting in a revenue amount of \$144,000 per year, and \$15 per month availability charge for sewer resulting in a revenue amount of \$216,000. This amount was annualized for a full years' level of Availability Charges.

The total Availability Charges were assigned to the Shawnee Bend Water and Sewer service areas, as Horseshoe Bend sewer does not have availability charges associated with this system. The amounts included in the rate cases for each of these entities are:

Shawnee Bend-- Water	\$144,000
Shawnee Bend-- Sewer	\$216,000
Horseshoe Bend-- Sewer	\$--0--

Surrebuttal Testimony of
Cary G. Featherstone

1 Considering the Availability Charges for each of the entities above, these amounts
2 will more than off-set the proposed revenue requirements for the
3 Shawnee Bend Water and Sewer. The proposed increase supported by Staff for
4 Shawnee Bend Water is \$20,549 and for Shawnee Bend Sewer is \$108,076. If the above
5 Availability Charges are used as an offset to the revenue requirements in these two
6 Lake Region operating systems there would be no rate increases.

7 Since there are no Availability Charges for Horseshoe Bend Sewer as noted
8 above, the proposed current revenue requirement of \$6,571 for that operating entity
9 should go into effect with no corresponding reduction. It should be noted, Staff will
10 perform a true-up audit of Horseshoe Bend Sewer entity and potentially of the
11 Shawnee Bend Water and Sewer entities which may result in changes to the current
12 proposed rate increases.

13 If the Commission does not agree that Availability Charges should be included
14 in Lake Region's rate structure then Staff proposes to assign appropriate costs to a
15 non-regulated fictitious name entity called Lake Utility Availability Fees (Lake Utility)
16 (Lake Utility Availability was later referred to as Lake Utility Availability 1, therefore,
17 through the remainder of this Surrebuttal testimony I will continue to refer this entity as
18 Lake Utility). This fictitious name registration was established by the owners of
19 Lake Region to bill and collect Availability Charges from lot owners within the service
20 areas of Lake Region as well as Ozark Shores Water Company (Ozark Shores) and
21 Public Water Supply District Number Four of Camden County (Water District). The
22 costs associated with the billing and collection as well as the administration of the
23 Availability Charges should be appropriately assigned to the Lake Utility just like the

1 assignment of costs to Lake Region and its other regulated affiliate,
2 Ozark Shores Water Company (Ozark Shores).

3 **Availability Charges**

4 Q. What is the purpose of Availability Charges?

5 A. The Company has stated that the purpose of Availability Charges is to
6 collect monies from owners of "unconstructed lots," meaning those lots are within a
7 developed subdivision that have improvements in place and available to them, which
8 money is used to defray the costs of construction and to maintain the utility
9 infrastructure. Lake Region, and its affiliate, Ozark Shores Water Company
10 (Ozark Shores), which supplies water services to the Horseshoe Bend area, is required to
11 maintain, repair and construct the water and sewer infrastructure in order to provide
12 utility services to existing customers. The utility infrastructure is designed and
13 constructed to provide water and sewer services to existing customers and future
14 customers (owners of the unconstructed lots) of both Lake Region and Ozark Shores on a
15 regulated basis. In addition to providing utility services, Lake Region and Ozark Shores
16 must maintain all of the infrastructure and repair water or sewer pipelines as needed,
17 including any infrastructure that has been installed for the unconstructed lots. To the
18 extent the water and sewer pipelines need repairs or replacement, then both of these
19 regulated companies must undertake the necessary construction. Availability Charges
20 can and should be used to offset the costs of the repairs and construction of infrastructure
21 that benefit the owners of the unconstructed lots.

22 Q. Are there any other witnesses addressing Availability Charges for Staff?

Surrebuttal Testimony of
Cary G. Featherstone

1 A. Yes. Staff witness Merciel also identifies what Availability Charges are in
2 his Rebuttal and Surrebuttal testimonies. In addition, Mr. Merciel provides a history of
3 these fees in his Surrebuttal.

4 Mr. Merciel supports the treatment of Availability Charges in rates and I support
5 the amount of these fees that should be treated in rates. As an alternative to using the
6 Availability Charges in rates, I sponsor a proposal to assign certain costs that support the
7 billing and collection of these fees treating Lake Utility as a separate entity commonly
8 owned by the owners of Lake Region and its affiliate, Ozark Shores.

