

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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State Corporation Commission
of Kansas

In the Matter of the Application of)
Suburban Water, Inc., d/b/a Suburban)
Water Company, for Approval of the)
Commission to Make Certain Changes in its)
Rates for Water Service, for Approval of an)
Amendment to a Contract for Sale of Water)
with Board of Public Utilities, an)
Administrative Agency of the Unified)
Government of Wyandotte County/Kansas)
City, Kansas ("BPU") and for Approval of a)
Purchase Water Adjustment ("PWA") Tariff)

Docket No. 12-SUBW-359-RTS

DIRECT TESTIMONY OF

STACEY HARDEN

ON BEHALF OF

CITIZENS' UTILITY RATEPAYER BOARD

MARCH 15, 2012

VOLUME 1 of 2

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* Provided on attached CD

1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Stacey Harden and my business address is 1500 SW Arrowhead Road,
4 Topeka, KS 66604-4027.

5

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

7 A. I am employed by the Citizens' Utility Ratepayer Board ("CURB") as a Regulatory
8 Analyst.

9

10 **Q. Please describe your educational background?**

11 A. I received a Bachelor of Business Administration degree from Baker University in
12 2001. I received a Master of Business Administration degree from Baker University
13 in 2004.

14

15 **Q. Please summarize your professional experience.**

16 A. I joined the Citizens' Utility Ratepayer Board as a Regulatory Analyst in February
17 2008. Prior to joining CURB, I was the manager of a rural water district in Shawnee
18 County, Kansas for five years. I am currently an adjunct faculty member at Friends
19 University, where I am an undergraduate instructor in business and accounting
20 courses such as Data Development and Analysis, Financial Decision Making,
21 Fundamental Financial Accounting Concepts, Financial Reporting of Assets, Debt
22 & Equity, and Managerial Statistics.

23

1 **Q. Have you previously testified before the Commission?**

2 A. Yes. I previously offered testimony in KCC Docket Nos. 08-WSEE-1041-RTS, 10-
3 KGSG-421-TAR, 10-EPDE-497-TAR, 10-BHCG-639-TAR, 10-SUBW-602-TAR, 10-
4 WSEE-775-TAR, 10-KCPE-795-TAR, 10-KCPE-415-RTS, and 11-SUBW-448-RTS.

5
6 **II. PURPOSE OF TESTIMONY**

7 **Q. What is the purpose of your testimony?**

8 A. On November 16, 2011, Suburban Water, Inc. d/b/a Suburban Water Company
9 (“Suburban” or “company”) filed an application with the Kansas Corporation
10 Commission (“KCC” or “Commission”) requesting permission to:

- 11 • increase the monthly customer charge to \$21.00,
- 12 • remove the 1,000 gallons of water currently included in the monthly
13 customer charge,
- 14 • increase rates \$1.47 per 1,000 gallons consumed by its retail customers in
15 order to collect an additional \$296,280 in rates, and
- 16 • implement a Purchased Water Adjustment beginning in 2013.

17

18 In my testimony, I will evaluate Suburban’s proposed rate increase and
19 provide recommendations for consideration by the Commission.

20

21

22

23

1 **III. SUMMARY OF CONCLUSIONS**

2 **Q. What is your recommendation to the Commission regarding Suburban's application**
3 **to raise rates?**

4 A. I recommend the Commission:

- 5 • approve the adjustments to be set forth in my testimony;
- 6 • deny Suburban's request for a rate increase because Suburban's adjusted
7 revenues exceed its adjusted test-year expenses;
- 8 • order Suburban to discontinue paying for cable television services at the home of
9 its employee, Travis Miles;
- 10 • order Suburban to discontinue paying for XM Satellite Radio Services;
- 11 • order Suburban to file a tariff to establish a schedule of fees to be charged to
12 customers paying with credit cards;
- 13 • deny Suburban's request for a purchased water adjustment;
- 14 • order Suburban to cease paying for employees' personal expenses through
15 the company;
- 16 • order Suburban to memorialize all employee loans in formal loan agreements,
17 with appropriate interest rates and payment schedules. The Commission should
18 further require that these schedules be filed as part of Suburban's next abbreviated
19 filing; and
- 20 • require that all rent monies owed to Ray Breuer be applied to his note receivable
21 until his debt to the company has been paid back in its entirety.

22

23

1 **IV. BACKGROUND**

2 **Q. Please summarize why Suburban is requesting a rate increase?**

3 A. On March 19, 2010, Suburban filed an application (KCC Docket No. 10-
4 SUBW-602-TAR, “602 Docket”) with the Commission requesting permission to
5 implement a Purchased Water Adjustment (“PWA”) to account for changes in the
6 wholesale rates charged to Suburban by the Kansas City, Kansas Board of Public
7 Utilities (“BPU”). Suburban sought this adjustment due to the increased cost of
8 wholesale water that it purchases from the BPU. CURB initially supported the
9 approval of Suburban’s PWA because it was not economically feasible for
10 Suburban, a company with 1,500 customers, to apply for a general rate
11 increase each time that it experiences an increased rate in purchased water.¹

12 On November 3, 2010, the Commission denied Suburban’s application for a
13 PWA, concluding that the PWA agreed to by Suburban, Staff and CURB was not
14 supported by substantial evidence in the record, did not contain evidence to show
15 rates will be just and reasonable for Suburban Water's customers, and was not in
16 the public interest.² The Commission ordered that Suburban file a series of rate
17 cases to include these increased purchased water expenses in rates. The
18 Commission instructed the company to file an abbreviated rate case in accordance
19 with K.A.R. 82-1-231b(2)(B) that would “lessen the financial burden through rate
20 case expense for this small utility and its customers.”³

¹ KCC Docket No. 10-SUBW-602-TAR, July 30, 2010, Direct Testimony of Stacey Harden, at page 18.

² KCC Docket No. 10-SUBW-602-TAR, November 3, 2010, *Order On Application*.

³ *Id.*

1 In Docket No. 11-SUBW-448-TAR (“448 Docket”), Suburban requested
2 Commission approval for a rate increase of \$44,913 in order to recover the
3 increased cost of purchased water and rate case expenses incurred during the
4 proceeding. The Commission issued an order approving the rate increase of \$44,913
5 on June 3, 2011, but made the new rates interim and subject to true-up or refund.

6 Suburban’s current application is the second in a set of three planned rate
7 cases. As anticipated, Suburban’s current application is a full rate case, addressing
8 more issues than simply the increased cost of purchased water and rate case
9 expenses. Suburban’s proposed rate increase would allow it to recover an additional
10 \$296,280 in rates.

11
12 **V. ANALYSIS OF EXPENSES**

13 **Q. Did you perform an analysis of Suburban’s rate increase request?**

14 A. Yes, I did.

15
16 **Q. Did you use the traditional rate base approach to calculate Suburban’s revenue
17 requirement?**

18 A. No. I used the cash-flow/operating margin method that was first approved in
19 Suburban’s last full rate case, Docket No. 07-SUBW-1352-RTS (“1352 Docket”).
20
21
22

1 **Q. Please explain why you used the cash flow/operating margin method to determine**
2 **Suburban's revenue requirement.**

3 A. Suburban requested and the Commission approved a waiver of the filing
4 requirements contained in K.A.R. 82-1-231 in order to allow Suburban to support its
5 proposed rates by using a cash-flow/margin approach as an alternative to the rate
6 base/rate of return approach in its rate case application.⁴ Suburban Water's application
7 and its cash-flow/margin calculation are still based upon a test year as required by the
8 Commission's rate application rules and contain the typical pro forma adjustments to the
9 utility's test-year operating expenses and revenues.

10
11 **Q. What is the operating margin requested by Suburban?**

12 A. Suburban is requesting an operating margin of 6%. This is the same operating
13 margin that was granted in the 1352 Docket.

14
15 **Q. Do you agree that a 6% operating margin is reasonable for Suburban?**

16 A. Yes, I do.

17
18 **Q. Do you have any concerns regarding the use of the cash-flow/operating-margin**
19 **method of calculating Suburban's revenue requirement?**

20 A. Yes. The cash-flow/operating-margin method utilized in this proceeding allows
21 Suburban to receive a 6% profit margin on all its operating expenses. In my

⁴ KCC Docket 12-SUBW-359-RTS, *Order Granting Motion for Waiver*, January 4, 2012.

1 opinion, allowing a company to gross up all of its operating expenses removes any
2 incentive for the company to act frugally because as its ratepayer-funded operating
3 expenses increase, so does its total profit margin. To put it another way, when
4 Suburban incurs any operating expense, no matter the amount or necessity –
5 including salaries and wages, taxes, rent, supplies, etc – it is allowed to earn 6% on
6 top of the expense. This method puts ratepayers at risk because it creates an
7 incentive for the utility to overspend.

8
9 **Q. Do you believe you found instances of overspending in Suburban's application?**

10 A. Yes. I have identified numerous instances of inflated expenses included in
11 Suburban's application for a rate increase. In each of the instances, I removed
12 expenses from Suburban's rate increase request that are not related to providing
13 safe and reliable water service to Suburban's customers. I will address each of
14 these adjustments later in my testimony.

15
16 **Q. Despite your concerns, do you support Suburban's use of the cash-flow/operating
17 margin?**

18 A. Yes. However, I recommend the Commission carefully examine Suburban's test-year
19 expenses in order to determine the appropriate level of annual expenses and remove any
20 inappropriate expenses, as set forth in my testimony.

21

22

23

1 **Q. Did you make adjustments to Suburban's test year expenses?**

2 A. Yes. The following table lists my adjustments and a brief explanation based upon
3 the cash/flow margin approach:

CURB Adjustment No.	Amount of Adjustment	Subject of Adjustment
1	\$ (5,413)	Computer Supplies
2	\$ 1,765	Purchased Water cost
3	\$ (34,985)	Outside Services
4	\$ (113,779)	Salaries and Wages
5	\$ (4,972)	Payroll Taxes
6	\$ (4,370)	Admin & General expenses
7	\$ (669)	Material and Supplies
8	\$ (12,498)	Transportation Expense
9	\$ (214)	Insurances
10	\$ (4,974)	Regulatory Expenses (CURB)
11	\$ (5,809)	KCC Regulatory Expenses
12	\$ (6,262)	Rate Case Expense
13	\$ (6,343)	Misc. Corporate Fees
14	\$ (23,483)	Rent Expense
15	\$ (9,411)	Interest Expense
16	\$ 7,620	Meter reading expense
17	\$ (3,515)	Tax Expense

4

5 **Q. Please explain CURB adjustment 1.**

6 A. CURB adjustment 1 decreases Suburban's computer supplies expense by \$5,413.00.
7 My adjustment is presented in Schedule SMH-1.

