

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

**AUGUST 19, 2011 SUBMITTAL OF SURREBUTTAL TESTIMONY
OF THE METROPOLITAN ST. LOUIS SEWER DISTRICT**

ISSUE: WASTEWATER RATE CHANGE PROPOSAL

WITNESS: BRIAN HOELSCHER, P.E.

SPONSORING PARTY: METROPOLITAN ST. LOUIS SEWER DISTRICT

DATE PREPARED: August 19, 2011

**Metropolitan St. Louis Sewer District
2350 Market Street
St. Louis, Missouri 63103**

1 **Q1. Mr. Hoelscher there seems to be some confusion related to the CIRP and the**
2 **projects within it as they relate to the rate proposal are there any documents that have**
3 **been provided that can assist any of the parties to clear up any confusion they have**
4 **regarding the Rate Proposal and the CIRP.**

5 A. Yes. The district has provided at least 5 documents that should assist any party in analyzing
6 the CIRP program as outlined for this rate proposal they are:

7 1. The Project List, or MSD Exhibit 9B1. This exhibit was submitted with my
8 original testimony and lists all of the capital activity currently planned for FY
9 2013-2016. The list separates design and construction activities by fiscal year and
10 also gives the general regulatory category of the project.

11 2. The Long Term Control Plan, or MSD Exhibit 11B. The location of this
12 document on MSD's website was given in response to the Rate Commission's
13 First Discovery Request. This document gives a full history of the technical basis
14 for the options that were considered and finally selected to mitigate the impact of
15 Combined Sewer Overflows on the St. Louis area waterways. It also includes the
16 results of the extensive public participation program that was used to develop this
17 document.

18 3. The Board Agenda Sheet, or MSD Exhibit 11A32. Since the actual consent decree
19 could not be made public, MSD worked with others parties to the lawsuit to
20 develop this sheet which describes the general areas covered by the Consent
21 Decree and gives some specific financial information.

22 4. The Consent Decree, or MSD Exhibit MSD 49A, describes all requirements
23 resulting from the lawsuit. Different activities have different degrees of detail

1 depending on the requirement. Some requirements are very detailed and set
2 specific annual goals which must be achieved throughout the life of the decree.
3 Other requirements require the submittal of plans and schedules for regulatory
4 approval before exact details of these activities are known, though most of these
5 do have overall schedule deadlines that must be met by the proposed plans.

6 5. Finally, the District has provided the Exhibit MSD 50A which is the
7 Supplemental CIRP Project List. This document provides a reference for every
8 project on the Project List (MSD Exhibit 9B1) to the specific regulatory
9 requirement listed in both the Board Agenda Sheet (MSD Exhibit 11A32) and the
10 Consent Decree (MSD Exhibit 49A).

11
12 **Q2. Do any of the projects listed in the Supplemental CIRP Project List in exhibit MSD**
13 **50A relate to specific sections of the Federal Consent Decree or “CD” which has been**
14 **filed as MSD exhibit 49A?**

15 A. Yes, in fact all but 5 projects totaling \$4.1 million are specifically outlined in the CD. I will
16 briefly describe the major CD references in the order that they appear in Exhibit MSD 50A:

17 1. V.F.29- This paragraph and the other sections referenced in this paragraph
18 describe the process whereby most of the capital work to be performed on MSD’s
19 separate sanitary sewer system. The issues to be addressed include constructed
20 SSO’s as well as other system surcharge issues. These issues are to be addressed
21 as expeditiously as possible based on a schedule to be approved by the regulators,
22 but in any case 85% of the constructed SSO’s must be eliminated by December
23 31, 2023.

- 1 2. V.G.k.iii- Project ID 8694 is the only project on this project list to specifically fall
2 under this reference. The Caulk’s Creek Force Main has been experiencing
3 occasional failure issues. This project is part of a program to replace the existing
4 main where needed and provide redundancy to facilitate future operations. The
5 cost associated with increasing the capacity of this main to accommodate growth
6 in the Caulk’s Creek watershed will be captured through a surcharge placed on
7 future development in this watershed.
- 8 3. V.B.12, V.G.c.iii, and/or V.G.d.ii- These projects are to assist in addressing the
9 CD requirements for system rehabilitation and replacement to address Inflow and
10 Infiltration (I/I) as well as system renewal. Other capital projects resulting in
11 system replacement as well as O&M activities will also address these
12 requirements.
- 13 4. V.M.49- These projects are commonly referred to as “Cityshed” projects. These
14 projects will address the impacts of surcharged local combined sewer systems in
15 the City of St. Louis and surrounding areas in St. Louis County that cause
16 flooding of homes and properties. Solutions consist of property buy-outs, storage
17 basins, runoff reduction, and conveyance.
- 18 5. VI.A.51- These projects address the mitigation of combined sewer overflows
19 (CSO’s). These projects are in alignment with MSD’s approved LTCP (Exhibit
20 MSD 11B) and have a set schedule for completion as outlined in the referenced
21 Appendix D in the CD. Almost all of the expenditures for combined sewer
22 overflows are to mitigate overflows in the River Des Peres watershed as well as
23 on Gingras and Maline Creek. The overflows located directly on the Mississippi

1 River, which per the LTCP represent approximately ½ of the current CSO
2 volume, will be addressed by a \$100 million “green” program which will help
3 reduce discharge volumes directly to the Mississippi by reducing stormwater
4 runoff from individual properties and areas. If the CSO’s discharging directly to
5 the Mississippi River had to be addressed in the same way as the discharges to the
6 River Des Peres watershed and Gingras and Maline Creek, the cost of the CSO
7 portion of the program would increase by approximately \$2 billion.