9 Q. What are unconstructed lots?

10 A. Lots are sold by a developer typically for the purpose of constructing a
11 house or some type of dwelling requiring water and sewer services. When a buyer has
12 not constructed houses or buildings on the property the lot owner, in this case the
13 undeveloped lot owner, is not connected to the water and sewer utility and is not paying
14 utility bills based on tariff rates for water or sewer usage to the utility provider. Once the
15 building of the houses occurs, the utility needs to ensure water and sewer facilities are
16 available to the homeowners and businesses when connected to the utility infrastructure.

17 From the lot owners' perspective, the term unconstructed lots is being used in this
18 testimony to refer to undeveloped lots so as not to confuse the fact that some
19 development has taken place on the lots. This development relates to the improvements
20 made to parcels of land making up the lots to be sold. The improvements range from
21 building roads and bridges, sidewalks and curbing to utility infrastructure. In the case of
22 utility infrastructure, generally water mains and collecting sewers are installed during
23 excavation of the lots themselves. Since the water and sewer pipelines are buried

Surrebuttal Testimony of
Cary G. Featherstone

1 underground, it makes sense to install the water and sewer infrastructure during this
2 phase of the development. It may take many years to sell lots, so this infrastructure is
3 typically in place for a substantial period of time. Such lots without a structure built upon
4 them can be referred to as undeveloped or unconstructed lots.

5 Staff's use of the terms undeveloped and unconstructed in this testimony mean,
6 essentially, that lot owners have not developed the lot or built housing and dwellings on
7 the lots to the point where they need to connect to the water and sewer systems and
8 therefore are not yet connected to the water or sewer utility infrastructure. Therefore, the
9 utility is not providing water or waste water treatment nor receiving any revenues from
10 those lot owners.

11 Q. Is the utility infrastructure necessary to the provision of utility services
12 provided under tariff by Lake Region and Ozark Shores?

13 A. Yes. The infrastructure is necessary to provide utility service to both
14 existing Lake Region customers and future customers of Lake Region (unconstructed lots
15 in the Lake Region service territory), which are intermixed through the regulated service
16 area. To the extent the utility infrastructure for the unconstructed lots is interconnected to
17 the regulated utility infrastructure both systems are required in order to be able to provide
18 utility services.

19 In order to serve Lake Region water customers a distribution system was installed
20 by the developer Mr. Harold Koplar to ensure there was adequate water flow to the
21 residences and businesses in its service area. The original developers also installed a
22 waste water collection system for the Lake Region service area. When these water and
23 sewer pipelines were installed, all the lots along the pipelines were undeveloped. As the

Surrebuttal Testimony of
Cary G. Featherstone

1 lots were sold homebuilding took place on some but not all lots, resulting in the need to
2 connect to the water and sewer systems. Those lot owners who built homes connected to
3 the utility's systems and started receiving and paying bills for utilizing Lake Region's
4 systems. Any repairs necessary to the utility infrastructure will be made by either
5 Lake Region or Ozark Shores to make the necessary repairs or construct new line
6 replacements to restore service to the regulated utility customers. The repairs and
7 construction to the utility system also benefits the owners of the unconstructed lots
8 because the system must be able to continue to operate when the owners of the
9 unconstructed lots connect to the systems. As such, the unconstructed lots are directly
10 related to the existing regulated utility's infrastructure available to them.

11 Q. Why is Staff proposing to include Availability Charges in rates?

12 A. The infrastructure in place for the unconstructed lots is the same as that in
13 place for developed lots that are currently connected to and utilizing the water and sewer
14 system. Since the regulated utility must maintain the integrity of the utility infrastructure,
15 in place for both the built and unconstructed lots, used to provide the water and sewer
16 services, it is only equitable to include the Availability Charges in rates as a revenue
17 source for the purpose of maintaining the costs of the entire water and sewer systems.
18 Additionally, the customers of the unconstructed lots are paying a fee for the
19 accommodation of pipelines and future water and sewer system connection to capacity
20 and utilization of the system.

21 Q. How did Staff determine the level of Availability Charges to include
22 in rates?

Surrebuttal Testimony of
Cary G. Featherstone

1 A. The amount of Availability Charges proposed to be included in the
2 Lake Region cost of service was calculated by applying the monthly amount charged to
3 each unconstructed lot using the number of unconstructed lots supplied by the property
4 owners association. The amounts charged for water and sewer services were identified at
5 pages 5 and 6 of the Amendment to the Third Amended and Restated Declaration of
6 Restrictive Covenants (Restrictive Covenants). This amendment was included as
7 Attachment 4 to the Rebuttal testimony of Staff witness Merciel.

