

Exhibit No.:	
Issues:	Revenue Requirement and Rate Base
Witness:	Michael F. Tilley
Exhibit Type:	Direct Testimony
Sponsoring Party:	Terre Du Lac Utilities Company
Case Nos.:	WR-2017-0110, et al.
Date:	June 9, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2017-0110, et al.

DIRECT TESTIMONY

OF

MICHAEL F. TILLEY

ON BEHALF OF

TERRE DU LAC UTILITIES COMPANY

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

<u>In the Matter of the Request for Increase in</u>)	
<u>Annual Water and Sewer System Operating</u>)	File No. WR-2017-0110, et al.
<u>Revenues for Terre Du Lac Utilities</u>)	

AFFIDAVIT OF MIKE F. TILLEY

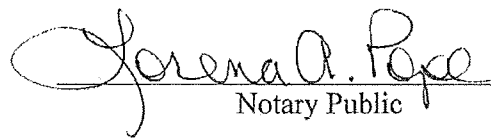
Mike F. Tilley, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Mike F. Tilley"; that said testimony was prepared by him and/or under his direction and supervision; that if inquires were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.



Mike F. Tilley

State of Missouri)
County of St. Francois)

Subscribed and sworn to before me this 9th day of June, 2017.



Notary Public

My Commission Expires: 4/10/2019

LORENA A. POPE Notary Public - Notary Seal State of Missouri Commissioned for St. Francois County My Commission Expires: April 10, 2019 Commission Number: 15480004
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**DIRECT TESTIMONY
OF
MICHAEL F. TILLEY
ON BEHALF OF
TERRE DU LAC UTILITIES COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. WR-2017-0110, et al.**

PERSONAL BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael F. Tilley. My Business Address is 1628 St. Francois Rd., Bonne Terre, Missouri, 63628.

Q. WHAT IS YOUR POSITION WITH TERRE DU LAC UTILITIES (the “Company”)?

A. I hold the office of President.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. After graduating high school, I enlisted in the United States NAVY. I served aboard the U.S.S. Samuel B. Roberts for five years. I obtained the level of second class petty officer. My job consisted of various mechanical duties, including ensuring that the ship had adequate and safe potable water. After that, I worked my way through various managerial positions of a John Deere equipment dealership, a wholesale water supply warehouse, and, finally, before moving from Maine to Missouri to serve the customer base of Terre Du Lac Utilities, I served the citizens of the City of Saco, Maine as the public works garage and facilities manager.

Q. WHEN DID YOU FIRST BECOME ASSOCIATED WITH THE COMPANY?

19 A. Throughout my life, my parents worked for the Company. In 2001, after working for the
20 company for about 30 years, my parents purchased the Company. My mother suddenly
21 passed away in 2002. My brother and I made the decision at that time to assume the debt
22 and operation of the Company. At that point, I moved my family from Maine to Missouri
23 and began the journey that has led me to today some fifteen years later.

24 **THE COMPANY**

25 **Q. PLEASE PROVIDE A GENERAL OVERVIEW OF THE COMPANY.**

26 A. The Company was incorporated on September 19, 1967. The Company was developed to
27 provide water and sewer services to the Terre Du Lac community. The Terre Du Lac
28 community consists of 5200 acres of privately owned property. The community is
29 governed by an association and a board of directors that are elected by the property
30 owners. The community sets in the gentle rolling hills of the Ozarks and boasts of its 16
31 lakes and 27 holes of golf. The Terre Du Lac community is approximately 33 percent
32 developed.

33 **Q. IS THE COMPANY CURRENTLY CERTIFICATED BY THE MISSOURI**
34 **PUBLIC SERVICE COMMISSION (the "Commission")?**

35 A. Yes. The Commission first authorized the Company to provide both regulated water and
36 sewer services in December of 1973.

37 **Q. HOW MANY CUSTOMERS ARE SERVED BY THE COMPANY?**

38 A. The Company currently provides water and sewer service to approximately 1,302
39 customers within its certificated service area.

40 **Q. IS THE COMPANY CURRENT ON ITS COMMISSION ANNUAL REPORTS**
41 **AND ASSESSMENT FEES?**

42 A. Yes.

43 **Q. WHEN WERE THE COMPANY'S TARIFFS LAST REVIEWED AND**
44 **REVISED?**

45 A. The Company came in for a rate case using the small company rate case procedure in
46 2014. That is the last time the Company's tariffed charges were reviewed by the
47 Commission and revised.