8
9 **Q3. Are there some additional regulatory costs which are not necessarily outlined in the**
10 **CD?**

11 A. Yes. I will refer to Exhibit MSD 50A. First, under Treatment Plant in FY 2013 is the
12 reference to project ID number 3603, or the Lower Meramec Ed/Rec Facility. The
13 construction of this project is required to meet a commitment made when MSD acquired
14 \$11,584,300 in federal funding for the construction of the Lower Meramec Wastewater
15 Treatment Facility. Second is project ID number 11094 on the same page of the exhibit, or
16 the Prospect Hill Landfill. This design project is required to expand existing facilities to cost-
17 effectively meet regulatory requirements regarding the disposal of ash from the Bissell Point
18 Treatment Plant Incinerator Operations. Note that construction costs are listed later in FY
19 2016. Finally, under Treatment Plant in FY 2014 is the reference to project ID number 8154,
20 or the Lower Meramec Plant Site Restoration. The final site restoration of the recently
21 constructed facilities in required to meet the conditions of the Conditional Use Permit issued
22 by the County for the construction of this project. The construction of this restoration has

1 been delayed until now so that the new disinfection facilities at this plant can be completed
2 first.

3

4 **Q4. Within the Supplemental CIRP Project List there is project number 11117 which**
5 **has no reference to the CD or other regulatory requirements can you explain why this**
6 **is?**

7 A. Yes. This project is under Treatment Plants in FY 2013 and is listed as the Coldwater
8 Digester Clean-Out. This project was not originally listed as having a regulatory requirement
9 because the action of cleaning the digester is not needed to meet a federal requirement.
10 However, the cleaning of the now abandoned digesters is needed to provide storage
11 redundancy for the sludge slurry force main that runs from the Coldwater Treatment Plant to
12 the Bissell Point Treatment Plant. The need for this storage is referenced in paragraph 31.k of
13 the consent decree.

14

15 **Q5. Mr. Hoelscher can you please explain what you have done and plan to do to**
16 **optimize and manage the capital program?**

17 A. MSD's current method for managing the capital improvement program was put in place
18 approximately 10 years ago. This method has been very successful and has given us the
19 ability to be very flexible in addressing changes and challenges to delivery of the capital
20 program. The biggest challenge that MSD successfully managed was addressing new
21 discharge regulations during the last rate cycle which required the installation of disinfection
22 at all of our remaining plants no later than December 2013. Design and construction
23 resources were reprogrammed to meet this need, and MSD is currently on schedule to meet

1 all of these regulatory deadlines. Another adjustment that was made was the use of regulatory
2 required unfunded “contingency” projects so that additional dollars that might become
3 available in a fiscal year for various reasons (delayed projects, lower cost solutions during
4 design, low bids, variances in investment income and revenues from original projections,
5 ARRA stimulus funding, etc.) can be used for other required projects. These projects are
6 ones MSD anticipates may be ready if issues such as easement acquisition, regulatory
7 approvals, or municipal coordination are resolved quicker than programmed. In FY 2009
8 MSD started 4 contingency projects at a cost of \$3.8 million, in FY 2010 MSD started 7
9 contingency projects at a cost of \$20.2 million dollars, and in FY 2011 MSD started 3
10 contingency projects at a cost of \$43.2 million. As of August 2011, of the projects marked as
11 “contingency” in MSD Exhibit 9B1, 3 projects worth approximately \$10 million are
12 currently rated as being available if needed and an additional 2 projects worth approximately
13 an additional \$7 million have a good chance to be ready. By using this process and by
14 constantly monitoring the anticipated fund balance that is available for capital projects, MSD
15 is scheduled to use all dollars that the last rate case made available for the capital program.
16 (Paragraph break?) For the future, MSD has made adjustments to the delivery model to meet
17 new requirements associated with the CD. These primarily consist of taking advantage of the
18 large quantity of qualified consulting engineer resources available within the St. Louis area.
19 We will do this by using larger watershed teams for extended engagements to address
20 regulatory issues within a geographic area instead of hiring consultant teams on a project by
21 project basis. This will allow us to take advantage of cost effective use of resources within a
22 geographical area and most importantly will provide immediate resources when needed to
23 address unforeseen conditions and still meet the regulatory completion dates which will now

1 be required with a CD. As testified to in my testimony Exhibit MSD 9B and MSD's
2 response to the first Rate Commission Discovery request (Exhibit MSD 11B), MSD has
3 sufficient internal resources and processes in place to manage this new model. In addition, as
4 is apparent from our continuing coordination with the consulting engineer and construction
5 contracting representatives in St. Louis, sufficient construction contracting resources exist to
6 execute this program.

