

Exhibit No.: _____
Issue(s): Contract for Services Between
Central Rivers and CSM/
Rate Case Expense/
Discovery Issues/
Septic Tank Effluent Pump
Connection Charges/
Public Counsel's Overall Rate
Increase Recommendation
Witness/Type of Exhibit: Addo/Surrebuttal/
Rebuttal of Supplemental Direct
Sponsoring Party: Public Counsel
Case No.: SR-2014-0247

**SURREBUTTAL/REBUTTAL OF SUPPLEMENT
DIRECT TESTIMONY**

OF

WILLIAM ADDO

Submitted on Behalf of the Office of the Public Counsel

Central Rivers Wastewater Utility, Inc.

CASE NO. SR-2014-0247

December 15, 2014

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

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

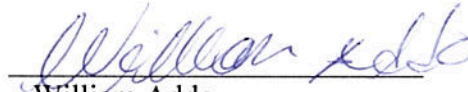
File No. SR-2014-0247

AFFIDAVIT OF WILLIAM ADDO

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

William Addo, of lawful age and being first duly sworn, deposes and states:

1. My name is William Addo. I am a Public Utility Accountant I for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal/rebuttal of supplemental direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

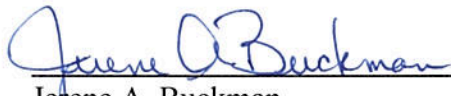


William Addo
Public Utility Accountant I

Subscribed and sworn to me this 15th day of December, 2014.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	PURPOSE OF TESTIMONY.....	1
III.	CONTRACT FOR SERVICES BETWEEN CENTRAL RIVERS AND CSM.	2
IV.	RATE CASE EXPENSE.....	5
V.	DISCOVERY ISSUES.....	8
VI.	SEPTIC TANK EFFLUENT PUMP CONNECTION CHARGES.....	10
VII.	PUBLIC COUNSEL’S OVERALL RATE INCREASE RECOMMENDATION... 	.13

**SURREBUTTAL/REBUTTAL OF SUPPLEMENTAL DIRECT TESTIMONY
OF
WILLIAM ADDO**

CENTRAL RIVERS WASTEWATER UTILITY, INC.

CASE NO. SR-2014-0247

I. INTRODUCTION.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. William Addo, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

Q. ARE YOU THE SAME WILLIAM ADDO THAT HAS PREVIOUSLY FILED
REBUTTAL TESTIMONY IN THIS CASE?

A. Yes.

II. PURPOSE OF TESTIMONY.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL/REBUTTAL OF
SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of this testimony is to respond to the Supplemental Direct and Rebuttal
Testimony of Central Rivers Wastewater Utility, Inc.'s ("Central Rivers" or "Company")
witness, Mr. Dale W. Johansen, regarding the contract for services between Central
Rivers and Construction Services and Management, LLC ("CSM"); rate case expense; and
discovery issues. This testimony will also respond to the issue of Septic Tank Effluent
Pump ("STEP") "Connection Charges" as addressed in the Supplemental Direct and
Rebuttal Testimonies of Company witnesses, Mr. Johansen and Mr. Mark E. Geisinger.

III. CONTRACT FOR SERVICES BETWEEN CENTRAL RIVERS AND CSM.

Q. WHAT IS THE ISSUE?

A. This issue pertains to the reasonableness of the contracted amounts charged to Central Rivers by its affiliate, CSM, for the provision of certain alleged services.

Q. ON PAGE 7, LINES 5 AND 6, OF HIS SUPPLEMENTAL DIRECT AND REBUTTAL TESTIMONY, MR. JOHANSEN STATES THAT BASED ON BIDS THE COMPANY RECEIVED FROM THREE OTHER COMPANIES, HE BELIEVES THE CHARGES SET FORTH IN THE CONTRACT BETWEEN CENTRAL RIVERS AND CSM ARE REASONABLE. DO YOU AGREE?

A. No. Bids, like estimated costs, are not necessarily appropriate cost information to utilize in the determination of a utility company's cost of service. Bids are usually based on subjective assumptions and calculations. More often than not, bids only consider the financial piece of a project. Intangible facets such as the qualification of the bidder, scheduling and reliability, opportunities for value engineering, etc. are not easily attainable simply by looking at a bid only. Similar sentiments addressing the inadequacy of bids are equally expressed by Mr. Geisinger on page 15, lines 12 through 14, of his Supplemental Direct and Rebuttal Testimony where he attempts to discredit a bid tendered in by a customer at the Company's local public hearing. I believe that Mr. Johansen, with his vast knowledge of utility regulation in the State of Missouri, is also

1 well aware that the historical test year model utilized in the State does not usually rely on
2 estimated costs in the development of rates.