8 There are approximately 1,200 unconstructed lots in the Lake Region service
9 area. Each owner of these unconstructed lots are charged a \$10 per month fee for water
10 services and a \$15 per month fee for sewer services which make up a total amount paid to
11 Lake Utility for Availability Charges of \$300 per year for each unconstructed lot.
12 Availability Charges result in a total revenue amount of \$144,000 per year for water and
13 \$216,000 per year for sewer services.

14 Q. Were Availability Charges included in Staff's direct case filed on
15 January 14, 2010?

16 A. No. At the time of the filing of the Direct testimony in the two water and
17 sewer rate cases, Staff did not have sufficient information to make a determination
18 concerning the need to include or exclude the Availability Charges in the revenue
19 requirement calculation. After the direct filing Staff continued to pursue discovery
20 relating to Availability Charges. Although Lake Region's General Manager
21 John Summers did provide some verbal information, the Company has repeatedly refused
22 to provide any information on a formal basis concerning Availability Charges. Despite
23 the Company's refusal to provide relevant information concerning Availability Charges,

Surrebuttal Testimony of
Cary G. Featherstone

1 Staff determined it was necessary to update its revenue requirement calculations based
2 upon the limited information it did have.

3 Q. Where did Staff get the information on the unconstructed lots?

4 A. After the direct filing when Staff learned that the Company was not going
5 to provide the information necessary to identify the amounts of the Availability Charges,
6 Staff contacted the property owners association, who has intervened in this case. The
7 property owners have information on the number of members who own property within
8 the service area of Lake Region to access membership fees for its organization. Their
9 records are broken out between constructed and unconstructed lots. Staff used the
10 number of unconstructed lots and the monthly amounts for water and sewer services
11 identified in the Restrictive Covenants to determine the Availability Charges. Another
12 source of the number of unconstructed lots was found during the public hearing held
13 January 26, 2010. One of the customers testified that Lake Region had
14 "almost 1,300 undeveloped lots, and if, in fact, each of those lots pays \$300 availability
15 fees, that sum might approach 385, \$390,000..." [Transcript page 19, Public Hearing
16 January 26, 2010-- testimony of Mike Becker]. Staff has used what it believes is a
17 conservative number to approximate the Availability Charges for the Lake Region
18 service area.

19 **Recommendation**

20 Q. What is Staff proposing regarding Availability Charges?

21 A. Staff is proposing to offset Lake Region's operating system revenue
22 requirements by the Availability Charges collected, calculated in this case.

Surrebuttal Testimony of
Cary G. Featherstone

1 Q. What level of Availability Charges has Staff included in the Lake Region
2 Water & Sewer rate cases?

3 A. Staff has included a total level of Availability Charges in the rate
4 calculation of \$330,000. This amount was determined by taking the number of
5 undeveloped lots by the price charged each lot owner by month, which is 1,200 lots, a
6 \$10 per month availability charge for water resulting in a revenue amount of
7 \$144,000 per year, and \$15 per month availability charge for sewer resulting in a revenue
8 amount of \$216,000. This amount was annualized for a full years' level of
9 Availability Charges.

10 The total Availability Charges were assigned to the
11 Shawnee Bend Water and Sewer as Horseshoe Bend Sewer does not have
12 availability charges associated with this system). The amounts included in the rate cases
13 for each of these entities are:

14	Shawnee Bend-- Water	\$144,000 .
15	Shawnee Bend-- Sewer	\$216,000
16	Horseshoe Bend-- Sewer	\$--0--

17 Considering the Availability Charges for each of the entities above, these amounts
18 will more than off-set the proposed revenue requirements for the
19 Shawnee Bend Water and Sewer. The proposed increase supported by Staff for
20 Shawnee Bend Water is \$20,549 and for Shawnee Bend Sewer is \$108,076. If the above
21 Availability Charges are used as an offset to the revenue requirements in these two
22 Lake Region operating systems there would be no rate increases.

1 Since there are no Availability Charges for Horseshoe Bend Sewer as noted
2 above, the proposed current revenue requirement of \$6,571 for that operating entity
3 should go into effect with no corresponding reduction. It should be noted, Staff will
4 perform a true-up audit of Horseshoe Bend Sewer entity and potentially of the
5 Shawnee Bend Water and Sewer entities which result in changes to the current proposed
6 rate increases.

