

**FILED<sup>3</sup>**

**FEB 27 2014**

**Missouri Public  
Service Commission**

*Exhibit No.:*

*Issues:* *Miscellaneous Expense,  
Equipment Rental*

*Witness:* *Erin M. Carle*

*Sponsoring Party:* *MoPSC Staff*

*Type of Exhibit:* *Surrebuttal Testimony*

*Case No.:* *WR-2013-0461*

*Date Testimony Prepared:* *January 31, 2014*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**ERIN M. CARLE**

**LAKE REGION WATER & SEWER COMPANY**

**CASE NO. WR-2013-0461**

Staff Exhibit No. 9

Date 2/18/14 Reporter NSG

File No. WR-2013-0461

*Jefferson City, Missouri  
January, 2014*

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**OF**  
**ERIN M. CARLE**  
**LAKE REGION WATER & SEWER COMPANY**  
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1 and corresponding workpapers to the parties in this case that reflect these corrections, among  
2 other changes.

3 **EQUIPMENT RENTAL EXPENSE**

4 Q. Please summarize Staff's position on this issue.

5 A. Staff has concerns about the expense level that Lake Region is incurring to rent  
6 multiple pieces of equipment from Camden County Water Supply District No. 4 ("Camden  
7 County" or "District"). Currently Lake Region pays Camden County \$1,575 a month for  
8 unlimited access to the equipment. Neither Lake Region nor Camden County maintain any type  
9 of usage logs to show how often the equipment is used. Staff has performed an analysis to  
10 annualize the monthly rental expense as well as an analysis to calculate the expense level that  
11 would result if Lake Region were to own the equipment rather than rent it. Staff was not able to  
12 perform an analysis to determine an appropriate expense level associated with Lake Region  
13 renting the equipment from a third party vendor due to the lack of usage logs documenting Lake  
14 Region's actual level of use of the equipment. After a thorough analysis, Staff has determined  
15 that the best method to utilize to reflect the cost of utilizing this equipment in this case is to  
16 assume that Lake Region shares the cost of the equipment equally with Camden County and  
17 Ozark Shores.

18 Q. Has Staff received updated information from the Company concerning  
19 Staff's calculation of equipment rental expense following the filing of John R. Summers'  
20 rebuttal testimony?

21 A. Yes. Staff has received a copy of the insurance premiums that are paid for  
22 each piece of equipment. These costs have been incorporated into Staff's equipment rental  
23 expense adjustment.

1 Q. Has Staff changed the level of recommended equipment rental expense in any  
2 other manner from what was filed in the Staff Report?

3 A. Yes. Staff has since included the cost of titling and sales tax, license fees,  
4 insurance premiums, the discounted amounts the municipal received when Camden County  
5 purchased the equipment, and property tax expense for the equipment in its calculation of the  
6 adjustment. Staff has also updated the rate of return value used within the adjustment to the  
7 current rate being recommended in this case of 8.11%.

8 Q. Did Staff include equipment maintenance costs in its equipment rental analysis?

9 A. No. Lake Region already pays for a portion of the equipment maintenance costs  
10 for the pieces of equipment that are included in this rental agreement. Staff made no adjustment  
11 to remove these costs from the test year in its cost of service, thus it is included in Staff's case.

12 Q. In Mr. Summers' rebuttal testimony (page 19, line 16), he states that, "Staff's  
13 position assumes the Company purchasing certain equipment even before the current rental  
14 relationship began...". For its equipment rental analysis, where did Staff obtain the list of  
15 equipment the Company is currently using?

16 A. Staff is using the list of equipment that is actually included in the rental agreement  
17 between the Company and Camden County.

18 Q. Why does Staff believe this was an appropriate list to use?

19 A. Staff asserts it was more accurate to use a list of the actual equipment that the  
20 Company has access to in calculating its adjustment in order to keep the recommended expense  
21 level as close to a reflection of actual Lake Region operations as possible.

22 Q. Mr. Summers states in his rebuttal testimony (page 19, line 18) that the Staff is  
23 "assuming the District would agree to sell and then rent equipment it already owns." In its

1 adjustment methodology, is Staff effectively claiming that Camden County intends to sell the  
2 equipment to Lake Region and then pay to rent it back?