8

9 **Q. Please describe the details of your adjustment.**

10 A. Suburban's response to CURB Data Request No. 13 identified several vendors as
11 providing "one-time" services. Suburban did not identify whether charges for
12 Microsoft Tech Support (one-time help fee), Newegg.com (Windows upgrades,
13 custom IP security camera), and Pro-Ware (upgrade for fixed-asset accounting

1 software) are one-time or recurring charges. In my opinion, these are one-time
2 charges that are not likely to reoccur on an annual basis. According to the
3 transaction detail provided in Suburban's response, these one-time charges total
4 \$5,129.71. Because these charges are non-recurring, I have removed them from the
5 calculation of Suburban's rates.

6 Next, I removed \$283.54 in charges that, in my opinion, are unrelated to
7 Suburban's water district. These charges include annual fees paid to HCS for
8 identity theft protection, purchases from the Apple Store, and unidentified charges
9 to Casey's General Store.

10
11 **Q. Please explain CURB adjustment 2.**

12 A. CURB adjustment 2 increases the cost of purchased water by \$1,794.00.⁵ Using
13 Suburban's actual invoices from the BPU, I was able to determine that in 2011,
14 Suburban purchased 89,224,432 gallons of water from the BPU. The rate paid by
15 Suburban for water purchased from the BPU in 2012 is \$2.19 per 1,000 gallons, plus
16 a monthly customer charge of \$160.00. In addition to the purchased water and
17 monthly customer charge, Suburban is charged a contribution to the general fund
18 fee that is calculated as 10.9% of the total invoice. Based on the rates charged by
19 the BPU, I determined that Suburban's actual cost of water in 2012 will be
20 \$218,829.55, which is \$1,794 more than the purchased water costs included in
21 Suburban's rate application.

⁵ ScheduleSMH-2.

1 **Q. What is the contribution to the general fund that is charged by the BPU?**

2 A. The contribution to the general fund is what used to be referred to as a Payment in
3 Lieu of Taxes, or PILOT fee.

4

5 **Q. Is the contribution to the general fund charged by the BPU functionally the same as
6 the PILOT fee?**

7 A. Yes. The contribution to the general fund simply replaced the PILOT fee that was
8 previously charged by the BPU.

9

10 **Q. Why did the BPU replace the PILOT fee with the contribution to the general fund?**

11 A. It appears that the name of the PILOT fee was changed to a contribution to the
12 general fund in response to Commission concerns that the BPU is not a taxing
13 authority and therefore does not have the statutory authority to impose a tax.

14

15 **Q. Should Suburban be allowed to include costs associated with the contribution to the
16 general fund in its revenue requirement?**

17 A. Yes. The contribution to the general fund charged by the BPU is not a tax
18 assessment, but rather is a fee associated with the cost of service. This fee can be
19 compared to companies that include transportation or fuel charges on invoices. The
20 contribution to the general fund charged by BPU is simply a fee included in the cost
21 of water purchased from the BPU. Suburban cannot opt out of this charge nor can it
22 avoid paying the fee. It is my recommendation that Suburban be allowed to recover
23 these costs from ratepayers.

1 **Q. Please explain CURB adjustment 3.**

2 A. CURB adjustment 3 removes \$34,985 in outside services expense from rates.
3 Suburban's claim for outside services includes expenses associated with its
4 accountant, attorneys, and other contractors. As detailed in Schedule SMH-3, I
5 decreased Suburban's expenses for other contractor services by \$31,420 and
6 decreased Suburban's legal expenses by \$3,565.

7
8 **Q. Please explain your \$31,420 adjustment to other contractual services.**

9 A. First, I reduced other contractual service by \$960 for payments to contractor
10 Bob Breuer. In its application, Suburban reclassified \$18,000 of operating expense
11 for contractor Bob Breuer, moving it from outside services to salary and wage
12 expense. However, Suburban's 2010 test-year data includes contractor payments of
13 \$18,960 to Bob Breuer. My adjustment of \$960, in addition to Suburban's
14 adjustment of \$18,000, removes the entirety of the 2010 test-year operating expenses
15 paid to contractor Bob Breuer from the calculation of rates.

16 Second, I removed \$7,620 of expense associated with meter reading services
17 paid to Jerry Otting. It is my opinion that this expense should be recorded
18 independently of other outside contractual services. I have reclassified this expense
19 as meter reading expenses.

20 I removed \$1,000 of customer account expense. This amount was paid to
21 Suburban water customer William Sirridge on December 29, 2010. In its response to
22 Staff Data Request No. 119, Suburban indicated that it paid Mr. Sirridge \$1,000 to
23 compensate him for his insurance deductible. In its response to CURB Data Request

1 No. 3, Suburban claimed that a contractor, Nowak Construction, flooded Mr.
2 Sirridge's basement. However, Nowak Construction refused to reimburse Mr.
3 Sirridge for the damage done to his basement. Suburban paid Mr. Sirridge's
4 insurance deductible. This is a non-recurring expense that should not be included in
5 Suburban's rates.

6 I removed \$900.45 for expenses associated with Sunflower Broadband
7 internet service. Included in Suburban's other contractual services are expenses for
8 Sunflower Broadband services at two locations: 16907 158th Street, and 17245
9 Chieftan Road.⁶ During the 2010 test year, Sunflower's charges for these two
10 locations were \$447.75 and \$452.70, respectively. In Suburban's response to CURB
11 Data Request No. 2, Suburban indicated that these charges are for telemetering at
12 the Moran Well field and for security cameras at the Moran Well field and Chieftan
13 Reservoir. I am especially concerned because for only two calendar months,
14 November and December 2010, the charge to provide telemetering and security
15 cameras was over \$900. Suburban did not provide evidence to justify this level of
16 expense or any explanation that these services are necessary and related to
17 providing reliable water service to Suburban's customers. It is my recommendation
18 that the Commission disallow these charges.

19 I removed expenses paid to Midwest Digital for the plugging of illegally-
20 drilled water wells in the Moran field.⁷ The cost of plugging these illegally-drilled
21 wells was \$1,200. Additionally, I removed \$2,500 of costs charged by Midwest

⁶ Suburban Response to KCC Staff Data Request No. 58.

⁷ Suburban Response to KCC Staff Data Request No. 129.

1 Digital to plug wells in the Harper well field. In its response to Staff Data Request
2 No. 118, Suburban acknowledged that these are one-time charges. Because these
3 expenses are non-recurring they should not be included in Suburban's revenue
4 requirement. Additionally, Suburban's customers should not bear the responsibility
5 of paying to plug illegally-drilled wells.
6

7 **Q. Please explain your \$3,565 adjustment to legal services.**

8 A. I reduced Suburban's legal outside services by \$3,565 to reflect the costs incurred
9 for services related to Suburban's application requesting Commission approval of
10 an automated meter reading system. On March 19, 2010, Suburban requested
11 Commission approval of an automatic meter reading system surcharge.⁸ On July 9,
12 2010, Suburban filed a motion to withdraw its application, stating that Suburban
13 "will plan to meet with the Commission Staff and CURB before filing its next rate case to
14 discuss issues relating to the installation of the new meter reading system ..."⁹ Further,
15 Staff and CURB did not object to "deferring cost recovery of installing the new meter
16 reading system to Suburban Water's next rate case."¹⁰ However, Suburban did not
17 address the installation of an automated meter reading system in its rate application.
18 Because Suburban has not requested approval to implement an automated meter reading
19 system, I removed the legal costs relating to Suburban's previous request.
20

⁸ KCC Docket No. 10-SUBW-603-TAR.

⁹ KCC Docket No. 10-SUBW-603-TAR, July 9, 2010, *Motion to Withdraw Application*, at ¶4.

¹⁰ KCC Docket No. 10-SUBW-603-TAR, July 14, 2010, *Order Adopting Prehearing Officer's Report and Recommendation and Granting Motion to Withdraw Application*, at ¶12.

1 **Q. Please explain CURB adjustment 4.**

2 A. CURB adjustment 4 reduces salaries and wages and pension and benefits for
3 Suburban's officers and employees by \$113,779.10.¹¹

4

5 **Q. Before discussing your adjustments to Suburban's salary and wage expenses, do you
6 have any comments regarding the level of Suburban's salary and wage expense?**

7 A. Yes, I do. In Suburban's last full rate case, KCC Docket No. 07-SUBW-1352-RTS
8 ("1352 Docket"), Suburban's salary and wage expense for the test year ending
9 March 31, 2007, was \$235,610. In Suburban's most recent abbreviated filing, the
10 448 Docket, the 2009 salary and wage expense was \$280,024. Now, in its
11 current application, Suburban's salary and wage expenses have increased to
12 \$378,960. Suburban's current salaries and wages are \$143,350 higher – or 61 %
13 more – than they were in 2007. This dramatic increase in salary and wage expense,
14 with little justification for such increases, is a cause for concern.

15

16 **Q. What amount of your adjustment is related to Suburban's pension and benefits?**

17 A. \$1,550 of my total adjustment is related to Suburban's pension benefits. Suburban's
18 test-year data classifies all employer-paid health insurance premiums and employee
19 meal benefits as "pension and benefits". My adjustment of \$1,550 reflects the
20 removal of \$414 in employee meal expenses incurred during the 2010 test year and

¹¹ Schedule SMH-4.

1 \$1,136 for the cost of Ray Breuer's health insurance that was included in
2 Suburban's test year adjustments.¹²

3
4 **Q. Why did you remove the cost of health insurance for Ray Breuer?**

5 A. I removed the health insurance costs for Ray Breuer because, in my opinion, Ray
6 Breuer is a non-essential employee and any salary or benefits he receives should be
7 at the expense of Suburban's shareholders and not its customers. Suburban has
8 indicated Ray Breuer quit working full-time at Suburban in 2008.¹³ In its response
9 to CURB Data Request No. 9, Suburban stated that Suburban did not hire
10 additional employees after Ray Breuer left the company in 2008. Additionally,
11 Suburban indicated that its employees are continuing to perform the same functions
12 now that they were performing both before and after Ray Breuer reduced his hours
13 to pursue other business interests. Based on this information, any benefits paid for
14 Ray Breuer's health insurance should not be considered operating expenses.

15
16 **Q. Did you review the salaries and wages for Suburban's other employees and officers?**

17 A. Yes I did. The following list details each employee and officer to whom Suburban
18 paid salaries and wages to during the 2010 test year, and each employee's and
19 officer's total wages for 2010.¹⁴

20

¹² Suburban Response to Staff Data Request No. 131.

¹³ Suburban Response to Staff Data Request No. 140.

