

Exhibit No.:
Witness: Michael P. Gorman
Type of Exhibit: Supplemental Testimony
Sponsoring Party: Missouri Industrial Energy Consumers
Date Testimony Prepared: September 16, 2011

**BEFORE THE
RATE COMMISSION OF
THE METROPOLITAN ST. LOUIS SEWER DISTRICT
2011 WASTEWATER RATE CHANGE PROCEEDING**

Supplemental Testimony and Schedules of

Michael P. Gorman

On behalf of

Missouri Industrial Energy Consumers

Project 9456
September 16, 2011



BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

BEFORE THE
RATE COMMISSION OF
THE METROPOLITAN ST. LOUIS SEWER DISTRICT

2011 WASTEWATER RATE CHANGE PROCEEDING

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

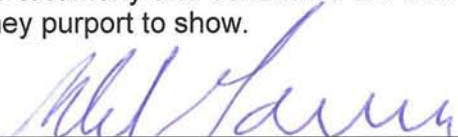
Affidavit of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Missouri Industrial Energy Consumers in this proceeding on their behalf.

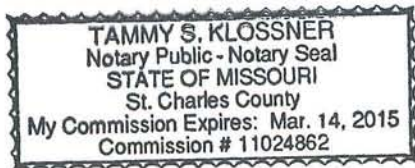
2. Attached hereto and made a part hereof for all purposes are my supplemental testimony and schedules which were prepared in written form for introduction into evidence in the Rate Commission of the Metropolitan St. Louis Sewer District's 2011 wastewater rate change proceeding.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.



Michael P. Gorman

Subscribed and sworn to before me this 16th day of September, 2011.





Notary Public

**BEFORE THE
RATE COMMISSION OF
THE METROPOLITAN ST. LOUIS SEWER DISTRICT
2011 WASTEWATER RATE CHANGE PROCEEDING**

Supplemental Testimony of Michael P. Gorman

1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
3 Chesterfield, MO 63017.

4 **Q ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED
5 TESTIMONY IN THIS PROCEEDING?**

6 A Yes.

7 **Q WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL TESTIMONY?**

8 A Brubaker & Associates, Inc. ("BAI"), on behalf of the Missouri Industrial Energy
9 Consumers ("MIEC"), has reviewed the detailed electronic model underlying Exhibit
10 MSD 1, the Black & Veatch ("B&V") cost of service study.

11 **Q PLEASE OUTLINE YOUR FINDINGS FOR REVIEW OF THE ELECTRONIC
12 MODEL.**

13 A BAI has done a fairly comprehensive review of the calculations contained in the B&V
14 model. However, a more detailed comprehensive review would have been made had
15 the electronic model been provided to BAI for a full evaluation at the beginning of this

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1 rate proceeding. Time constraints, and the limited time available to actually review
2 the model, prevented BAI from doing our normal thorough review.

3 **Q DID BAI IDENTIFY ANY CONCERNS WITH THE MODEL?**

4 A Yes. BAI has completed its review and has identified at least one area of concern.
5 Specifically, the model includes a projection for bad debt expense which was created
6 in a way that appears to be in conflict with the description in Exhibit MSD 1.
7 Specifically, MSD's report states as follows in paragraph 2.2:

8 **2.2 Other Operating Revenue**

9 Historical and projected other revenue is presented in Table 2-3 for the
10 District's combined wastewater and stormwater operations. All of
11 these revenues are used to partially or fully offset related operating
12 costs. Billing adjustment revenue, such as late fees, refunds, lien
13 interest and other adjustments are expected to remain generally stable
14 throughout the study period. The provision for bad debt has
15 historically increased but is expected to temporarily decline in the next
16 two years due to more comprehensive use of collection agencies and
17 law firms to collect prior years' past due amounts. This declining trend
18 is expected to reverse as wastewater rates continue to increase.
19 (Exhibit MSD 1, page 2-5, emphasis added).