7

8 **Q6. Mr. Hoelscher in the testimony submitted by Billie LeConte on behalf of Barnes**
9 **Jewish Hospital on page 6 lines 12-15 she compares values for planned appropriations**
10 **against values for actual expenditures. Is it appropriate to compare those two types of**
11 **numbers?**

12 A. No.

13

14 **Q7. Why not?**

15 A. Ms. LeConte is comparing the planned appropriations, or encumbrances, of \$647.5 million
16 for FY 2007-2010 that was included in our last rate proposal to the actual expenditures of
17 \$787.5 million that were reported in our response to the Rate Commission's First Discovery
18 Request. This would be an accurate comparison if all of the expenditures actually occurred
19 with the same fiscal year as they were appropriated, or encumbered. In fact, the actual
20 expenditures reported include some expenditures from appropriations made prior to the start
21 of FY 2007 and does not include expenditures for projects appropriated as late as FY 2010
22 which are not completed by the end of FY 2010. Ms. LeConte also tries to draw the
23 conclusion that there is a large variance between the forecasted project activities versus the

1 actual expenditures and that this may lead to rate payers paying large amounts of money up
2 front that may not be needed within the next four years. In fact, the actual appropriations for
3 the period FY 2007-2010 were within 0.4% of the appropriations planned in the last rate
4 case.

5

6 **Q8. Mr. Hoelscher, is a rate proposal for the period FY 2013-2016 as submitted by**
7 **MSD appropriate for the execution of the Capital Improvement Plan considering the**
8 **regulatory requirements contained in the Consent Decree?**

9 A. Yes it is. Milestones in the Consent Decree (Exhibit MSD 49A) to be addressed by
10 capital improvement projects are tied almost exclusively to specific dates, some of which
11 occur prior to the final entry of the Consent Decree, or to the Date of Entry of the
12 Consent Decree. Specific to the elimination of Constructed SSOs, MSD is required to
13 complete early elimination projects. This includes a specific list of Constructed SSOs that
14 are to be removed by December 31, 2012 as well as the early elimination of other
15 Constructed SSOs prior to the submission of the Sanitary Sewer Overflow Control
16 Master Plan on December 31, 2013. Progress on these early elimination projects must be
17 reported to the United States and to the State of Missouri annually beginning on October
18 31, 2012. This requires that MSD provide for a continuous capital program that
19 addresses early elimination projects as well as engineering and construction of projects
20 needed to assure compliance with the 2023 and 2033 overall milestones. The capital
21 projects for FY 2013 through FY 2016 needed to meet the requirements of the Consent
22 Decree were previously provided (Exhibits MSD 9B1 and 50A).

1 There are a large number of capital improvement milestones requiring between \$1.5
2 billion and \$2.0 billion that will be needed that are not currently defined in the Consent
3 Decree. These will allow for the future removal of Constructed SSOs and other known
4 SSOs as described paragraphs 23, 26, and 27 of the Consent Decree. The specific dates
5 for these milestones and the capital projects needed to meet these milestones will be
6 established in a Sanitary Sewer Overflow Control Master Plan to be submitted for
7 approval by the EPA by December 31, 2013. The duration of the proposed FY2013-2016
8 rate proposal coincides exactly with when this final piece of information will become
9 available. The Sanitary Sewer Overflow Control Master Plan is required to be submitted
10 by December 31, 2013. Assuming one year for regulatory review and MSD response to
11 comments before approval by the EPA, MSD estimates that the information will become
12 final on December 2014. MSD will begin development of its next rate proposal,
13 including this additional information, at this time in order to present the next rate
14 proposal to the Rate Commission on approximately May 2015. Assuming a Rate
15 Commission recommendation is completed by October 2015, the next 8 months will be
16 used to allow for consideration of the Rate Recommendation by MSD's Board of
17 Trustees and allow time to acquire additional bond authorization if need for the beginning
18 of the new rate cycle starting on July 1, 2016.

19
20 Thus a shorter rate proposal does not yield greater clarity on SSO program delivery. The
21 current rate proposal period of FY 2013-2016 allows MSD to meet the immediate capital
22 improvement requirements of the consent decree, allows the Rate Commission to
23 consider MSD's rate proposal request and proposed capital improvement program with

1 all the information currently available for the next four year period, and gives the Rate
2 Commission the opportunity to review MSD's future rate requests for additional capital
3 improvement projects as soon as additional information becomes available to define all
4 the capital needs required to meet the Consent Decree.

5

6 **Q9. Do you have an opinion regarding the recommendation in Mr. Stannard's Rebuttal**
7 **testimony, exhibit L&B 30, that MSD decrease the rate proposal by \$35,279,700.**

8 A. MSD currently does phased annual appropriations for very large projects so that annual
9 appropriations more closely match cash flows or the availability of revenues. Deducting the
10 anticipated FY 2017 cash flow from the rate proposal would not give MSD the flexibility to
11 do phased annual appropriations near the end of the rate cycle to make up any possible
12 shortfall in anticipated capital funds.

13

14 **Q10. Does this complete your surrebuttal testimony at this time?**

15 A. Yes.