7 **Costs Associated With Availability Charges**

8 Q. Has Staff included costs relating to the undeveloped lots which give rise to
9 Availability Charges in its cost of service calculation?

10 A. Yes. Costs incurred to repair, maintain and construct the water
11 distribution pipelines and waste water collection systems for both the regulated
12 operations of Lake Region, which includes the costs relating to unconstructed lots, were
13 included in the revenue requirement calculation. Since it is appropriate to include those
14 maintenance and constructed plant costs in rates, it is also appropriate to include the
15 Availability Charges as revenues in the rate calculation, as the purpose of collecting these
16 fees are to maintain the utility infrastructure. However, should the Commission not
17 include Availability Charges in rates, which is Lake Region's position in this case, then it
18 is critical to assign all costs relating to Availability Charges. Staff would propose to
19 assign costs relating to the administration of the Availability Charges to that activity if
20 those revenues are not included in the revenue requirement calculation to determine water
21 and sewer rates in these two cases.

22 Q. What costs should be assigned to the Availability Charges in the event the
23 Commission does not allow availability fees in revenues?

Surrebuttal Testimony of
Cary G. Featherstone

1 A. Certain costs relating to the billing, collection and administration of the
2 Availability Charges should be properly assigned to this function if those revenues are
3 not included in these two rate cases. The costs of the employees who maintain the water
4 lines and sewer collection systems for the benefit of owners of unconstructed lots should
5 be assigned to that function. The costs relating to the billing and collection function for
6 the Availability Charges should also be assigned. Just as there is management oversight
7 of the regulated utilities of Lake Region and Ozark Shores, there is also a need to have
8 management oversight to the activities surrounding Availability Charges. All those costs
9 to operate the Availability Charges activities should and must be excluded from the
10 regulated operations of Lake Region if those revenues are excluded from the rate
11 determination.

12 Q. How are the Availability Charges collected and by what entity?

13 A. Lake Utility Availability bill and collect the Availability Charges from the
14 unconstructed developed lot owners, operating under a fictitious name registration,
15 Lake Utility Availability 1, established in 2004. The same partnership operating the two
16 regulated entities, operate Lake Utility. Lake Utility is, at present, a non-regulated entity
17 created for the sole purpose of billing and collecting the Availability Charges from the
18 unconstructed lot owners.

19 Previous owners of Lake Region acquired the rights to the Availability Charges
20 from the original developer. When the current owners (RPS Properties and Sally Stump)
21 purchased Lake Region in 2004, they also purchased the rights to the
22 Availability Charges. Notably, the Third Amended Declaration of Restrictive Covenants,
23 and other versions of the restrictive covenants, states that the Availability Charges are to

Surrebuttal Testimony of
Cary G. Featherstone

1 be paid to the owners of the water and sewer systems (or assigns). The current owners of
2 Lake Region created the fictitious registration Lake Utility Availability to bill and collect
3 those fees.

4 Q. Why was Lake Utility created?

5 A. The General Manager of the Company, Mr. John Summers, told me the
6 previous owner of Lake Region had established the need for a separate entity to collect
7 the Availability Charges. The former owner of Lake Region named this separate entity,
8 Lake Utility Available Fees. Mr. Summers indicated he believed the separate entity was
9 created by the previous owner because of their experience with Availability Charges on
10 the Ozark Shores system and did not want this same treatment for the
11 Availability Charges for Lake Region. Mr. Summers was referencing the way
12 Availability Charges were used as an offset to the revenue requirement for Ozark Shores
13 and the previous owners of Lake Region did not want that to happen with any
14 Availability Charges relating to the Lake Region service area. Regardless of its stated
15 purpose, in practice the use of the Lake Utility entity as the ultimate collection repository
16 of the Availability Charges allows for all the benefits with none of the costs to flow to the
17 owners of Lake Utility, in this case the same owners as Lake Region and Ozark Shores.

18 Q. Does the Lake Utility entity have any employees?

19 A. No. All activities associated with the Availability Charges are
20 administered by the Lake Region and Ozark Shores executive management team (the
21 owners of these two regulated entities which also own Lake Utility) and the employees of
22 the Water District. The work relating to the maintenance of the utility infrastructure of
23 both Lake Region and Ozark Shores for the unconstructed lots is performed by regulated

Surrebuttal Testimony of
Cary G. Featherstone

1 utility employees under contract with the Water District. The billing and collection of the
2 Availability Charges is made with those same employees.