20 The actual modeling of bad debt expense is not consistent with this claim for a
21 projected two-year decline in bad debt expense. B&V modeled a \$4 million decrease
22 to bad debt expense in 2012 and a \$1.5 million increase in bad debt expense in 2013.
23 This increase in bad debt expense in 2013 appears to contradict the B&V report claim
24 of a two-year decline to this expense. Rather, the model only reflected a one-year
25 declining trend with an offset trend in 2013.

26 This may have simply been a modeling error that was not detected because
27 the model details were not fully disclosed until now, nor checked by any other party
28 besides B&V.

1 Q WHAT WOULD HAVE BEEN THE IMPACT ON THE UNCOLLECTIBLE EXPENSE
2 HAD MSD STAFF MODELED THE 2013 BAD DEBT EXPENSE AS A REDUCTION
3 TO THE EXPENSE RATHER THAN AN INCREASE TO THE EXPENSE?

4 A This is shown on my Supplemental Schedule MPG-1. As shown on that schedule, if
5 MSD Staff would have reflected the \$1.5 million adjustment as a second year
6 expense reduction in 2013, then the resulting bad debt expense that would have
7 been built into the B&V model would have been in line with what I believe is a more
8 reasonable bad debt expense projection through the rate forecast period.

9 Q DID YOU IDENTIFY ANY OTHER ERRORS OR DISCREPANCIES IN THE B&V
10 MODEL?

11 A No, but again, BAI did not perform the type of detailed review of all aspects of the
12 model that it would have otherwise performed had this model been provided in
13 electronic format to BAI upfront, and provided BAI more time to do a detailed review
14 of the model.

15 Q CAN YOU TELL US WHAT LEVEL OF RATE INCREASE WOULD BE
16 APPROPRIATE IF YOUR PROPOSED ADJUSTMENTS WERE MADE TO THE
17 B&V COST OF SERVICE MODEL?

18 A Yes. This is shown on my Supplemental Schedule MPG-2. On this schedule, I made
19 the following adjustments to the B&V cost of service model:

20 1. I corrected the bad debt expense in 2013 reflecting the expense changed to be a
21 reduction to the expense and not an increase, consistent with the language in the
22 Exhibit MSD 1 write-up.

23 2. I reduced the 30-year bond debt interest expense to 4.65%, which was the
24 highest interest rate projections that MSD Staff was able to provide any evidence
25 for in this case. Note, that this debt interest expense will still overstate the debt
26 service cost on new revenue bond issuances during the forecast period. This

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1 debt interest expense reflects an interest rate for the new revenue bond
2 issuances that would reflect no principal payments during the forecast period.
3 The B&V model included this interest expense and principal payments during the
4 forecast period.

5 3. I reduced the base inflation factor used in the O&M escalation factors to 2.25%
6 from 3% as reflected in the B&V model. This was discussed in my rebuttal
7 testimony. See M. Gorman Rebuttal Testimony, p. 10.

8 4. I reduced the capital improvement program ("CIP") budget by approximately 10%
9 to reflect the reduction in CIP provided in the current outline of the Consent
10 Decree mandates, rather than the overstated amounts included in the B&V model.
11 As noted in my previous testimony, MSD Staff overstated the amount of CIPs
12 necessary to comply with the Consent Decree over the next four years. See M.
13 Gorman Surrebuttal Testimony, pp. 16-19.

14 As shown on the attached Supplemental Schedule MPG-2, with these
15 adjustments, MSD's claimed annual revenue increase will decline from its proposed
16 levels of 11.0% in 2013, 12.0% in 2014, 12.0% in 2015, and 12.0% in 2016 to a
17 levelized annual revenue increase amount of 9.6% in each of the four rate years
18 2013-2016. This reduces MSD Staff's proposed increase of over 60%
19 (\$128.8 million) through 2016 down to 49% (\$105.6 million). As such, this continues
20 to support my recommendation to the Rate Commission that the MSD Staff's
21 proposed level of rate increase is excessive and should be reduced downward.