3 A. No, Staff is simply trying to show the imprudence of the current rental agreement  
4 compared to the scenario if Lake Region were to share the cost of the equipment between  
5 Camden County, Ozark Shores, and themselves.

6 Q. Why is Staff recommending an adjustment to Lake Regions' equipment rental  
7 expense?

8 A. Staff is concerned with the expense level the Company is paying year after year  
9 for equipment that it will never own. From the inception of the rental agreement on January 1,  
10 2006, to present (January 2014), the Company has spent over \$144,000 to rent the equipment.  
11 That is almost half of what it would have cost to purchase the equipment.

12 Q. Within its calculation of the adjustment, has Staff taken into consideration the  
13 impact to rate base if the Company had ownership of the equipment included in the rental  
14 agreement?

15 A. Yes, Staff has included amounts for the depreciation expense, depreciation  
16 reserve and the return on the assets in the calculation of the adjustment.

17 Q. Has the Company supplied Staff with any data of how often it uses the equipment  
18 in question?

19 A. No. Staff has requested, on more than one occasion, any type of usage logs to  
20 support the need of the equipment on Lake Region's part. The Company has continually  
21 responded that it does not maintain usage records, nor does Camden County.

22 Q. Was Staff able to perform any type of analysis to support the Company's rental  
23 cost for the equipment?



Surrebuttal Testimony of  
Erin M. Carle

1           A.     No. Staff was not able to determine how frequently the equipment is used by  
2 Lake Region. Therefore, Staff was not able to compare the cost of the rental agreement to the  
3 cost of renting the equipment from another party other than Camden County.

4           Q.     Does Staff agree that the third party rental rates as stated on page 19, line 1 in  
5 Mr. Summers' testimony appear to be reasonable?

6           A.     Yes. Staff had received similar estimates during its initial analysis of this expense  
7 during its rate case audit.

8           Q.     Does Staff believe these rental rates are enough proof to support inclusion in rates  
9 of the current expense associated with the Company's rental agreement with Camden County?

10          A.     No. Without knowing how often the Company would actually be renting the  
11 equipment, the cited third party rental rates are practically useless. For example, the Company  
12 could go months without needing a piece of heavy equipment to perform a repair. If that is the  
13 case, then clearly utilizing a third party rental agreement to obtain use of the equipment would be  
14 the more prudent route to take.

15          Q.     When calculating the updated values to Staff's analysis, did Staff take the lowest  
16 values available or higher values?

17          A.     To be conservative in quantifying its adjustment, Staff decided to take the highest  
18 values when a range of prices were supplied. An example of this would be the fees for licensing  
19 the vehicles. Depending on the assumed size of the vehicle and the type of license plate (for  
20 example, one-year, three-year or permanent) that was purchased, the price could vary quite a bit.  
21 Staff determined that using the highest value for this item would be the more appropriate cost in  
22 calculating the adjustment to ensure that the cost of all license fees would be captured.

Surrebuttal Testimony of  
Erin M. Carle

1           Q.     Does Staff's proposed approach to calculation of allowed equipment rental  
2 expense in this case result in a reduction to the Company's incurred test year expense?

3           A.     Yes. After including the added costs mentioned above, there is still a reduction to  
4 expense on an annual basis of \$3,120 associated with Staff's recommended approach.

5           Q.     Does this conclude your surrebuttal testimony?

6           A.     Yes it does.



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

In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a )  
General Rate Increase in Water & Sewer )  
Service )

Case No. WR-2013-0461

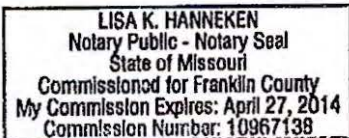
**AFFIDAVIT OF ERIN M. CARLE**

STATE OF MISSOURI                    )  
  )  
COUNTY OF ST LOUIS                )       ss.

Erin M. Carle, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Erin M. Carle  
Erin M. Carle

Subscribed and sworn to before me this 30<sup>TH</sup> day of January, 2014.



Lisa K Hanneken  
Notary Public