¹⁴ Data extracted from the 2010 general ledger attached to Suburban's Response to Staff Data Request No. 1.

Name	Employee or Officer	2010 Wages Paid
Brett Miles	Employee	\$ 11,888.25
Bruce Hall	Employee	\$ 37,976.00
Donna Baker	Employee	\$ 9,006.00
Jeanne Siebert	Employee	\$ 10,815.00
Josh Van Tuyl	Employee	\$ 23,428.00
Madison Breuer	Employee	\$ 528.00
Morgan Breuer	Employee	\$ 783.00
Patricia Peterson	Employee	\$ 40,084.74
Travis Miles	Employee	\$ 65,170.24
Ray Breuer	Officer	\$ 12,285.65
Ann Breuer	Officer	\$ 10,800.00
Joseph "Mike" Breuer	Officer	\$ 72,692.37

1

2 **Q. Are the test-year charges in your chart the same as Suburban's salary and wage**
3 **expense in its application?**

4 **A.** No. \$6,166.09 of 2010 salaries and wages were capitalized, so that amount is not
5 included in Suburban's salary and wage expense.¹⁵ Additionally, Suburban included
6 an adjustment which increased salary and wage expense \$67,024. Suburban's
7 adjustment reflects wages increases given to employees and the reclassification of its
8 contractor Robert "Bob" Breuer to an employee instead of an outside contractor. In
9 CURB adjustment 3, I noted that Suburban moved \$18,000 of expense
10 associated with Bob Breuer from outside services to salaries and wages. However, in
11 its response to Staff's Data Request No. 79, Suburban indicated that the \$18,000
12 adjustment for Bob Breuer's salary should be removed from its rate calculations
13 entirely and considered a below-the-line corporate expense. Accordingly, I have

¹⁵ Suburban Response to Staff Data Request No. 112.

1 removed \$18,000 in salary and wage expense for Bob Breuer from Suburban's rate
2 calculation.

3
4 **Q. Has Suburban removed other employee and officer salaries from its revenue**
5 **requirement?**

6 A. Yes. In its response to Staff Data Request No. 55, Suburban indicated that the salary
7 of Ann Breuer should be borne by the company and not ratepayers. Additionally, in
8 its response to Staff Data Request No. 79, Suburban indicated Jeanne Siebert is a
9 non-jurisdictional employee and indicated that her salary be considered below-the-
10 line corporate expenses. Removing the salaries of these two individuals reduces
11 Suburban's salary and wage expense by \$21,615.

12 Suburban also removed the pay increase of \$26,377.76 that was awarded to
13 Mike Breuer in 2011. In its response to Staff Data Request No. 126, Suburban
14 indicated that it "increased Mike Breuer's salary to compensate him for personal
15 expenses paid through SWC". Suburban's response included an adjustment to move
16 the \$26,377.76 salary increase awarded to Mike Breuer to below-the-line corporate
17 expenses.

18
19 **Q. Did you make additional adjustments to Suburban's salary and wage expense?**

20 A. Yes. I removed \$11,888.25 for the salary of Brett Miles and the \$9,006 salary paid to
21 Donna Baker. In its response to CURB Data Request No. 10, Suburban indicated
22 that Brett Miles and Donna Baker are no longer employed by Suburban.

23

1 **Q. Should Suburban have removed these salaries from its proposed rate increase?**

2 A. Yes, the removal of these two employee's salaries should have been reflected in an
3 adjusting entry made by Suburban.

4

5 **Q. Did Suburban make any effort to remove the salaries of these two past-employees
6 from its rate calculations?**

7 A. No, it did not. In Staff Data Request No. 79, Suburban was asked to provide detailed
8 information for each employee included in Suburban's total salary and wage
9 expense. In its response, Suburban requested that the salaries of Ann Breuer,
10 Jeanne Siebert and Bob Breuer be considered below-the-line corporate expenses,
11 but made no reference to the fact that it was including salary and wage expenses for
12 two people that do not even work for the company anymore. I am concerned that
13 this is indicative of a pattern of deception or lack of oversight in this case. There are
14 several instances in this case where Suburban has moved questionable costs below-
15 the-line, with no explanation, only after the charge is identified and questioned by
16 CURB or Staff. This pattern makes it clear that Suburban either failed to do proper
17 accounting to reflect that these types of charges are not included in its rates or that
18 it is intentionally including inappropriate expenses in its calculation of rates.

19

20 **Q. Did you make other employee-specific adjustments to Suburban's salary and wage
21 expense?**

22 A. Yes I did. I removed the \$12,285.65 salary for Suburban officer Ray Breuer. As I
23 previously indicated, it is my opinion that Ray Breuer is a non-essential employee

1 and any salary he receives should be at the expense of Suburban's shareholders and
2 not ratepayers.

3 Next, I removed the \$528 salary paid to Madison Breuer and the \$783 salary
4 paid to Morgan Breuer. In its response to Staff Data Request No. 79, Suburban
5 indicated that both Madison Breuer and Morgan Breuer are part-time summer
6 employees. There is no indication that the part-time, seasonal employment of these
7 two individuals is necessary. In my opinion, Suburban does not need part-time
8 seasonal employees and any salary or benefits paid to Madison Breuer or Morgan
9 Breuer should be at the expense of Suburban's shareholders and not ratepayers.
10

11 **Q. Did you make any additional adjustments to Suburban's salary and wage expense?**

12 A. Yes, I made two additional adjustments. The first adjustment removes \$9,380.93
13 from the salaries and wages paid during the 2010 test year. This adjustment is made
14 to remove the salaries and wages associated with an additional paycheck that was
15 issued to Josh VanTuyl, Bruce Hall, Travis Miles, Patricia Peterson and Mike
16 Breuer on November 26, 2010.
17

18 **Q. Please explain what you mean by an extra paycheck.**

19 A. While analyzing the salaries and wages paid to Suburban's employees and officers, I
20 discovered that employees and officers were paid 27 times during the 2010 test year.
21 It is clear from Suburban's general ledger that employees are paid bi-weekly, which
22 would result in 26 pay periods during each fiscal year. Based upon Suburban's
23 general ledger and a review of a 2010 calendar, I was able to determine that in

1 November and December 2010, Suburban issued regular bi-weekly paychecks on
2 November 5, November 19, December 3, December 17 and December 31. However,
3 in addition to these dates, the general journal also shows paychecks issued to
4 employees and officers on November 26, 2010.

5
6 **Q. Was 2010 the only year an additional paycheck was issued to Suburban employees**
7 **and officers?**

8 A. No. In its response to Staff Data Request No. 79, Suburban provided its payroll
9 transaction detail for January 2008 through December 2010. While reviewing the
10 payroll transaction details for 2008 and 2009, I was able to determine that
11 employees and officers were paid 27 times in both 2008 and 2009. A review of the
12 individual transactions indicates that additional paychecks were issued on
13 December 5, 2008 and November 25, 2009.

14
15 **Q. Do you have an explanation for what this additional paycheck might be?**

16 A. Yes. In my opinion, these extra paychecks serve as a bonus for Suburban's
17 employees and officers, but are reported as regular wages or salaries. I removed the
18 2010 salaries and wages associated with this extra paycheck because it is my opinion
19 that any bonuses paid to Suburban employees or officers should be at the expense of
20 Suburban's shareholders and not ratepayers.

1 **Q. Did you make any additional adjustments to salaries and wages?**

2 A. Yes. My final adjustment to Suburban's salaries and wages is intended to bring
3 Suburban's annual salaries and wages more in line with salaries and wages paid in
4 similar-sized water districts. Attached to my testimony as Exhibit SMH-1 are the
5 results of a survey conducted in early 2011 by the Kansas Rural Water Association
6 ("KRWA"). From the data provided by KRWA, I selected a representative sample
7 of six rural water districts: Douglas RWD 5, Osage RWD 5, Shawnee Consolidated
8 RWD 1, Jackson RWD 3, Leavenworth Consolidated RWD 1, and Douglas RWD 3.
9 I chose these six water districts because they represent a group of districts that are
10 most similar to one another and Suburban Water.

11 I focused my analysis on five factors: number of residential customers,
12 source of water, gallons of water sold, annual salaries paid, and the average
13 contribution made by each residential customer towards the water district's salary
14 costs.

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System Name	Number of Residential customers	Source of water	Gallons Sold, in 1000s	Total Salaries (no taxes, benefits)	Amount of Salary Paid per residential customer
Douglas RWD 5	1,202	City of Lawrence (Clinton Reservoir); Douglas RWD 3	71,638	\$173,695	\$145
Osage RWD 5	1,317	Tri-Dist at Clinton, City of Carbondale, 2 wells	113,521	\$272,444	\$207
Shawnee Cons. RWD 1	1,447	City of Topeka	111,850	\$145,855	\$101
Suburban Water Company	1,537	Wells, BPU	135,517	\$357,449	\$233
Jackson RWD 3	1,552	wells & Jackson RWD 1 & PWWSD #18	156,938	\$171,734	\$111
Leavenworth Cons. RWD 1	1,692	BPU - Leavenworth Waterworks	125,162	\$130,723	\$77
Douglas RWD 3	1,808	Wells and Tri-District, City of Topeka	120,096	\$151,320	\$84

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The results of this survey show that Suburban's salaries and wages, not including payroll taxes or benefits, are at least 30% higher than similarly-sized water districts.

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The sample I selected from the 2011 KRWA survey shows that on average, each residential customer is contributing \$116 annually to the salaries and wages of the water district's employees or officers. If Suburban's 1,537 residential customers were contributing \$116 each, Suburban's annual salaries and wages would be \$178,238, which is \$200,000 less than the amount requested by Suburban in its application.

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Q. Is it your recommendation that Suburban's salaries and wages be reduced to the \$178,238 to reflect an average salary for water district salaries?

12

A. No. Each water district has unique features – like miles of pipeline, geographic

13

territory, and source of water – that can make an apples-to-apples comparison of

14

1 salaries and wages difficult. However the 2011 KRWA survey of rural water district
2 salaries is very informative and points out that Suburban's request for salaries and
3 wages is excessive.

4
5 **Q. What adjustment did you make to Suburban's salaries and wages in light of the**
6 **data collected from KRWA?**

7 A. I reduced Suburban's overall salary and wage expense \$2,365.00.

8
9 **Q. How did you calculate your final adjustment of \$2,365 to Suburban's salaries**
10 **and wages?**

11 A. I utilized the \$235,610 salary and wage expense that was approved in the 1352
12 Docket, and allowed for an annual adjustment of 3% for cost-of-living and merit
13 increases. Considering the condition of the state and national economy since 2008, it
14 is my opinion that a 3% annual increase in salaries is standard, and in many
15 professions, even considered generous. As calculated in the table below, a 3%
16 annual increase will result in 2011 salary and wage expense of \$265,181.