48 **Q. PLEASE BRIEFLY DESCRIBE THE COMPANY'S WATER SYSTEM.**

49 A. The water system is supported by three deep wells and two water storage towers. Well
50 two produces one hundred gallons per minute and is used only in emergencies due to
51 high levels of radionuclides. Well three produces two hundred eighty gallons per minute,
52 and well four (one of the reasons for the rate increase request) produces three hundred
53 gallons per minute. The water distribution system consists of a 50,000 gallon elevated
54 ball water tower and a 100,000 gallon elevated ball water tower. We have approximately
55 fifty miles of water mains, consisting of four, six, and eight inch PVC piping.

56 **Q. PLEASE BRIEFLY DESCRIBE THE SEWER SYSTEM.**

57 A. The Company currently operates three wastewater treatment facilities: one single cell
58 lagoon; a three cell lagoon with aerators; and an extended aeration oxidation ditch. There
59 are approximately 25 miles of two, four, and six-inch force main with customers
60 connected through a pump unit, consisting of a holding tank with an electric pump. There
61 are approximately 20 miles of eight-inch gravity flow sewer lines. The gravity sewer
62 system contains three lift stations that are maintained by the Company. The pressure
63 sewer system consists of the collection piping and customer owned pressure pumps that
64 the Company maintains. The customers pay for parts, but not labor.

REVENUE REQUIREMENT INCREASES AND FINANCING

Q. HOW DID THIS CASE BEGIN?

A. Using the small company rate case process, I sent a letter to the Commission on September 29, 2016, requesting an increase of \$134,000 in the Company's annual water system operating revenues and an increase of \$8,700 in the Company's annual sewer collection system operating revenues. The Company was not represented by legal counsel at that time.

Q. WHAT ARE THE REASONS FOR THE REQUESTED REVENUE INCREASES?

A. The specific reasons for the requested increases in the Company's annual revenues include the required installation of a new well, well improvements, and lift station improvements.

Q. PLEASE DESCRIBE THESE ACTIONS TAKEN BY THE COMPANY AND EXPLAIN WHY THEY WERE NECESSARY IN ORDER FOR THE COMPANY TO CONTINUE PROVIDING SAFE AND ADEQUATE SERVICE.

A. The revenue increase requests came about as a result of the drilling of a new well and the replacement of all three failing sewer lift stations. The drilling of a new well was needed to increase the water production for the community and hopefully mitigate the radionuclide violations cited by the Missouri Department of Natural Resources ("DNR"). The community was plagued by continual violations due to high levels of radionuclides from well 2. The decision was made, after careful consideration, to use the drilling of a new well to combat both production and radionuclide issues. A test well was drilled and the water tested to ensure that the water would be within the acceptable limit for radionuclides. The water test results came back and the radionuclide levels were well

below the maximum contaminant levels set by the DNR. The well was then developed into a full production well for the community. The overall cost of the well project was \$420,499.00.

Q. PLEASE CONTINUE.

A. The Company was continually plagued by operational breakdowns of the three sewer lift stations. The lift stations (prior to replacement) were installed in 1979. The DNR violations continued and led to eventual enforcement action against the Company from DNR and the Attorney General's Office ("AG"), despite our best efforts to keep the stations in operation. The repair cost continued to mount, and the decision was made to completely replace the stations with new units as opposed to continual repairing. The total cost of the lift station replacement was \$193,031.00.

Q. WAS THE COMPANY ABLE TO PAY FOR THESE NECESSARY IMPROVEMENTS WITHOUT BORROWING FUNDS?

A. No, the Company borrowed money to pay for these necessary improvements. The Company has been making interest only payments of \$3,831.00 per month. The interest only payment has been in place since September of 2016.

Q. PLEASE PROVIDE A GENERAL OVERVIEW OF HOW THE FINANCING WAS OBTAINED.

A. I worked tirelessly with First State Community Bank for over ten years about getting the bank comfortable and understanding the process of rate structure and the Commission. Eventually, the Company was able to secure financing with a five percent (5%) interest rate for a term of 123 months. The financing package, however, required the pledging of

all Company assets, including company stock, and a personal guarantee of myself and my brother.

Q. HOW DID THE COMPANY ARRIVE AT THE REQUIRED REVENUE REQUIREMENT INCREASES?

A. The Company's accountant reviewed the Company's expenses and revenue. It is my understanding that she determined that the requested increases were necessary in order for the Company to service its debt and continue providing safe and adequate service at just and reasonable rates.

Q. IF THE COMPANY'S REQUEST IS GRANTED, HOW MUCH WILL WATER AND SEWER CHARGES INCREASE?

A. The Company is requesting an increase of \$134,000 in the Company's annual water system operating revenues, an increase of approximately 51% in annual water system operating revenues, and an increase of \$8,700 in the Company's annual sewer collection system operating revenues, an increase of approximately 4 percent. If these requests are granted, charges for water service will increase by approximately \$8.93 per month, or 47 percent, and charges for sewer service will increase by approximately \$0.58 per month, or 3 percent.