3
4 Q. ON PAGE 7, LINES 5 AND 6, OF HIS SUPPLEMENTAL DIRECT AND REBUTTAL
5 TESTIMONY, MR. JOHANSEN ALSO STATES THAT BASED ON HIS REVIEW OF
6 THE MISSOURI PUBLIC SERVICE COMMISSION ("MPSC" OR "COMMISSION")
7 STAFF'S AUDIT MEMORANDUM, HE BELIEVES THAT THE CHARGES SET
8 FORTH IN THE CONTRACT BETWEEN CENTRAL RIVERS AND CSM ARE
9 REASONABLE. DO YOU AGREE?

10 A. No. Mr. Johansen's attempt to use a segment of the MPSC Staff's Auditing Unit
11 Recommendation Memorandum to justify the reasonableness of the contracted amounts
12 charged by CSM is short-sighted. The segment of the MPSC Staff's Memorandum Mr.
13 Johansen may have referenced, I believe, reads:

14
15 Staff found that the rates charged to non-affiliated entities under
16 negotiated arms-length transactions are equivalent, and in some cases
17 slightly higher, than the rates the Construction Company is currently
18 charging its regulated affiliate Central Rivers. This comparison addressed
19 the concern that the contract between the Construction Company and
20 Central Rivers could be potentially detrimental to the utility company and
21 its customers and beneficial to the Construction Company.
22

1 The MPSC Staff only made reference to the contract rates charged by CSM, not the
2 contract amounts. To derive the contract amounts, one needs to multiply the contract
3 rates charged by CSM by the actual time spent by CSM in performing the alleged
4 services. However, CSM does not have records that reflect the actual time spent on
5 performing services for Central Rivers. The fact that the contract rates charged by CMS
6 may be reasonable does not necessarily mean that the total contract amounts would also
7 be reasonable.

8
9 Q. MR. JOHANSEN, AGAIN IN AN ATTEMPT TO JUSTIFY THE
10 REASONABLENESS OF THE CHARGES SET FORTH IN THE CONTRACT
11 BETWEEN CENTRAL RIVERS AND CSM, ON PAGE 7, LINES 8 THROUGH 11,
12 OF HIS SUPPLEMENTAL DIRECT AND REBUTTAL TESTIMONY ALLEGES
13 THAT CSM'S CHARGES ARE COMPARABLE TO THE CHARGES HE PAYS FOR
14 LIKE SERVICES AS THE COURT-APPOINTED RECEIVER OF SOME UTILITIES.
15 WHAT IS YOUR POSITION?

16 A. Mr. Johansen is comparing "apples and oranges." The sewer systems being compared by
17 Mr. Johansen have different mode of operations. While M.P.B., Inc., P.C.B., Inc., and
18 Rogue Creek Utilities sewer systems are either facultative lagoon and/or extended
19 aeration, Central Rivers' sewer systems on the other hand are STEP systems. Customer
20 numbers, for example, also vary significantly among these companies. An attempt to

1 analyze and compare costs in terms of maintenance, monitoring, billing, service call, etc,
2 for these systems, is misleading.

3
4 **IV. RATE CASE EXPENSE.**

5 Q. WHAT IS THE ISSUE?

6 A. This issue concerns the amount of rate case expense to be included in the calculation of
7 Central Rivers' cost of service; the time frame over which recovery should occur; and the
8 mechanism for recovery—whether recovery should occur through amortization or
9 normalization.

10
11 Q. WHAT IS THE COMPANY'S POSITION ON THIS ISSUE?

12 A. Company witness, Mr. Johansen, on page 7, lines 15 through 22, of his Supplemental
13 Direct and Rebuttal Testimony states, "First, the following rate case expenses should be
14 recovered through the Company's new customer rates: (a) the fees incurred for time spent
15 by construction company personnel working on the rate case on behalf of the Company,
16 which are being tracked separately; (b) the fees incurred for legal representation related
17 directly to the rate case; and (c) the fees incurred for consulting services related directly
18 to the rate case. Second, the rate case expense "recovery period" should extend to at least
19 the filing date of the reply briefs for the case. And, third, the rate case expense to be

1 recovered should be amortized over a three-year period, rather than being treated as a
2 normalized expense.”