3 Q. Were any costs assigned to the Lake Utility entity?

4 A. No. In the initial direct filing made by the Company or made by Staff,
5 neither party proposed to assign any costs to Lake Utility. Staff believes it is appropriate
6 to include the Availability Charges as revenues to determine rates. But if the
7 Commission disagrees, then it is important to assign all costs associated with Availability
8 Charges, including the management oversight of Lake Utility.

9 Q. If the Commission does not treat the Availability Charges in the
10 determination of rates, how should the related costs be treated?

11 A. Staff proposes to exclude costs for the Availability Charges from the cost
12 of service calculation by identifying Lake Utility as a separate cost structure. Just as it is
13 appropriate to assign costs to operate and maintain the regulated entities of Lake Region,
14 Ozark Shores and the Public Water Supply District, it is equally appropriate to assign
15 proper costs relating to the management and administration of the Availability Charges.

16 Staff has allocated the costs of the executive management group between the two
17 regulated entities (Lake Region and Ozark Shores). With the position the Company is
18 taking to exclude Availability Charges from the rate determination, it is appropriate to
19 assign executive management costs and other related costs between the two regulated and
20 one non-regulated entities, resulting in one-third of the costs assigned to Lake Region,
21 one-third assigned to Ozark Shores and the remaining one-third allocated to the Lake
22 Utility entity.

23 Q. What is the result of this re-allocation of executive management costs?

Surrebuttal Testimony of
Cary G. Featherstone

1 A. Staff originally allocated total executive management costs of
2 \$55,802 equally between Lake Region and Ozark Shores, resulting in \$27,898 being
3 assigned to each entity. A further assignment was made to each of the three Lake Region
4 operating systems -- Shawnee Bend Water (25.5%, or \$7,120) and Sewer
5 (26.8%, or \$7,475) and Horseshoe Bend sewer (47.7%, or \$13,303).

6 Should the Commission agree not to include Availability Charges in this case,
7 Staff is proposing to assign the \$55,802 executive management costs on the basis of
8 one-third (\$18,600) to Lake Region, one-third (\$18,600) to Ozark Shores and one-third
9 (\$18,600) to Lake Utility.

10 The executive management costs assigned to Lake Region would also have to be
11 re-allocated among its three operating systems as follows:

Lake Region Operating System	Allocation	Re-assigned Costs to Lake Region
Shawnee Bend Water	25.5%	\$4,743
Shawnee Bend Sewer	26.8%	\$4,985
Horseshoe Bend Sewer	47.7%	\$8,872
Total	100%	\$18,600

12 These costs should be included in each of the Lake Region operating
13 systems' revenue requirement calculations.

14 Q. Are there other costs that should be considered in assigning costs to
15 Lake Utility?

16 A. Yes. The function of the actual billing and collection of the
17 Availability Charges is done on behalf of Lake Utility by employees of the
18 Water District. The function of the management of Lake Utility is done on behalf of the
19 owners by the General Manager, John Summers. The maintenance, repair and

Surrebuttal Testimony of
Cary G. Featherstone

1 construction of the utility infrastructure are made by Water District employees under
2 contract for Lake Region and Ozark Shores which owners of the unconstructed lots
3 directly benefit. While Lake Utility directly benefits from the well maintained utility
4 infrastructure of Lake Region and Ozark Shores, Lake Utility does not pay any of the
5 costs to maintain this utility infrastructure. In addition, Lake Utility does not even pay
6 for the costs to actually bill and collect the Availability Charges.

7 Q. What are the other costs that should be assigned to Lake Utility?

8 A. Staff believes the salary and benefits of the General Manager,
9 Mr. Summers should be allocated based on all of his responsibilities and duties to the
10 District Water, Lake Utility, Ozark Shores and Lake Region. Using this approach,
11 one-fourth (25%) should be assigned to each of the four entities (two non-regulated and
12 two regulated) for which he has managerial responsibilities.

13 Staff initially allocated Mr. Summers' costs using an allocator of one-third (33%)
14 to each of the three entities identified by Lake Region which it indicated he managed.
15 During the course of this case, primarily since the January 14, 2010 Staff direct filing,
16 Staff has learned that Mr. Summers directly oversees the operations of the Lake Utility.
17 Mr. Summers oversees the billing and collection function, the transfer of funds to
18 Lake Utility and directs the repair, maintenance and construction of the utility
19 infrastructure of Lake Region and any infrastructure relating to non-regulated
20 unconstructed lots.