Year	Beginning Salaries & Wages	3% increase	Ending Salaries & Wages
2008	\$ 235,610	\$ 7,068	\$ 242,678
2009	\$ 242,678	\$ 7,280	\$ 249,959
2010	\$ 249,959	\$ 7,499	\$ 257,457
2011	\$ 257,457	\$ 7,724	\$ 265,181

17
18 Suburban's adjusted income statement recorded salary and wage expense of
19 \$378,960. Earlier in my testimony I identified \$111,414 in adjustments pertaining to

1 the removal of specific employee's salaries. After these adjustments, Suburban's
2 remaining salary and wage request stands at \$267,546. My last adjustment of \$2,365
3 reduces Suburban's salary and wage expense to \$265,181. I recommend the
4 Commission approve a total salary and wage amount of \$265,181.

5
6 **Q. Please explain CURB adjustment 5.**

7 A. CURB adjustment 5 reduces the payroll tax expenses for Suburban by \$4,972. This
8 is a necessary adjustment to reflect the salaries and wages that were removed from
9 Suburban's expenses in CURB adjustment 4.

10
11 **Q. Please explain CURB adjustment 6.**

12 A. CURB adjustment 6 decreases administrative and general expenses \$4,370. This
13 adjustment reflects decreases to advertising expenses, office telephone expense,
14 cellular telephone expense, office supply expense, small business political interests,
15 and other general expenses. My adjustment is detailed in Schedule SMH-6.

16
17 **Q. What is the amount of your adjustment to Suburban's advertising expense?**

18 A. I have removed \$1,646 of advertising expenses that were incurred by Suburban
19 during the 2010 test year. I am recommending that the Commission disallow several
20 advertising expenditures. Specifically I am recommending the Commission disallow all
21 expenses for registrations and fees to register for golf tournaments and items purchased

1 for Christmas Families in need.¹⁶ These costs are not necessary to the provision of safe
2 and adequate utility service. Instead, these costs should be borne by shareholders.
3 Therefore, I am recommending that the Commission disallow \$1,646 in advertising costs.
4

5 **Q. What is the amount of your adjustment to Suburban's office telephone expense?**

6 A. I removed \$925 of the \$5,759 office telephone expenses that were incurred by
7 Suburban during the 2010 test year. These charges represent the cost of providing video
8 on demand and cable television service, including premium channel packages such as
9 HBO and pay-per-view movies, at the home of Suburban's IT Director, Travis Miles.
10

11 **Q. Why is Suburban paying for its employee's cable television bill?**

12 A. Travis Miles, Suburban's IT Director, maintains a back-up server at his home for
13 Suburban. In its response to Staff Data Request No. 107, Suburban indicated that it
14 provides Mr. Miles cable service, including premium channels, in exchange for
15 allowing Suburban to maintain an off-site back-up server at his home. My adjustment
16 removes all cable television charges incurred at Mr. Miles's home, but allows for
17 Suburban to recover the cost of internet service at Travis Miles's home for the
18 purpose of maintain and accessing the back-up server, at the rate of \$59.95 per month.¹⁷
19
20

¹⁶ Suburban Response to KCC Data Request No. 117.

¹⁷ Suburban response to Staff Data Request No. 58.

1 **Q. Should Suburban's customers be paying for HBO and pay-per-view movies for one**
2 **of Suburban's employees?**

3 A. No. Ratepayers should not bear the cost of premium cable television services provided at
4 the home of a Suburban employee. It is my recommendation that the Commission
5 disallow 100% of these expenses and further order Suburban to discontinue paying for all
6 cable television services at the home of Travis Miles immediately. If Mr. Miles wants to
7 continue to receive premium cable television service he can contact a cable provider and
8 establish service on his own. This is a personal expense that should not be borne by
9 Suburban or its customers.

10
11 **Q. What is the amount of your adjustment to Suburban's cellular telephone expense?**

12 A. I have decreased the amount of cellular telephone expenses \$1,432. In its response to
13 CURB Data Request No.7, Suburban indicated that it paid \$482.26 and \$469.78 in
14 cell phone charges for Jim Breuer and Ann Breuer, respectively. During the test
15 year, Suburban also paid cell phone charges of \$231.76 for Ray Breuer, as well as an
16 additional \$248.09 in cell phone equipment charges. Suburban has agreed that both
17 Jim Breuer's and Ann Breuer's cell phone charges should be moved to non-
18 jurisdictional, below-the-line corporate expenses. As I recommended earlier in my
19 testimony, the salary of Ray Breuer should be removed from the calculation of
20 rates. Therefore, I recommend that all charges associated with the cell phone
21 equipment and monthly cell phone charges provided to Jim Breuer, Ray Breuer,
22 and Ann Breuer be removed from Suburban's cellular telephone expenses.

23

1 **Q. What is the amount of your adjustment to Suburban's office supplies expense?**

2 **A.** I decreased the amount of office supplies expense \$98. During the 2010 test year
3 Suburban paid \$54.03 to Harrington Floral, \$33.00 to Patricia Peterson for pecans,
4 and included \$10.79 of unspecified charges to Casey's general store as office supply
5 expense. In my opinion, none of these expenses are related to providing safe and
6 reliable utility service and therefore should not be included in the calculation of
7 Suburban's water rates.

8

9 **Q. What is the amount of your adjustment to Suburban's small business political**
10 **interest expense?**

11 **A.** I removed \$230 in charges paid by Suburban to the National Federation of
12 Independent Business ("NFIB") during 2010. The NFIB is a small business
13 association that provides discounts, research, online forums, networking, state and
14 federal lobbying for small businesses across the US. In its response to Staff Data
15 Request No. 106, Suburban indicated that it was unable to determine what
16 percentage of the annual dues paid to NFIB relate to lobbying and what percentage
17 is for access to discounts on products. Because it is unclear what benefit, if any,
18 Suburban's customers received from Suburban's membership in the NFIB, I
19 recommend the Commission remove all charges paid to NFIB during 2010.

20

21

22

1 **Q. What is the amount of your adjustment to Suburban's general administrative**
2 **expense?**

3 A. I removed \$39.57 paid for XM Satellite Radio Services during the 2010 test year.
4 According to its response to CURB Data Request No. 13, Suburban indicated that
5 the XM Satellite Radio Service is installed in the 2010 GMC Canyon Truck driven
6 by Ray Breuer. A subscription to XM Satellite Radio Service is not necessary to
7 Suburban's water service to customers and therefore should not be included in its
8 calculation of rates. I recommend the Commission disallow the charges for XM
9 Satellite Radio Services and order Suburban to discontinue these services
10 immediately. This is another example of a personal expense – one that should not be
11 paid by Suburban or its customers – being included in Suburban's rate increase request.

12
13 **Q. Please explain CURB adjustment 7.**

14 A. CURB adjustment 7 removes \$668.98 from materials and supplies. This adjustment
15 is detailed in Schedule SMH-7.

16
17 **Q. Please describe the individual adjustments that are included in CURB adjustment 8.**

18 A. I excluded two charges, \$8.95 and \$7.95 paid to Paypal in Suburban's 2010 general
19 ledger. Paypal is an e-commerce business allowing payments and money transfers to
20 be made through the Internet. I am unable to verify what services or items were
21 provided in exchange for the payments of \$8.95 and \$7.95. Additionally, I have
22 removed \$30.00 in cash expense associated with the repair of a refrigerator. I am

1 unable to verify this is a legitimate business expense because Suburban simply wrote
2 a check payable to "cash" as opposed to paying a vendor for the services provided.

3 Next, I removed \$246.11 for charges associated with the purchase of a hot
4 water tank from Home Depot. While this charge may be a legitimate business
5 expense, it is unlikely to recur each year. Because ratemaking is a prospective
6 process, non-recurring expenses should not be included in rates.

7 Finally, Suburban's general ledger shows that it incurred \$4,505.82 for
8 expenses associated with a major roofing repair during 2010. Suburban's 2010
9 general ledger also shows that \$4,129.85 of these expenses were reclassified from
10 material and supply expense to Ray Breuer's note receivable. Based on these
11 journal entries, it is my presumption that the costs associated with the major roofing
12 repair are Ray Breuer's personal expenses, and not one of Suburban's operating
13 expenses. However, Suburban did not remove all charges for the major
14 roofing repair from its calculation of rates. My adjustment removes the remaining
15 \$375.97 in roofing repair expense from Suburban's rates.

16
17 **Q. Please explain CURB adjustment 8.**

18 A. CURB adjustment 8 decreases transportation expense \$12,498. This adjustment is
19 detailed in Schedule SMH-8. In its response to Staff Data Request No. 56, Suburban
20 agreed that \$8,874 of fuel expenses, \$368 in vehicle tags, and \$2,984 in repair and
21 maintenance should be moved below the line and not recovered from its customers.
22 My adjustment includes these amounts. Additionally, I recommend the Commission
23 remove \$272 for car washes.

1 **Q. Please explain CURB adjustment 9.**

2 **A.** CURB adjustment 9 decreases insurance expense \$213.91. In its response to Staff
3 Data Request No. 100, Suburban removed all expenses for its 2010 Canyon Truck to
4 below-the-line corporate expenses, except for insurance and interest on the loan. In
5 my opinion, Suburban's response acknowledges that this truck is not primarily used
6 for the operations of Suburban's water company. Therefore all expenses for this
7 truck, including the insurance and interest on the loan should be moved below the
8 line and not collected from Suburban's ratepayers.

9

10 **Q. Please explain CURB adjustment 10.**

11 **A.** CURB adjustment 10 removes \$4,974 in regulatory expenses from CURB during the
12 2010 test year.

13

14 **Q. Why did you remove \$4,974 of CURB's regulatory expenses from Suburban's 2010**
15 **test year?**

16 **A.** I removed the \$4,974 that Suburban paid during 2010 for CURB's regulatory
17 services because these charges will not occur again in future years. CURB's
18 regulatory expenses of \$4,974 billed to Suburban during the 2010 test year were for
19 services associated with the 602 and 603 Dockets.¹⁸ As previously discussed,
20 Suburban's application in the 602 Docket was denied by the Commission and
21 Suburban voluntarily withdrew its application in the 603 Docket.

¹⁸ Exhibit SMH-2

1 Further, K.S.A. 66-1502 limits the amount of regulatory fees that can be
2 assessed to Suburban, as follows:

“The total amount, in any one state fiscal year for which any public utility or common carrier shall be assessed under the provisions of this section shall not exceed the following ... for any other public utility or common carrier under the jurisdiction of the commission, 0.6% of the public utility's or common carrier's gross operating revenues derived from intrastate operations as reflected in the last annual report...”