3
4 Q. WHAT IS THE OFFICE OF THE PUBLIC COUNSEL’S (“PUBLIC COUNSEL” OR
5 “OPC”) POSITION?

6 A. Public Counsel is opposed to the Company’s three-year “amortization” recovery
7 period recommendation. Public Counsel’s position is that Central Rivers should
8 be authorized by the Commission to recover rate case expense over a period of
9 five (5) years based on a normalization mechanism.

10
11 Q. WHAT IS THE DIFFERENCE BETWEEN NORMALIZATION AND
12 AMORTIZATION?

13 A. Normalization is a ratemaking mechanism of spreading a reasonable allowable
14 cost over a period of time whereas amortization is the repayment of a mortgage,
15 debt, or other obligation over a period of time. For accounting and tax purposes,
16 amortization can also be defined as spreading out the cost of an intangible asset
17 over the asset’s useful life.

1 Q. HAS THE COMPANY IDENTIFIED THE RATE CASE EXPENSE AMOUNT IT
2 PROPOSES TO INCLUDE IN ITS COST OF SERVICE?

3 A. No.
4

5 Q. DOES PUBLIC COUNSEL HAVE A RECOMMENDATION FOR THE NORMALIZED
6 RATE CASE EXPENSE AMOUNT TO BE INCLUDED IN THE COMPANY'S COST
7 OF SERVICE?

8 A. Yes. By my calculations, the normalized annual rate case expense I recommend
9 to be included in Central Rivers' cost of service would amount to \$3,279. This
10 amount translates into approximately a \$13.60 annual charge or \$1.13 monthly
11 charge per customer (utilizing 241 customers) just for rate case expense. A
12 detailed workpaper that shows the calculation of the \$3,279 amount will be
13 provided to all the parties in this case.
14

15 Q. WHAT DOES YOUR RATE CASE EXPENSE AMOUNT INCLUDE?

16 A. My rate case expense amount includes: (a) a reasonable amount of fees incurred
17 for time spent by CSM personnel working on the rate case on behalf of the
18 Company; (b) the fees incurred for legal representation related directly to the rate
19 case as of November 26, 2014; (c) the fees incurred for consulting services related

1 directly to the rate case as of December 4, 2014; and (d) office supplies and
2 postage costs related directly to this case.
3

4 Q. WHAT IS PUBLIC COUNSEL'S POSITION REGARDING THE COMPANY'S
5 RECOMMENDATION TO RECOVER RATE CASE EXPENSES THROUGH THE
6 FILING DATE OF REPLY BRIEFS IN THIS CASE?

7 A. Public Counsel has no concerns with the Company's recommendation.
8

9 **V. DISCOVERY ISSUES.**

10 Q. WHAT IS THE ISSUE?

11 A. This issue concerns discovery information that Central Rivers provided during the course
12 of this rate case.
13

1 Q. MR JOHANSEN STATES IN HIS SUPPLEMENTAL DIRECT AND REBUTTAL
2 TESTIMONY, PAGE 8, LINES 17 THROUGH 19, THAT "IT SEEMS TO ME THE
3 BASIC ISSUE IS THAT THE STAFF IS NOT SEEING THE INFORMATION IT
4 THINKS IT SHOULD SEE BECAUSE OF A LACK OF UNDERSTANDING OF HOW
5 SERVICES ARE INVOICED UNDER THE TERMS OF WHAT IS LARGELY A
6 FIXED PRICE CONTRACT." DO YOU AGREE?