ISSUES IN DISPUTE

Q. ARE ALL COMPONENTS OF THE WATER AND SEWER RATE INCREASE REQUESTS IN DISPUTE?

A. No. The Staff of the Commission ("Staff") conducted an investigation and audit of the Company and provided its findings to the Company and the Office of the Public Counsel ("OPC"). After that, the Company, Staff, and OPC discussed resolution of the case and

entered into a Notice of Partial Disposition. This agreement has been filed with the Commission.

Q. WHAT ISSUES REMAIN IN DISPUTE?

A. The parties were not able to reach agreement on the total water and sewer revenue requirement increases, the net rate base amount, depreciation rates, accounting treatment of certain capital projects, electric costs, employee benefits, and the Company's capital structure.

Q. PLEASE DESCRIBE THE COMPANY'S POSITION REGARDING THE TOTAL WATER AND SEWER REVENUE REQUIREMENT INCREASES.

A. As described in more detail above, the requested increases are the result of the drilling of a new well and the replacement of all three failing sewer lift stations. These improvements were necessary in order for the Company to continue providing safe and adequate service, and the resulting requested revenue requirement increases are necessary in order for the Company to continue providing safe and adequate service at just and reasonable rates.

Q. PLEASE DESCRIBE THE COMPANY'S POSITION REGARDING THE NET RATE BASE AMOUNT.

A. It is my understanding that this issue pertains to the water system only and is tied to the issue discussed below regarding the proper accounting treatment of certain capital projects. I believe the parties are in agreement regarding all other rate base components.

Q. PLEASE DESCRIBE THE COMPANY'S POSITION REGARDING DEPRECIATION RATES.

155 A. It is my understanding that this issue also pertains to the water system and is tied to the
156 issue discussed below regarding the proper accounting treatment of certain capital
157 projects. The Company's requested operating revenue increases could be construed as a
158 request for an "economic" depreciation rate for the capital projects that are driving the
159 cases, since the requested increases are designed to cover principal and interest payments
160 on the loan for the projects. I believe the parties are in agreement on all other
161 depreciation rates.

162 **Q. PLEASE DESCRIBE THE COMPANY'S POSITION REGARDING THE**
163 **ACCOUNTING TREATMENT OF THE CAPITAL PROJECTS THAT ARE**
164 **DRIVING THE RATE INCREASE REQUESTS.**

165 A. Certain costs related to the construction of the new well (Well No. 4) and the standpipe
166 project should be pulled out of plant-in-service and amortized over a period of five years,
167 with carrying costs equal to the weighted cost of capital being applied to the unamortized
168 balance. Alternatively, these costs should be set aside in a special plant-in-service
169 account with a higher depreciation rate. It would be unreasonable to include these costs in
170 the Wells and Springs account and Distribution Reservoirs & Standpipe accounts, due to
171 the low depreciation rates that are applied to those accounts. The Wells and Springs
172 account has a 2% depreciation rate, and the Distribution Reservoirs & Standpipes account
173 has a 2.5% rate. As described above, the test well was required because of the high level
174 of radionuclides. These costs would not be incurred in a well project under normal
175 circumstances. The test well has no lifespan, unlike the resulting permanent well.

176 **Q. PLEASE DESCRIBE THE COMPANY'S POSITION REGARDING ELECTRIC**
177 **COSTS.**

178 A. The Company is seeking recovery of only the electric costs incurred to provide service to
179 its customers. It would be unjust and unreasonable to penalize the company for high
180 electric costs for the Company's wells that are used and useful in the provision of its
181 regulated services. Denying recovery of incurred electric costs due to alleged "excessive
182 water loss" in the system is particularly unjust when applied to the bill for Well No. 4
183 (the new well), as the bill for this well is a contracted amount that includes the cost of
184 extending service to the well site (non-pumping related costs).

185 **Q. PLEASE DESCRIBE THE COMPANY'S POSITION REGARDING THE**
186 **DISPUTED EMPLOYEE BENEFITS.**

187 A. The Company is seeking recovery of only reasonable and prudently incurred employee
188 benefit costs. The Company is able to pay part of its employees' deductibles under the
189 plan it provides and still have a less expensive overall cost.

190 **Q. PLEASE DESCRIBE THE COMPANY'S POSITION REGARDING ITS**
191 **REQUESTED CAPITAL STRUCTURE.**

192 A. It is my understanding that this issue is directly tied to the issue discussed above
193 regarding the proper accounting treatment of certain capital projects. The appropriate
194 capital structure would change if the Company's position on amortization of certain
195 capital costs is applied. It is my understanding that the parties are otherwise in agreement
196 regarding capital structure. The Company is seeking use of its actual capital structure and
197 is not proposing a hypothetical capital structure.

198 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

199 A. Yes, it does.