3
4 Suburban's last annual report, filed with the Commission on July 1, 2011, shows
5 gross revenues derived from intrastate operations are \$1,120,036 – which means
6 that the maximum amount of regulatory fees that CURB can assess Suburban
7 during the 2012 fiscal year is \$6,720.

8 In its application, Suburban included \$70,500 in rate case expense
9 associated with this proceeding. Its estimate of rate case expense includes \$20,000
10 for Staff and CURB. By statute, CURB cannot assess Suburban more than \$6,720
11 during one fiscal year. Suburban's request to collect \$4,974 for CURB's past
12 regulatory assessments, in addition to CURB's rate case expenses in this proceeding,
13 is double counting. Therefore, I recommend the Commission remove the amount of
14 CURB's past regulatory assessments for the calculation of rates.

15
16 **Q. Please explain CURB adjustment 11.**

17 **A.** CURB adjustment 11 decreases Suburban's regulatory assessment expense by
18 \$5,809.26.

1 **Q. Why did you remove \$5,809.26 in KCC regulatory expenses?**

2 A. For the same reason I removed CURB's regulatory expenses in CURB adjustment
3 11. These charges are associated with Suburban's maximum allowed assessment in
4 2010. These are non-recurring expenses that will not occur again in future years.
5 Additionally, Suburban has already included an estimate for KCC and CURB
6 assessments in its rate case expense, so allowing Suburban to include KCC
7 regulatory fees, in addition to an estimated amount of KCC regulatory expenses, is
8 double counting.

9

10 **Q. Please explain CURB adjustment 12.**

11 A. CURB adjustment 12 reduces Suburban's estimated total rate case expenses by
12 \$6,292. This amount has been amortized over a three-year period. This adjustment
13 is detailed in Schedule SMH-12.

14

15 **Q. What did Suburban estimate its rate case expenses for this current proceeding
16 would be?**

17 A. Suburban estimated the following rate case expenses for this proceeding:

- 18 • Accounting Consultant = \$15,000
- 19 • Legal = \$23,500
- 20 • KCC Staff = \$20,000
- 21 • Public Hearing = \$2,000
- 22 • Outside Consultant = \$10,000

23

1 **Q. Do you have any general comments regarding rate case expense before discussing**
2 **your specific adjustments?**

3 A. Yes, I do. As I previously discussed, K.S.A. 66-1502 limits the amount of regulatory
4 expenses that can be assessed to a utility by the KCC and CURB, but does not limit
5 the amount of regulatory expense that is incurred by Staff and CURB. Since August
6 15, 2010, the KCC recorded \$68,992.62 in charges related to Suburban's 602, 603,
7 and 448 Dockets.¹⁹ However, because of the statutory assessment limit, Suburban
8 has only been charged \$12,185.90 – or 18% - of the total charges from the KCC.
9 Additionally, for the quarter ending December 31, 2011, the KCC has recorded
10 \$7,041.75 in charges for Suburban's current rate case, but because of the assessment
11 limit, the KCC only collected \$307.58 of these charges. Furthermore, taking into
12 consideration the procedural schedule in this proceeding, I would expect the KCC's
13 charges for the quarter beginning January 1, 2012 and ending March 31, 2012 to be
14 more than the previous quarter. Suburban will not be assessed any of these charges
15 because they has already met the annual assessment limit. I am concerned because
16 although Suburban's customers are being protected from large regulatory expenses,
17 the amount not collected from Suburban's customers is being absorbed by
18 customers of other utilities. It is my understanding that the KCC does not keep a
19 tab on each utility's assessments versus the KCC's actual expenses, and that any
20 KCC charge that exceeds the maximum assessment is simply put into a larger pot of

¹⁹ KCC Response to CURB Data Request No. 17.

1 regulatory charges, which is then spread out among electric, natural gas, and
2 telecom utilities and ultimately, paid by their customers.

3 Further, K.S.A. 66-1502 limits the amount of regulatory expenses that can be
4 assessed to a utility by the KCC and CURB, but it does not place a cap on the
5 amount of other expenses a public utility can incur for rate case expense. Prior to
6 making this application, Suburban had incurred over \$16,000 in legal and
7 consulting bills following the Commission's denial of the PWA in the 602 Docket.²⁰
8 Suburban's current rate case includes another \$50,500 in legal and consulting bills.
9 Furthermore, it is anticipated that Suburban will file another abbreviated rate case
10 in fiscal year 2013. Based upon the previous abbreviated filing, the legal and
11 consulting fees from this case could amount to another \$16,000 in expenses. The
12 Commission should consider that these mounting regulatory and legal charges are
13 an unreasonable burden on ratepayers.

14
15 **Q. What adjustments did you make to Suburban's estimated rate case expenses?**

16 **A.** First, in its response to Staff Data Request No. 117, Suburban indicated that \$297.60
17 of advertising expenses are related to the publication of an affidavit for the 602
18 Docket. This amount should have been considered rate case expense. I previously
19 removed the \$297.60 from Suburban's advertising expenses and am now including
20 it in rate case expenses.

²⁰ KCC Docket No. 11-SUBW-448-RTS, Direct Testimony of William Baldry, at Exhibit WEB-12.

1 Next, I decreased Suburban's estimate for KCC and CURB assessments. As I
2 previously discussed, K.S.A. 66-1502 limits the amount that can be assessed to a
3 company during a fiscal year to 0.6% of gross operating revenues. Suburban's
4 assessment limit for 2012 is \$6,720. Presuming that both the KCC and CURB will
5 meet this assessment limit during the State's 2012 fiscal year, the amount Suburban
6 will be assessed is \$13,440. Therefore I decreased Suburban's \$20,000 estimate for
7 KCC and CURB expenses by \$6,560.

8
9 **Q. Are you recommending amortization of this estimate over three years?**

10 A. Yes I am. After the two adjustments I made to Suburban's rate case expenses, the
11 total estimate for rate case expenses in this proceeding is \$64,238. I recommend that
12 Suburban be allowed to collect \$21,413 in rate case expenses for each of the next
13 three years.

14
15 **Q. Please explain CURB adjustment 13.**

16 A. CURB adjustment 13 decreases miscellaneous corporation fees \$6,343. This
17 adjustment is detailed in Schedule SMH-13.

18
19 **Q. Please describe the individual adjustments included in CURB adjustment 13.**

20 A. First, I removed \$500 of cash expense which has been recorded as "KRWA
21 Conference" in Suburban's general ledger. I cannot verify what type of services or
22 items were purchased with the \$500 cash and do not think that it should be included
23 in Suburban's rate calculation.

1 Second, I removed the \$575 of membership fees paid by Suburban to the
2 Leavenworth County Development Corporation (“LCDC”). The LCDC is a
3 501(c)(6) public private organization whose primary mission is to facilitate the
4 creation and retention of jobs and capital investment in Leavenworth County.
5 Membership in this organization does not have anything to do with Suburban’s
6 responsibility to provide safe and reliable water service to its customers, and
7 therefore should be disallowed.

8 Third, I removed \$669.09 in charges payable to Account Secure Plus. In its
9 response to Staff Data Request No. 105, Suburban states that Account Secure Plus
10 provides protection from fraud on Suburban’s corporate credit cards. While I agree
11 that fraud protection is an important aspect of a corporate finance, in my opinion
12 paying \$669.09 annually for fraud protection seems excessive - especially
13 considering that Suburban employs a full-time director of accounting who is a
14 licensed certified public accountant. Simple monthly procedures such as balancing
15 all bank statements and credit card bills, requiring receipts for all expenses charged
16 to the credit card, and limiting the number of people with access to corporate credit
17 cards can reduce the company’s fraud liability. In my opinion, Suburban has more
18 than adequate employee resources to implement a set of monthly procedures to
19 minimize its risk of fraud.

20 Fourth, I removed \$68.00 in bank fees associated with the direct deposit of
21 Suburban’s employee’s paychecks. In its response to Staff Data Request Nos. 58 and
22 105, Suburban indicated that QuickBooks charges a \$1.05 fee each employee
23 paycheck that is direct deposited to the employee’s bank. In Suburban’s response to

1 CURB Data Request No. 9, Suburban indicated that it had three full-time and two
2 part-time employees. Presuming that each of these employees has their paycheck
3 direct deposited, and that each employee is paid 26 times per calendar year, the
4 amount of bank fees associated with the direct deposit of its employee paychecks
5 would be \$136.50. This is less than the \$204.50 including in Suburban's rate case.
6 Accordingly, I am recommending the Commission remove \$68 in expenses
7 associated with the direct deposit of employee pay checks from Suburban's rate
8 increase request.

9 Finally, Suburban incurred \$4,531.30 in expenses during the 2010 test year
10 to process credit and debit cards for its customers' water utility payments. In its
11 response to Staff Data Request No. 105, Suburban indicated that charges from
12 Authnet Gateway and Merchant Solutions are for processing its customers' credit
13 card payments. In its response to CURB Data Request No. 6, Suburban provided a
14 copy of invoices it received to support the \$4,531.30 in credit card processing
15 expenses. According to the invoices, Suburban processed 2,251 credit card payments
16 during 2010 – an average of 188 payments per month. Suburban does not charge a
17 fee to its customers who pay with credit or debit cards and instead is asking that all
18 fees associated with accepting and processing credit and debit cards be recovered
19 from all of its 1,537 residential customers.

20 In KCC Docket No. 04-GIMX-651-GIV ("651 Docket"), the Commission
21 established minimum billing standards for the acceptance of credit card payments
22 for all jurisdictional electric, natural gas and water utilities. In its November 22,

1 2005, Order on Reconsideration in the 651 Docket, the Commission adopted
2 minimum standards that included the following provision:

3 “Customers not paying with credit cards shall not be
4 burdened with the transaction costs of customers utilizing
5 these payment methods. Any fees associated with credit
6 card use should be reasonably related to the costs of
7 payment by credit card and the receipt of such fees by the
8 utility should be revenue neutral to the utility.”²¹
9

10 The Commission’s established billing standards do not allow fees associated
11 with processing some customers’ credit card payments to be passed onto the utility’s
12 other customers. Suburban’s current application seeks to include credit card
13 processing charges in rates, meaning all of its customers will pay for this service,
14 even if they do not pay their water bills with credit or debit cards. This practice
15 violates the Commission’s established billing standards. Therefore, I have removed
16 all fees associated with the acceptance and processing of customer water payments
17 made by credit card from Suburban’s rate application. I also recommend that the
18 Commission order Suburban to file a tariff with the Commission to establish a
19 schedule of fees to be charged to customers paying with credit cards.
20

21 **Q. Please explain CURB adjustment 14.**

22 A. CURB adjustment 14 reduces Suburban’s rent expense by \$23,483.²²
23

²¹ KCC Docket No. 04-GIMX-651-GIV, *Minimum Standards for Payment Methods for Utility Bills and Allowing the Acceptance of Credit Cards by Kansas Jurisdictional Electric, Natural Gas, and Water Utilities*, at section (I)(2).