22 **Q DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

23 **A** Yes, it does.

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Metropolitan St. Louis Sewer District

Comparison of Bad Debt Provisions

<u>Line</u>	<u>Description</u>	<u>Fiscal Year Ending June 30,</u>					
		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
	MSD Proposed:						
1	Bad Debt Provision ¹	\$ (10,910,900)	\$ (6,820,800)	\$ (8,998,500)	\$ (10,055,400)	\$ (11,262,000)	\$ (12,613,400)
	MSD Corrected:						
2	Bad Debt Provision ²	\$ (10,910,900)	\$ (6,820,800)	\$ (5,998,500)	\$ (6,703,000)	\$ (7,507,400)	\$ (8,408,300)
	MIEC Proposed in Rebuttal:						
3	Bad Debt Provision ³	\$ (10,910,900)	\$ (6,989,944)	\$ (7,552,910)	\$ (8,299,442)	\$ (9,129,384)	\$ (10,042,323)

Sources:

¹ MSD Exhibit 1, Table 3-6, at line 2

² Corrected Adjustment to Black & Veatch Cost of Service Model, Table 3-6

³ Gorman Rebuttal Testimony, Schedule MPG-3, at line 6

**Metropolitan St. Louis Sewer District
Gorman Adjusted Black & Veatch Cost of Service Model, Table 3-11**

	B	C	D	E	F	G	H	I	J	K
652	Table 3-11									
653	Comparison of Projected Wastewater Revenue Under Existing									
654	Rates With Projected Revenue Requirements									
655										
656	Line	Fiscal Year Ending June 30.								
658	No.	Description		2011	2012	2013	2014	2015	2016	
660				\$	\$	\$	\$	\$	\$	
661										
662	1	Revenue Under Existing Rates (a)		213,795,600	213,795,600	213,795,600	213,795,600	213,795,600	213,795,600	213,795,600
663		Additional Revenue Required								
664		Fiscal	Revenue	Months						
665		Year	Increase	Effective						
667		2011	0.0%	12	0	0	0	0	0	0
668	2	2012	4.3%	12		8,427,100	9,193,200	9,193,200	9,193,200	9,193,200
669	3	2013	9.6%	12			19,623,000	21,406,900	21,406,900	21,406,900
670	4	2014	9.6%	12				21,506,800	23,462,000	23,462,000
671	5	2015	9.6%	12					23,571,500	25,714,300
672	6	2016	9.6%	12						25,834,300
674	7	Total Additional Revenue		0	8,427,100	28,816,200	52,106,900	77,633,600	105,610,700	
676	8	Total Service Charge Revenue		213,795,600	222,222,700	242,611,800	265,902,500	291,429,200	319,406,300	
677		Ad Valorem Tax Revenue (GO Bonds)		0	0	0	0	0	0	0
678	9	Other Operating Revenue		(750,500)	3,382,400	4,323,000	3,833,300	3,137,900	2,353,100	
679	10	Connection Fee Revenue		1,250,000	1,288,000	1,327,000	1,367,000	1,408,000	1,450,000	
680	11	Interest Income - Reserve Funds		888,800	946,900	1,136,500	1,379,200	1,600,400	1,788,600	
681	12	Interest Income - Operations		30,800	69,500	144,800	242,000	324,000	367,300	
682	13	Interest Income - Arnold		650,700	631,000	610,500	589,100	566,800	543,600	
684	14	Subtotal Other Revenue		2,069,800	6,317,800	7,541,800	7,410,600	7,037,100	6,502,600	
686	15	Total Revenue		215,865,400	228,540,500	250,153,600	273,313,100	298,466,300	325,908,900	
687										
688	16	Operation and Maintenance Expense		134,394,800	137,827,000	143,454,500	148,827,900	152,398,900	156,512,400	
689	17	Additional O&M (b)		0	0	108,400	2,067,300	7,112,800	7,494,100	
690		Stormwater Program Support		0	0	0	0	0	0	
692	18	Net Revenue		81,470,600	90,713,500	106,590,700	122,417,900	138,954,600	161,902,400	