7 A. No. If I understand Mr. Johansen correctly, he seems to be suggesting that whether CSM
8 expends the required hours in providing services to Central Rivers or not, CSM has the
9 contractual right to bill Central Rivers, and ultimately Central Rivers' customers, a "fixed
10 price contract" amount. Ample evidence exists to show that CSM does not keep work
11 orders or timesheets to justify that it indeed expended a stated number of hours in proving
12 services for Central Rivers. The Company's claim that the contract amounts were fixed
13 based on experience it has regarding the time it takes to accomplish a task, is not
14 auditable documentation. Mr. Johansen's suggested approach to ratemaking does not
15 validate the appropriateness, prudence, or reasonableness of the alleged contract and is
16 not sufficient evidence to support the annual level of costs to be included in rates charged
17 to ratepayers.
18

VI. SEPTIC TANK EFFLUENT PUMP CONNECTION CHARGES.

Q. DO YOU AGREE WITH MR. JOHANSEN'S ASSERTION IN HIS SUPPLEMENTAL DIRECT AND REBUTTAL TESTIMONY THAT THE STEP CONNECTION CHARGES COLLECTED BY CENTRAL RIVERS, WHETHER THE CHARGES SET OUT IN THE TARIFF OR THE EXCESS CHARGES, SHOULD BE TREATED AS BOTH PLANT-IN-SERVICE AND CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")?

A. No. As I indicated in my Rebuttal Testimony in this case, I believe that the total over-collected amounts, if authorized by the Commission to be refunded by the Company, should be removed from both Plant-in-Service and CIAC. This adjustment will ensure that the refund amounts, which represent unsupported charges in violation of the Company's tariff, do not continue to be included on the Company's books.

Q. COMPANY WITNESS, MR. GEISINGER, IN HIS SUPPLEMENTAL DIRECT AND REBUTTAL TESTIMONY, ASSERTS THAT HE DOES NOT AGREE WITH THE MPSC STAFF'S RECOMMENDATION THAT THE OVER-COLLECTED STEP AMOUNTS BE REFUNDED TO CUSTOMERS. WHAT IS PUBLIC COUNSEL'S POSITION?

A. As stated in Public Counsel's Rebuttal Testimony, it is Public Counsel's recommendation that the Commission order Central Rivers to refund all the over-collected Connection

1 Charge amounts, with accrued interest, to the customers that paid a Connection Charge in
2 excess of the Company's tariff rates, and do so within one (1) year of the effective date of
3 the Commission's Report and Order in this case. Mr. Geisinger's rationale on page 17,
4 lines 20 and 21, of his Supplemental Direct and Rebuttal Testimony that "I believe the
5 amounts charged were always equal to the actual cost of such installations", is
6 unreasonable. The bottom line is that the Company charged more for the installations
7 than was allowed in its Commission- approved tariff. All amounts charged in violation
8 of the tariff should be refunded back to the customers who were erroneously charged.
9

10 Q. MR.GEISINGER STATES IN HIS SUPPLEMENTAL DIRECT AND REBUTTAL
11 TESTIMONY THAT HE IS NOT OPPOSED TO PERMITTING CUSTOMERS
12 CHOOSING OTHER PARTIES TO PERFORM STEP INSTALLATIONS. WHAT IS
13 PUBLIC COUNSEL'S POSITION?

14 A. Public Counsel believes it is appropriate to allow customers to choose other parties to
15 perform STEP installations. Public Counsel agrees that some additional charges may
16 need to be added to the Company's tariff to accomplish this change. Public Counsel,
17 however, is opposed to the additional charges that Mr. Geisinger alleges it would cost
18 Central Rivers to "maintain the integrity of the system." These proposed charges are not
19 based on actual costs so there is no evidence that these proposed charges are reasonable.

1 Q. DO YOU HAVE ANY OTHER ISSUES REGARDING STEP CONNECTION
2 CHARGES THAT YOU WANT TO BRING TO THE ATTENTION OF THE
3 COMMISSION?

4 A. Yes. I would like to provide an update to the total over-collected STEP Connection
5 Charges and the accrued interest amounts that I recommended in my Rebuttal Testimony.
6

7 Q. PLEASE CONTINUE.

8 A. My updated calculations show that Central Rivers has over-collected an additional
9 amount of \$12,557 in STEP Connection Charges for what the Company refers to as
10 “charges for extra feet above 200 feet.” The Company’s Commission-authorized tariff
11 for STEP Connection Charge includes a cost for 1 inch piping from customer’s septic
12 tank to the sewer main up to 800 linear feet; however, it appears Central Rivers, on its
13 Application for Sewer Service, attached to this Testimony as Schedules WA-9, reduced
14 the included linear feet to 200 and charged the customers an additional fee for footages
15 over the 200 feet. Public Counsel recommends that the Commission should order Central
16 River to refund the \$12,557 additional STEP Connection Charge amount, with accrued
17 interest, to customers who paid these extra charges in addition to the \$53,444 (\$44,920
18 over-collected STEP Connection Charges + \$8,524 interest) amount identified in Public
19 Counsel’s Rebuttal Testimony. It is, however, not clear at this point whether Central
20 Rivers booked this \$12,557 amount as a plant item or as a revenue stream. If Central