²² Schedule SMH-14.

1 **Q. Who does Suburban lease its facility from?**

2 A. From its President, Ray Breuer.

3

4 **Q. How much is Suburban paying in rent expense?**

5 A. Suburban incurred \$66,000 – or \$5,500 per month – for rent expense during 2010.

6

7 **Q. Has Suburban's rent expense increased since the 1352 Docket?**

8 A. Yes, substantially. In January 2006, Suburban's monthly rent expense was \$2,000
9 per month.²³ During the 2010 test year, rent expense for the same facility is now
10 \$5,500 per month – an increase of 175%. My review of Suburban's response to Staff
11 Data Request No. 61 shows Suburban's rent increased in 2005, 2006, 2007, 2009,
12 and again in 2010.

13

14 **Q. Is Suburban writing a check to pay for its rent expense each month?**

15 A. No. According to its 2010 general ledger, Suburban is not writing a check payable to
16 Ray Breuer each month for rent expense.

17

18 **Q. Please explain how Suburban is accounting for its rent expense?**

19 A. On the second day of each month, Suburban records \$5,500.00 to the general
20 ledger account for rent expense. At the same time, \$500 is posted to Ray Breuer's
21 note receivable – which decreases the amount of money Ray Breuer owes Suburban

²³ KCC Docket 07-SUBW-1352-RTS, Direct Testimony of William Baldry, at ScheduleWEB-5.

1 – and \$5,000 is posted to Ray Breuer’s note payable – which increases the amount
2 of money Suburban owes Ray Breuer for rent expense.

3
4 **Q. Did Suburban pay Ray Breuer \$66,000 for rent expense during 2010 from**
5 **Suburban?**

6 A. No. As I just explained, Suburban had \$66,000 of rent expense during its 2010 test
7 year. Of that \$66,000, \$6,000 (\$500 for each month) was applied to Ray Breuer’s
8 debt to Suburban. Of the remaining \$60,000, \$59,719.97 was disbursed to Ray
9 Breuer in six payments:

- 10 • \$4,219.97 on March 15, 2010,
- 11 • \$19,000.00 on September 17, 2010,
- 12 • \$5,000.00 on September 20, 2010,
- 13 • \$3,500.00 on October 7, 2010,
- 14 • \$19,000.00 on October 25, 2010, and
- 15 • \$9,000.00 on December 29, 2010.²⁴

16
17 **Q. Is this the appropriate way to account for rent expense?**

18 A. Not in my opinion. Accounting for rent expense is a simple accounting transaction.
19 Normally, it would involve posting rent expense to the appropriate general ledger
20 account and then writing a check for the rent amount. It’s that simple. Suburban is
21 unnecessarily complicating this process.

²⁴ Data extracted from Suburban’s 2010 general ledger provided in its response to Staff Data Request No. 1.

1 **Q. Did Suburban provide comparative commercial leases to support the \$5,500**
2 **monthly rent expense?**

3 A. Yes. In Suburban's response to KCC Staff DR No. 61, Suburban provided copies of
4 two commercial lease contracts.

5
6 **Q. Do these leases provide an adequate comparison to support Suburban's rent**
7 **expense?**

8 A. No. Each of these two leases is for property located in the Basehor Town Square
9 shopping development, identifying Basehor Town Square, LLC as the lessor on each
10 lease. According to the lease agreements, one lessee is an Asian food restaurant that
11 occupies 1,000 square feet at a rate of \$1,291.50 per month during 2011. In my
12 opinion, commercial retail space located in a shopping center is not comparable to
13 the warehouse-like building and office space that Suburban occupies. It is my
14 opinion that Suburban has not met its burden of showing that its level of rent
15 expense is appropriate.

16
17 **Q. Do you have any final concerns regarding the dramatic increase rent expense**
18 **incurred by Suburban since 2005?**

19 A. Yes. Suburban has provided no information to support the increase in rent from
20 2005 to 2010. Additionally, because rent expense is an operating expense, Suburban
21 is allowed to earn a margin of 6% on its rent expense.

22

23

1 **Q. Does Suburban have an incentive to increase its rent expense?**

2 A. Yes. As I previously discussed, earning a 6% margin on all operating expenses
3 decreases the utility's incentive to act prudently to keep operating costs down in
4 the interest of ratepayers. In 2005, Suburban would have been allowed to earn
5 a profit margin of \$1,440 based solely on its rent expenses. In 2010, Suburban's
6 profit margin for rent expense alone is \$3,960.

7
8 **Q. Does Ray Breuer have an incentive to increase the rent charged to Suburban?**

9 A. Yes. Ray Breuer owns the building currently rented by Suburban. So every year
10 that he increases the rent charged to Suburban, he also increases his income.
11 Additionally, Ray Breuer is the President and a shareholder of Suburban. So when
12 the rent expense increases, so does the company's total profit margin. There is
13 clearly an incentive for Ray Breuer, as the owner of the building and the President
14 of Suburban to keep rent expenses artificially high.

15
16 **Q. What is your recommendation to the Commission regarding the rent expense paid
17 by Suburban?**

18 A. I recommend the Commission reduce Suburban's allowed annual rent expense to
19 \$42,517. This is a reduction of \$23,483 from Suburban's 2010 actual rent expense.
20 The details of this adjustment are included in Schedule SMH-14.

21

22

1 **Q. Please explain how you determined the appropriate amount rent expense to be**
2 **\$42,517.**

3 A. I started with Suburban's rent expense of \$2,000 per month – or \$24,000 annually –
4 from 2005. I then adjusted Suburban's rent expense 10% for each year since 2005.²⁵
5

Year	Beginning Rent Expense	Monthly Rent Expense	10% annual increase in rent
2006	\$ 24,000	\$ 2,000	\$ 2,400
2007	\$ 26,400	\$ 2,200	\$ 2,640
2008	\$ 29,040	\$ 2,420	\$ 2,904
2009	\$ 31,944	\$ 2,662	\$ 3,194
2010	\$ 35,138	\$ 2,928	\$ 3,514
2011	\$ 38,652	\$ 3,221	\$ 3,865
2012	\$ 42,517	\$ 3,543	\$ -

6
7 Considering the deflation in the real estate market during the past five years, it is
8 my opinion that allowing a 10% increase in rent is generous, but also not out of line.
9

10 **Q. Please explain CURB adjustment 15.**

11 A. CURB adjustment 15 reduces Suburban's debt service, or interest expense, \$9,411.
12 The details of this adjustment are included in Schedule SMH-15.
13

14 **Q. Why did you reduce Suburban's interest expense \$9,411?**

15 A. First, in its response to Staff Data Request No. 100, Suburban removed all expenses
16 for its 2010 Canyon Truck to below-the-line corporate expenses, except for

²⁵ Suburban's response to Staff Data Request No. 61 shows that in 2005, annual rent expense was \$24,000.

1 insurance and interest on the loan. In my opinion, Suburban's response
2 acknowledged that this truck is not primarily used for the operations of Suburban's
3 water company. Therefore all expenses for this truck, including the interest on the
4 loan should be moved below the line and not collected from Suburban's ratepayers.
5 This adjustment removes \$425.10 in interest expense from Suburban's application.

6 Second, Suburban renegotiated its long-term debt that is held by Community
7 National Bank. The new note originated on December 21, 2011, with a principal
8 balance of \$1,590,137.²⁶ Suburban provided an amortization table in its response to
9 Staff Data Request No. 115, which indicates that the annual amount of interest
10 expense for 2012 will be \$75,436.39. Suburban's claim for interest expense was
11 based upon actual interest expense paid during the 2010 test year, before Suburban
12 renegotiate the terms of its long-term debt. To reflect the actual interest expense
13 that Suburban will incur in 2012, I have reduced Suburban's claim for interest
14 expense on its long-term loan by \$8,986.

15
16 **Q. Please explain CURB adjustment 16.**

17 **A.** CURB adjustment 16 increases meter reading expenses by \$7,620. In CURB
18 adjustment 3, I removed the costs of meter reading expenses from outside services.
19 This adjustment simply reflects the reclassification of these costs.

20
21

²⁶ Suburban Response to KCC Staff Data Request No. 76.

1 **Q. Please explain CURB adjustment 17.**

2 A. CURB adjustment 17 reduces Suburban's tax expense \$4,021. This adjustment is
3 necessary to reflect the previous adjustments that I have recommended the
4 Commission approve. This adjustment is detailed in Schedule SMH-16.

5
6 **Q. Did you make an adjustment for changes in Suburban's depreciation expense?**

7 A. No. I did not perform an analysis and evaluation of Suburban's depreciation
8 expenses. However, it is CURB's understanding that the KCC Staff did conduct such an
9 analysis. Therefore, while I have not included any adjustments relating to Suburban's
10 depreciation expense in this testimony, CURB reserves its right to adopt
11 recommendations that may be proposed by KCC Staff.

12

13 **VI. ANALYSIS OF REVENUES**

14 **Q. Did you perform an analysis of the operating revenues included in Suburban's**
15 **application?**

16 A. Yes.

17

18 **Q. Do you have adjustments to make to Suburban's projected revenues?**

19 A. Yes. I increased Suburban's revenues by \$59,941 to \$1,122,409.69. An overview of
20 this adjustment is provided in Schedule SMH-17.

21

22

1 Q. **What adjustment did you make to Suburban's projected revenues received from its**
2 **residential customers?**

3 A. I have increased Suburban's projected annual revenue from its residential water
4 sales by \$67,168. As detailed in Schedule SMH-18, I estimate that Suburban will
5 collect \$1,122,410 in residential revenues at its current Commission approved rates.
6 This is \$67,168 more than the adjusted test year included in Suburban's application.

7
8 Q. **Why did you increase Suburban's revenue from residential customers?**

9 A. Suburban utilized actual residential consumption from 2010 to determine the
10 revenue it will receive from residential water sales. In my analysis, I used actual
11 water consumption from January – August 2011 and then applied a nine-year
12 average for September through December. The result of my analysis shows that
13 residential customers will consume an additional ten million gallons of water when
14 compared to the 2010 test year. Because Suburban's water is sold at a volumetric
15 rate, the more water it sells, the more revenue it will collect.