21 Staff believes that time spent on billing and collecting the Availability Charges
22 should also be assigned to the Lake Utility entity. However, Staff does not have
23 necessary information to assign this activity to the Lake Utility entity. By not being able

Surrebuttal Testimony of
Cary G. Featherstone

1 to identify the proper costs assignment for Lake Utility, payroll and payroll benefits costs
2 allocated to Lake Region will be overstated if Availability Charges are not properly
3 included in the cost of service calculation.

4 Lake Utility should have other costs assigned to this activity such as billing and
5 collection processing costs like postage cost, costs relating to the billing and collection
6 accounting system, office space rental, etc. These costs would be assigned to the
7 Lake Utility entity as a cost of doing business for this non-regulated activity should these
8 revenues not be included in the rate calculation.

9 Q. Has Staff attempted to assign costs to maintain and construct the utility
10 infrastructure to Lake Utility?

11 A. No. Staff has not made such attempt. It would be very difficult to identify
12 the costs to repair, maintain and construct the Lake Region utility infrastructure and
13 allocate a portion to Lake Utility. Even though the Lake Utility entity directly benefits
14 from a well maintained utility infrastructure, it makes no contribution to Lake Region or
15 Ozark Shores' utility systems. Lake Utility in essence gets a "free-ride" which results in a
16 subsidization by the regulated Lake Region and its affiliate, Ozark Shores.

17 Q. How does Lake Utility benefit from a well maintained utility
18 infrastructure?

19 A. Presumably there is a value to the lot owners of unconstructed lots of
20 being able to connect to the water and sewer systems of Lake Region and Ozark Shores.
21 If the lot owners of the unconstructed lots perceived no value they would not be willing
22 to pay the Availability Charges to Lake Utility.

Surrebuttal Testimony of
Cary G. Featherstone

1 The value to the unconstructed lot owners is the knowledge that when they built
2 housing and businesses on their lots there will be a utility system in place to handle the
3 water and sewer services. If the perception exists that the necessary utility infrastructure
4 will not be in place when needed by the unconstructed lot owners, then they would have
5 no reason to continue to pay Availability Charges to Lake Utility. When individuals
6 purchase unconstructed lots, the restriction and covenant state the availability charge
7 would be tarified and regulated by the Commission (referenced attachment 3, page 19 to
8 Staff witness Merciel's Rebuttal testimony). Lake Region and its affiliate, Ozark Shores,
9 are responsible for maintaining the utility infrastructure making necessary repairs and
10 incurring maintenance costs to keep the system operating, and therefore, have had to pay
11 all the costs. Lake Utility receives all the benefits of this utility infrastructure but paid
12 none of the costs.

13 Q. What are the total additional costs that should be assigned to Lake Utility
14 if the Commission agrees that Availability Charges should not be part of the
15 Shawnee Bend Water and Sewer rate structure?

16 A. The following represents the proposed re-assignment of Lake Region costs
17 considering an allocation of costs to Lake Utility should the Commission not adopt the
18 inclusion of Availability Charges in the Lake Region rate structure:

Type of Costs	Staff Proposed Costs if Availability Charges included in Lake Region	Staff Proposed Costs if Availability Charges excluded from Lake Region	Difference
Executive Management	\$27,898	\$18,600	\$9,298
Salaries & Benefits	33,802	25,607	8,195
Total Costs	\$61,700	\$44,207	\$17,493

Surrebuttal Testimony of
Cary G. Featherstone

1 The difference between the costs assigned to Lake Region without assigning costs
2 Lake Utility of \$61,700 and assigning costs to Lake Utility \$44,207 is \$17,493.

3 The \$17,493 amount represents a reduction to Lake Region cost of service based
4 on the re-allocation of costs to Lake Utility.

5 It should be noted that Ozark Shores would receive a reduction to its costs if
6 Lake Utility is assigned costs as an operating entity. Ozark Shores also has
7 Availability Charges that would need to be considered in the cost of service of that entity.