1 Rivers booked this amount as a plant item, then, consistent with Public Counsel's
2 recommendation as stated in my Rebuttal Testimony, Plant-in-Service and CIAC should
3 also be reduced by the \$12,557 amount.
4

5 Q. WHAT IS THE INTEREST COMPONENT?

6 A. By my calculations, the total interest component of these additional charges would
7 amount to \$2,781. A detailed workpaper will be provided to all the parties in this case.
8

9 **VII. PUBLIC COUNSEL'S OVERALL RATE INCREASE RECOMMENDATION.**

10 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING A RATE
11 INCREASE FOR CENTRAL RIVERS?

12 A. Even though Public Counsel has numerous concerns regarding the conduct of Central
13 Rivers, as is well documented in this testimony and my Rebuttal Testimony, Public
14 Counsel will not oppose a reasonable rate increase for Central Rivers. Public Counsel
15 believes that the revenue requirement agreed upon by the MPSC Staff and Central Rivers
16 in the October 7, 2014 Notice of Company/Staff Agreement Regarding Partial Disposition
17 of Small Company Rate Increase Request, as adjusted by Public Counsel's calculations for
18 non-STEP CIAC depreciation offset as presented in my Rebuttal Testimony, and rate case
19 expense as discussed above, is reasonable. Below is a table showing a summary of Public
20 Counsel's revenue requirement recommendation.

Surrebuttal/Rebuttal of Supplemental Direct Testimony of William Addo
Case No. SR-2014-0247

MPSC Staff's October 7, 2014 Revenue Requirement	\$34,461
<u>Add:</u> OPC's Recommended Rate Case Expense	\$ 3,279
<u>Less:</u> Non-STEP CIAC Depreciation Offset:	
MPSC Staff's Non-STEP CIAC Dep. Offset Recommendation \$32,187	
Minus OPC's Non-STEP CIAC Dep. Offset Recommendation \$34,171	\$(1,984)
OPC's Recommended Revenue Requirement	\$35,756

Public Counsel also recommends that the adjustment to the Company's capital structure and return equity calculation as presented in my Rebuttal Testimony should be effected. Finally, Public Counsel recommends that the Commission order Central Rivers to refund all customer deposits and over-collected STEP Connection Charges, with accrued interest, to customers in accordance with Public Counsel's recommendation as stated in my Rebuttal Testimony, and in this testimony.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL/ REBUTTAL OF
SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes, it does.

Please Note:

- Installation costs do not include, nor is Central Rivers Wastewater Utility, Inc. responsible for final grade and seed which may be needed if ground settlement occurs.
- Final invoice may vary due to unknown variables at time of installation (rock, high water table, excavation depth greater than 8 feet, etc.). Tank installation must be within 40 feet of house. Service connection must be within 200 feet of tank. If the distance is greater there will be an additional charge for the pipe.
- Installation cost includes running electrical wire up to house and mounting service panel, but does not include any in-home wiring.
- Homeowners to provide dedicated 30 amp service to control panel outside of home. Panel will be installed near sewer outlet location.
- Installation costs do not include repairs to system if damaged by anyone other than Central Rivers Wastewater Utility, Inc.
- Sewer outlet shall extend a minimum of 6" past the footing and be clearly marked.
- Verification letter of sewer hook-up will be issued to Clay County Planning & Zoning once system has been installed and a start up performed by Central Rivers Wastewater Utility, Inc..
- Verification of where sewer should be stubbed out of house must be confirmed by Central Rivers Wastewater Utility, Inc. before footings are poured to be able to have a bathroom in the basement and to ensure the elevations required for the tank.
- Sewer service connection fee must be paid in full along with deposit before installation will be scheduled.
- Developer pays a monthly fee for each lot to maintain line work and operate sewer treatment plant. This monthly fee is passed on to new lot owner until hook up to central sewer system, and then monthly sewer fee applies.

This Agreement between the customer_____

and Central Rivers Wastewater Utility, Inc. is made this date_____.

Page 2 of 2