16
17 Q. **What adjustment did you make to Suburban's projected revenues from its**
18 **wholesale customers?**

19 A. I decreased the amount of revenues Suburban will collect from its wholesale water
20 customers. Based on the test-year data provided in its application, Suburban sold
21 18,624,320 gallons to Leavenworth Rural Water District #10 ("RWD 10"). The
22 current rate being charged by Suburban to RWD 10 is \$3.05 per 1,000 gallons sold,

1 plus an additional transmission charge of \$0.55 per 1,000 sold.²⁷ At the current
2 wholesale rate charged by Suburban, I estimate that Suburban will collect
3 \$67,047.55 in wholesale revenues from RWD 10.

4 Suburban also sells wholesale water to Leavenworth County Rural Water
5 District #6 ("RWD 6"). During 2010, Suburban sold 13,414,050 gallons to RWD 6.
6 The current rate Suburban charges RWD 6 is \$3.28 per 1,000 gallons sold. At the
7 current wholesale rate charged by Suburban, I estimate that Suburban will collect
8 \$43,998.09 in wholesale revenues from RWD 6.

9 Suburban's application included \$118,273 in revenues from its two wholesale
10 customers. I have decreased the wholesales revenues \$7,227 to reflect my
11 calculations as detailed in Schedule SMH-19.

12
13 **Q. Did you make any other adjustments to Suburban's other revenues?**

14 A. No, I did not.

15
16 **Q. What are the total affects of your adjustments to Suburban's operating expenses
17 and revenues?**

18 A. As detailed in Schedules SMH-20, the net effect of my adjustments on Suburban's
19 operating expenses and revenues results in an operating surplus of \$313.00.

20

²⁷ Suburban response to Staff Data Request No. 30.

1 **Q. What is your recommendation to the Commission regarding Suburban's request for**
2 **a rate increase?**

3 A. I recommend the Commission approve the adjustments contained in my testimony,
4 which result in an operating surplus of \$313.00. Because Suburban's projected
5 revenues exceed its operating expenses, I recommend the Commission deny
6 Suburban's request for a rate increase. My

7

8 **VII. PURCHASED WATER ADJUSTMENT**

9 **Q. What is your recommendation regarding Suburban's request to implement a PWA?**

10 A. I recommend the Commission deny Suburban's request to implement a PWA.

11

12 **Q. Why is Suburban requesting approval for a purchased water cost adjustment?**

13 A. Suburban first proposed a PWA tariff in the 602 Docket in order to collect the increased
14 cost of wholesale water it purchases from the BPU. In the 602 Docket, Suburban
15 indicated that in 2009, it purchased 56% of its water from the BPU. Purchased water, as a
16 percentage of total water available for sale, has increased from 15% in 2002 to 56% in
17 2009 to approximately 60% in 2010. As a result, purchase water costs have increased in
18 nearly each year of its operations.

19

20 **Q. Did the Commission approve Suburban's PWA in the 602 Docket?**

21 A. No. The Commission denied Suburban's request concluding that the PWA was not
22 supported by substantial evidence in the record, did not contain evidence to show

1 rates will be just and reasonable for Suburban Water's customers, and was not in
2 the public interest.²⁸

3
4 **Q. What are your general concerns about the implementation of a PWA?**

5 A. I supported Suburban's PWA in the 602 Docket, despite general concerns about
6 true-up mechanisms that allow a utility to collect a forecasted amount of revenue
7 from its customers before spending a dime. CURB's position has long been that
8 mechanisms like the PWA result in single-issue rate making, where the company is
9 allowed a dollar-for-dollar true-up and recovery of costs associated with one
10 component of the company's overall revenue requirement. In essence, a pass-
11 through mechanism like a PWA allows a company to increase rates between rate
12 cases, without a thorough review of its financial condition. This puts the
13 Commission in the unfortunate position of approving rate increases without being
14 able to fully scrutinize the costs being recovered from customers.

15
16 **Q. Despite your concerns, are there valid reasons why the Commission should consider
17 the implementation of a PWA in the future?**

18 A. Yes. First, a well-designed and structured PWA would avoid the regulatory and
19 legal costs associated with filing a rate case. Suburban estimated its rate case
20 expenses associated with its current application would exceed \$70,000. It not
21 economically feasible for Suburban, a company with just 1,537 residential

²⁸ KCC Docket No. 10-SUBW-602-TAR, November 3, 2010, *Order On Application*.

1 customers, to apply for a general rate increase each time that it experiences an
2 increased rate in purchased water. Avoiding costly and expensive rate cases may
3 make a purchased water cost adjustment appropriate.

4 Second, in addition to saving ratepayers the cost of a rate case, a PWA could
5 save Suburban's residential customers over \$13,000 in operating margin alone.
6 Currently Suburban includes the cost of water it purchases from the BPU as an
7 operating expense. Because the cost of purchased water is an operating expense,
8 Suburban is allowed to earn a 6% margin on top of the actual cost of water.
9 According to CURB adjustment 2, Suburban's cost of water purchased from the
10 BPU as \$218,829. If Suburban is allowed to earn a 6% margin on the cost of
11 purchased water, ratepayers are paying an additional \$13,129.74 in margin to
12 Suburban for its purchased water expenses. If the Commission were to approve a
13 PWA – which would allow Suburban dollar-for-dollar true-up and recovery of costs
14 associated with purchased water expenses – it would save Suburban's residential
15 customers \$13,129.74 because the ratepayers would no longer be responsible for
16 paying a 6% margin, in addition to the actual cost of purchased water.

17
18 **Q. Do you recommend the Commission approve Suburban's request for a PWA in this**
19 **proceeding?**

20 **A.** No. First, in the 602 docket, the Commission laid the foundation for allowing
21 Suburban to recover purchased water expenses through a series of rate cases. The
22 current case is the second of three planned rate cases. Approving a PWA at this
23 point would disrupt the Commission's plan laid out in the 602 order.

1 Second, Suburban has not received a formal notice from the BPU of the
2 anticipated 2014 water rate increase. Additionally, Suburban has not been notified
3 of any proposed rate increases beyond 2014.²⁹ Any rate increase for purchased
4 water from the BPU will be addressed during Suburban's third and final rate case
5 as ordered in the 602 Docket.

6
7 **VIII. CONCERNS REGARDING SUBURBAN'S BUSINESS PRACTICES**

8 **Q. Please provide the Commission additional information about your experience in the**
9 **water utility industry.**

10 A. From 2003 until I began employment with CURB in 2008, I served as the office
11 manager of Shawnee County Consolidated Rural Water District #4 ("CRWD #4").
12 At the end of my employment, CRWD #4 had over 4,500 residential customers
13 (making it the largest rural water district in the State of Kansas), one wholesale
14 customer (Jackson County Rural Water District #1) and two water treatment
15 plants. During my tenure at CRWD #4, I performed many job responsibilities such
16 as providing the Kansas Rural Finance Authority with all financial information
17 needed to secure over a \$12 million loan to construct a new treatment facility ,
18 accepting and depositing customer payments, building a website, and providing
19 bookkeeping and accounting duties for the district.

20

²⁹ Suburban response to KCC Staff Data Request No. 60.

1 **Q. How many full time people were employed by CRWD #4 during your tenure as**
2 **office manager?**

3 A. There were six full-time employees at CRWD #4 in 2008. Two full-time employees
4 were assigned to the office, while the other four full-time employees were operators
5 and maintenance employees.

6
7 **Q. Did CRWD #4 have a director of information technology?**

8 A. No it did not. CRWD #4 outsourced its information technology needs, including
9 server back-ups and computer maintenance, to a local company specializing in
10 computer technology needs. When the CRWD #4 had additional computer
11 technology needs, such as the development of a website, I attended a course offered
12 at the KRWA conference and then developed the site in-house.

13
14 **Q. Did CRWD #4 have an engineer on the payroll?**

15 A. No, it did not. As it did for to its computer technology needs, CRWD #4 contracted
16 with a local engineering firm to provide engineering services.

17
18 **Q. Based on your experience at a large water utility company, do you have concerns**
19 **regarding Suburban's business practices?**

20 A. Yes, I have three primary concerns. First, Suburban's management is running
21 Suburban like a family business as opposed to a regulated utility. It appears that
22 family members of the Breuer's are given jobs at Suburban and/or are being
23 compensated for routine tasks with little regard to costs or necessity. For example,

1 during 2010, Suburban paid Bob Breuer an \$18,960 salary to be a contractor;
2 Suburban paid \$482.26 for Jim Breuer's cell phone bills; Suburban reimbursed
3 Dale Breuer \$255.39 for labor and miscellaneous repair and maintenance charges;
4 and Suburban paid \$175 for a KRWA membership for Allen Breuer.

5 Additionally, it appears that companies owned by family members of the
6 Breuer's are being awarded all of Suburban's construction and maintenance
7 contracts. During 2010:

- 8 • Midwest Digital was paid \$37,158 during the 2010 test year.³⁰ According to
9 the Kansas Secretary of State's office, Allen Breuer is the agent for Midwest
10 Digital. Additionally, according to the Secretary of State, the current mailing
11 address for Midwest Digital is 1216 N 155th Street, Basehor, KS – which is the
12 same address as Suburban Water Company;
- 13 • JD Excavating, was paid \$11,763 during 2010.³¹ According to the Kansas
14 Secretary of State's office, William Breuer is the agent for JD Excavating.
15 Additionally, according to the Secretary of State, the current mailing address
16 and registered office for JD Excavating is 1216 N 155th Street, Basehor, KS –
17 which is the same address as Suburban Water Company; and
- 18 • Westland Construction, was paid \$16,975 during the 2010 test year.³²
19 According to the Kansas Secretary of State's office, Charles Breuer is the
20 agent for Westland Construction.

21
³⁰ Suburban Response to KCC Staff Data Request No. 91.

³¹ Suburban Response to KCC Staff Data Request No. 89

³² Suburban Response to KCC Staff Data Request No. 92.

1 In its response to Staff Data Request No. 122, Suburban indicated that it did
2 not competitively bid any of the projects that Midwest Digital, Westland
3 Construction or JD Excavating completed during the test year. It cannot be
4 overlooked that all of Suburban's expenses relating to outside construction
5 companies incurred during the 2010 test year were paid to businesses owned and
6 operated by members of the Breuer family. Additionally, two of the three businesses
7 listed above have registered business addresses that are the same as Suburban
8 Water Company. Without a competitive bidding process, Suburban's ratepayers
9 are at risk for paying inflated construction prices simply because the projects
10 are being awarded to family members with no regard to cost. The Commission
11 should require Suburban to issue requests for proposals for all of its future repair
12 and maintenance and construction projects.