693										
694		Debt Service								
695	19	Existing Senior Revenue Bonds		19,290,600	19,415,200	19,550,800	19,686,000	19,834,400	19,973,200	
696	20	Proposed Senior Revenue Bonds		0	1,833,900	16,370,900	28,554,400	39,800,700	48,547,800	
697		Application of Bond Reserves		0	0	0	0	0	0	
699	21	Total Senior Revenue Bonds		19,290,600	21,249,100	35,921,700	48,240,400	59,635,100	68,521,000	
700	22	Existing State Revolving Fund Loans (c)		19,113,700	21,311,100	21,401,300	21,483,500	21,355,600	21,728,600	
701	23	Proposed State Revolving Fund Loans (c)		0	1,711,000	4,062,800	6,507,900	8,553,000	10,797,800	
703	24	Total State Revolving Fund Loans		19,113,700	23,022,100	25,464,100	27,991,400	29,908,600	32,526,400	
704	25	Commercial Paper		0	0	0	0	0	0	
705		General Obligation Bonds		0	0	0	0	0	0	
706		Short-term Debt Service		0	0					
708	26	Total Debt Service		38,404,300	44,271,200	61,385,800	76,031,800	89,543,700	101,047,400	
709										
710	27	Routine Annual Improvements		2,378,600	2,444,100	2,499,000	2,555,100	2,612,500	2,671,200	
711	28	Cash Financing of Major Improvements		37,250,000	38,438,000	31,677,000	33,267,000	38,308,000	55,850,000	
712	29	Additions to Operating Reserve		674,500	575,000	951,900	1,214,500	1,425,900	748,500	
713										
714	30	Net Annual Balance (d)		2,763,200	4,985,200	10,077,000	9,349,500	7,064,500	1,585,300	
715										
716	31	Beginning of Year Balance (e)		1,696,900	4,460,100	9,445,300	19,522,300	28,871,800	35,936,300	
717	32	End of Year Balance (e)		4,460,100	9,445,300	19,522,300	28,871,800	35,936,300	37,521,600	
718										
719		Actual Debt Service (f)								
720	33	Senior Bonds		19,270,300	20,136,900	26,876,900	40,565,600	52,551,200	63,002,900	
721	34	SRF Loans		18,292,600	20,732,600	24,398,500	26,593,900	29,039,400	31,063,200	
722		Debt Service Coverage								
723	35	Revenue Bonds (g)		4.23 x	4.50 x	3.97 x	3.02 x	2.64 x	2.57 x	
724	36	Total Debt (h)		2.17 x	2.22 x	2.08 x	1.82 x	1.700 x	1.72 x	
725										
726	(a)	Revenue under existing wastewater rates effective July 1, 2010.								
727	(b)	O&M costs related to anticipated regulatory projects. These projects include improved disinfection at the Missouri River WWTP								
728		in 2013 and 2014; expansion of the Missouri River WWTP in 2015; and Capacity, Management, Operation, and Maintenance (CMOM)								
729		program activities related to anticipated Consent Decree requirements in 2016.								
730	(c)	Debt service on State Revolving Fund (SRF) Loans are net of the state's interest subsidy.								
731	(d)	Negative balances indicate need to drawdown available fund balance.								
732	(e)	Does not include funds set aside for a minimum operating reserve equal to 60 days of operating expenses.								
733	(f)	Payment to Bondholders per Table 3-10, paid through Sinking Fund.								
734	(g)	The Bond Ordinance requires net revenue to equal or exceed 1.25x actual senior lien debt service.								
735	(h)	The Bond Ordinance requires net revenue to equal or exceed 1.15x total actual debt service.								
736										