8 Q. What would the impact be to each of Lake Region's operating systems if
9 costs are assigned to Lake Utility?

10 A. The cost re-allocation for the \$44,207 to each of the Lake Region
11 operating system would be:

Lake Region Operating System	Allocation	Total re-assigned Costs to Lake Region	Difference
Shawnee Bend Water	25.5%	\$11,273	\$4,461
Shawnee Bend Sewer	26.8%	\$11,847	\$4,688
Horseshoe Bend Sewer	47.7%	\$21,087	\$8,344
Total	100%	\$44,207	\$17,493

12 These re-allocated costs should be included in each of the Lake Region operating
13 systems' revenue requirement calculations if the Commission disagrees with the inclusion
14 of the Availability Charges in the Lake Region cost of service calculations.

15 Q. What are the affects of removing the costs for Lake Utility operations on
16 the revenue requirement recommendation made by Staff?

17 A. After making the changes for the assignment of costs for the
18 Availability Charges, the following revenue requirements result:

Lake Region Operating Entity	Annual Revenue Requirement at mid-point ROE of 8.5%	Rate Base at September 30, 2009
Shawnee Bend Water	\$16,088	\$929,678
Shawnee Bend Sewer	\$103,388	\$1,457,651
Horseshoe Bend Sewer	(\$1,773)	\$335,343

Source: Staff Exhibit Model System-- Schedules 5 and 7 revised for Surrebuttal March 2010

Q. Where were the revenue requirements for each operating system prior to the assignment of costs to Lake Utility?

A. After the direct filing in January, Staff made revisions and corrections to its cases based on discussions with the Company and other parties resulting in the following revenue requirements by operating system:

Lake Region Operating Entity	Annual Revenue Requirement at mid-point ROE of 8.5%	Rate Base at September 30, 2009
Shawnee Bend Water	\$20,549	\$929,678
Shawnee Bend Sewer	\$108,076	\$1,457,651
Horseshoe Bend Sewer	\$6,571	\$335,343

Source: Staff Exhibit Model System-- Schedules 5 and 7 at time of prehearing

Staff changed its revenue requirement calculation after the January 14, 2010 filing as result of revisions, errors and omissions. New runs were developed using Staff's revenue requirement model called the Exhibit Modeling System (EMS) based on discussions with the Parties and follow up review of the three revenue requirement calculations by Staff. The EMS runs supporting the above amounts for each of Lake Region's operating systems were provided to the Company and the Office of the Public Counsel (Public Counsel) the week of February 1, 2010 and supplied to all parties at the prehearing conference held on February 8, 2010.

Q. What were the original amounts recommended by Staff?

Surrebuttal Testimony of
Cary G. Featherstone

1 A. For comparison purposes, the following revenue requirements were filed
2 in Staff's direct rate case filing made on January 14, 2010:

Lake Region Operating Entity	Annual Revenue Requirement at mid-point ROE of 8.5%	Rate Base at September 30, 2009
Shawnee Bend Water	\$49,503	\$1,213,426
Shawnee Bend Sewer	\$123,003	\$1,558,599
Horseshoe Bend Sewer	(\$55,814)	\$371,471

3 Source: Staff Exhibit Model System-- Schedules 5 and 7

4 However, Staff included a \$60,000 allowance for known and measurable changes
5 for the Horseshoe Bend Sewer system which resulted in a \$4,186 recommended increase.
6 Staff plans on performing a true-up to reflect new plant addition on this system expected
7 to be completed by March 31, 2010.

8 Q. Does this conclude your Surrebuttal testimony?

9 A. Yes, it does.

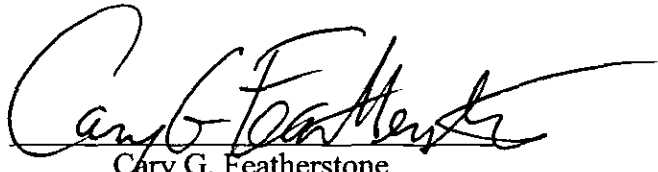
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Lake Region Water & Sewer) SR-2010-0110
Company's Application to Implement a)
General Rate Increase in Water and Sewer) Case No. AND
Service.)
WR-2010-0111

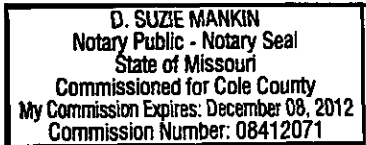
AFFIDAVIT OF CARY G. FEATHERSTONE

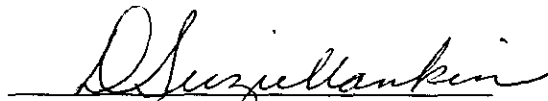
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 21 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Cary G. Featherstone

Subscribed and sworn to before me this 12th day of March, 2010.




Notary Public