13 My second concern relates to the number of people employed by Suburban
14 and the salary and compensation being award to its employees. As I just mentioned,
15 Suburban paid outside contractors over \$65,000 in 2010 for routine repairs and
16 maintenance and construction projects. Suburban also paid Bob Breuer \$18,960 in
17 2010 for contracting services. It is hard to imagine that Suburban requires the
18 services of five employees and four contractors to perform its routine daily tasks.
19 During my tenure at CRWD #4, the four full-time crew members performed all
20 routine repair and maintenance tasks such as the installation of new water
21 meters, replacing water meter setters, and repairs of water main breaks, in addition
22 to taking water samples and assuring that the two water treatment plants were
23 operating efficiently. Additionally, at CRWD #4, there were two full-time office

1 employees that performed all the accounting duties, customer billings, and routine
2 computer tasks. There was not a full-time information technology employee or
3 engineer on staff. In my opinion, Suburban is overstaffed.

4 It is also one of my primary concerns that Suburban employees are
5 excessively compensated – a point which is exacerbated by the fact that seven of the
6 twelve individuals on the 2010 payroll are family members of the Breuers. Attached
7 to my testimony as Exhibit SMH-3 is the December 31, 2011, trial balance for
8 CRWD#4. In 2011, CRWD #4 accumulated \$326,743.64 in payroll expense for six
9 full-time employees, three part-time meter readers, and compensation paid to each
10 of its nine members of the board of directors. CRWD #4's payroll expenses are
11 \$52,217 less than the salary and wage expense requested in Suburban's application.
12 While I previously discussed that it can be hard to do an apples-to-apples
13 comparison of water districts, it is an unavoidable conclusion that the salaries
14 Suburban pays its employees – many of which are family members – are excessive.

15 My final concern is that Suburban has been allowing its employees and
16 officers to charge personal expenses through the company. Utilizing the company's
17 2010 general ledger, I was able to determine that Suburban allowed personal
18 expenses in the following amounts to be charged through the water utility company:

- 19 • \$10,078.99 for Ann Breuer,
- 20 • \$1,040.80 for Travis Miles,
- 21 • \$10,262.37 for Mike Breuer,
- 22 • \$39,261.00 for Ray Breuer.

1 **Q. How were the personal expenses charged through Suburban?**

2 A. In most cases, the employee charged personal expenses using Suburban's corporate
3 credit cards. In other cases, the vendor invoiced Suburban directly and Suburban
4 paid the bill through its cash account. And in other cases, cash advances of \$10,000
5 and even \$15,000 were provided to employees.³³

6
7 **Q. Are these personal expenses included in rates?**

8 A. No. At the end of each accounting period, Suburban reclassifies personal expenses
9 to a Note Receivable that is assigned to each individual employee.

10
11 **Q. Why is Suburban allowing employee's personal expenses to be charged through the
12 company?**

13 A. In Suburban's response to DR 67, it indicated that "loans are made to employees
14 and shareholders as an employee/shareholder benefit. The employee loans are
15 repaid, with interest, periodically."³⁴

16
17 **Q. Are Suburban's employee paying back these personal charges?**

18 A. I cannot say for certain that Suburban's employees are paying back the loans that
19 Suburban provides them for personal expenses. The reason I cannot definitively say
20 that these loans are being paid back is because in its response to Staff's Data
21 Request No. 67, Suburban provided two December 31, 2011 balance sheets. The first

³³ Suburban's general ledger as provided in its response to Staff Data Request No. 1.

³⁴ Suburban response to KCC Staff DR No. 67.

1 balance sheet – printed at 10:37 AM on 1/30/12 – shows the following balances in
2 notes receivable:

- 3 • \$10,078.99 for Ann Breuer,
- 4 • \$11,020.34 for Mike Breuer, and
- 5 • \$155,590.99 for Ray Breuer.

6
7 Suburban provided a second December 31, 2011 balance sheet – this one was
8 printed at 2:20 PM on 2/02/12. This balance shows the following balances in its notes
9 receivable:

- 10 • \$11,020.34 for Mike Breuer, and
- 11 • \$119,389.95 for Ray Breuer.

12
13 Because balance sheets provide only a snapshot view of account balances, at
14 one particular moment, with no account activity detail, I am unable to determine
15 why Ann Breuer’s note receivable had more than a \$10,000 balance on January 30,
16 2012, but then has a \$0 balance on February 2, 2012. Similarly, I am unable to
17 determine why the value of Ray Breuer’s note receivable decreased \$36,201.04
18 during the same time period. Without a receipt of payment, I am unable to
19 determine if Ann’s note was paid off, or whether it was simply reclassified to
20 another account.

21 However, by reviewing the 2010 transaction journals that Suburban
22 provided in its response to Staff Data Request No. 67, I was able to determine the

1 following information regarding the notes receivable assigned to Ann Breuer, Mike
2 Breuer and Ray Breuer:

- 3 • On March 26, 2010, Ann Breuer's note receivable had a \$0.00 balance. On
4 December 31, 2010, Ann Breuer's note receivable had increased to
5 \$10,078.99. On July 5, 2011, Ann Breuer's note receivable had a balance of
6 \$13,008.40. There was no payment applied to this note receivable from
7 March 26, 2010 through July 5, 2011.
- 8 • On January 1, 2010, Ray Breuer's note receivable had an \$80,655.89 balance.
9 During 2010, \$6,000 in payments were applied to Ray Breuer's note
10 receivable. These payments were not made in cash, but rather split from the
11 amount of rent expense that Suburban owes Ray Breuer, as I previously
12 discussed. On December 31, 2010, Ray Breuer's note receivable had
13 increased to \$117,949.68.
- 14 • On February 2, 2010, Mike Breuer's note receivable had a \$0.00 balance. On
15 December 31, 2010, Mike Breuer's note receivable had increased to
16 \$10,262.37. There were no payments made to this note receivable during
17 2010. On December 2, 2011, the balance in Mike Breuer's note receivable
18 had increased to \$11,915.10. There were \$13,867 in payments applied to
19 Mike Breuer's note receivable from May 6, 2011 to December 2, 2011.

20
21 **Q. Is Suburban charging interest on loans made to its shareholders or employees?**

22 **A.** It does not appear that Suburban's employees are paying interest on these loans. I
23 was only able to find a single transaction on December 31, 2010, where Suburban

1 applied \$4,032.79 in interest charges to the Ray Breuer's note receivable. I found no
2 other instances where Suburban charged interest on these employee loans.

3
4 **Q. Has the Commission previously instructed Suburban to stop charging its employees'**
5 **personal expenses through the company?**

6 A. In KCC Docket 05-SUWB-104-RTS ("104 Docket"), Staff recommended that
7 Suburban cease purchasing personal items through Suburban Water. On March 28,
8 2005, the Commission approved a rate increase for Suburban and adopted Staff's
9 recommendation that Suburban cease purchasing personal items for employees
10 through its company.

11
12 **Q. If these personal charges are not included in rates, why does it matter if Suburban is**
13 **purchasing personal items through the company?**

14 A. Common sense dictates that the practice of allowing employees and officers of the
15 company to have open lines of credit to charge personal expenses is simply bad
16 business. Additionally, because these personal expenses are being paid using
17 Suburban's working capital, eventually Suburban could become cash-deficient,
18 which could impair Suburban's ability to provide safe and reliable water service to
19 its customers.

1 **Q. What is your recommendation to the Commission regarding Suburban's practice of**
2 **allowing employees to charge personal expenses through the business?**

3 A. I recommend the Commission require Suburban provide proof in its next abbreviated
4 filing that this policy has ceased. Additionally, each Suburban employee's loan should be
5 memorialized in a loan agreement, establishing an appropriate interest rate and a payment
6 schedule. These schedules should be filing as part of Suburban's next abbreviated rate
7 case. Additionally, the Commission should require that all rent monies owed to Ray
8 Breuer be applied to his note receivable until his debt to the company has been paid back
9 in its entirety.

10
11 **IX. RECOMMENDATIONS**

12 **Q. What are your recommendations to the Commission?**

13 A. I recommend the Commission:

- 14 • approve the adjustments to be set forth in my testimony;
- 15 • deny Suburban's request for a rate increase because Suburban's adjusted
16 revenues exceed its adjusted test-year expenses;
- 17 • order Suburban to discontinue paying for cable television services at the home of
18 its employee, Travis Miles;
- 19 • order Suburban to discontinue paying for XM Satellite Radio Services;
- 20 • order Suburban to file a tariff to establish a schedule of fees to be charged to
21 customers paying with credit cards;
- 22 • deny Suburban's request for a purchased water adjustment;

- 1 • order Suburban to cease paying for employees' personal expenses through
2 the company;
- 3 • order Suburban to memorialize all employee loans in formal loan agreements,
4 with appropriate interest rates and payment schedules. The Commission should
5 further require that these schedules be filed as part of Suburban's next abbreviated
6 filing; and
- 7 • require that all rent monies owed to Ray Breuer be applied to his note receivable
8 until his debt to the company has been paid back in its entirety.

9

10 **Q. Does this conclude your testimony?**

11 **A. Yes.**

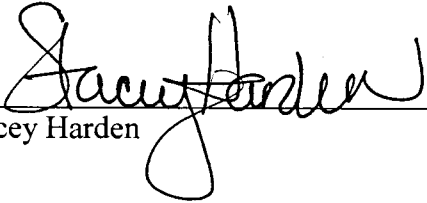
VERIFICATION

STATE OF KANSAS)

COUNTY OF SHAWNEE) ss:

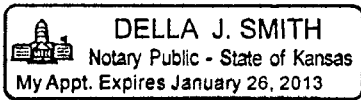
I, Stacey Harden, of lawful age, being first duly sworn upon her oath states:

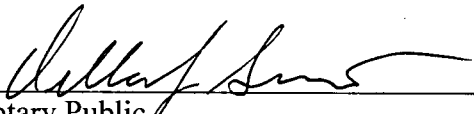
That she is a regulatory analyst for the Citizens' Utility Ratepayer Board, that she has read the above and foregoing document, and, upon information and belief, states that the matters therein appearing are true and correct.



Stacey Harden

SUBSCRIBED AND SWORN to before me this 15th day of March 2012.





Notary Public

My Commission expires: 01-26-2013.

CERTIFICATE OF SERVICE

12-SUBW-359-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service this 15th day of March, 2012, to the following:

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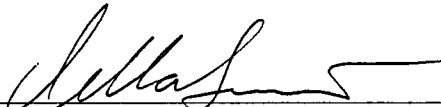
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