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Outside Services – Management Consulting Fees/
Leak Repairs/
Auditing and Income Tax Preparation Fees/
Rate Case Expense/
Corporate Allocation Factor/
Employee Salaries
Witness/Type of Exhibit: Roth/Rebuttal
Sponsoring Party: Public Counsel
Case No.: WR-2017-0259

REBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

**INDIAN HILLS UTILITY
OPERATING COMPANY, INC.**

CASE NO. WR-2017-0259

October 27, 2017

CPC Exhibit No. 202
Date 11-27-17 Reporter XF
File No. WR-2017-0259

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

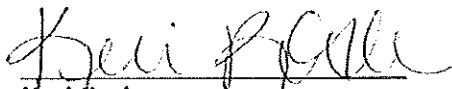
In the Matter of the Application)
Of a Rate Increase)
For Indian Hills Utility)
Operating Company, Inc.) Case No. WR-2017-0259

AFFIDAVIT OF KERI ROTH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Keri Roth, of lawful age and being first duly sworn, deposes and states:


1. My name is Keri Roth. I am a Public Utility Accountant III for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Keri Roth
Public Utility Accountant III

Subscribed and sworn to me this 27th day of October 2017.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

TABLE OF CONTENTS

<u>Testimony</u>	<u>Page</u>
Introduction	1
Partial Disposition Agreement	1
Outside Services – Management Consulting Fees	3
Leak Repairs	4
Auditing and Income Tax Preparation Fees	4
Rate Case Expense	5
Corporate Allocation Factor	6
Employee Salaries	6

REBUTTAL TESTIMONY
OF
KERI ROTH
INDIAN HILLS UTILITY OPERATING COMPANY, INC.
CASE NO. WR-2017-0259

1 **I. INTRODUCTION**

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

3 **A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.**

4 **Q. Are you the same Keri Roth who has filed direct testimony on behalf of the OPC in this**
5 **case?**

6 **A. Yes.**

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

8 **A. The purpose of this rebuttal testimony is to respond to the direct testimony from Indian Hills**
9 **Utility Operating Company, Inc. (“Indian Hills” or “Company”) witnesses Mr. Josiah Cox,**
10 **Mr. Phil Macias, and Mr. Todd Thomas regarding employee salaries, leak repairs, audit and**
11 **tax preparation fees, and rate case expense. I will also respond to the direct testimony of**
12 **Missouri Public Service Commission Staff (“Staff”) witnesses Ms. Natelle Dietrich, Ms.**
13 **Jennifer Grisham, and Ms. Ashley Sarver regarding the *Partial Disposition Agreement and***
14 ***Request for Evidentiary Hearing* (“Partial Disposition Agreement”) filed by Staff and Indian**
15 **Hills on September 1, 2017, outside services – management consulting fees, corporate**
16 **allocation factor, and employee salaries.**

17 **II. PARTIAL DISPOSITION AGREEMENT**

18 **Q. Does Staff witness Ms. Dietrich sponsor the Partial Disposition Agreement between Staff**
19 **and Indian Hills in direct testimony?**

1 A. Yes.

2 **Q. Is Staff recommending the Commission approve the Partial Disposition Agreement?**

3 A. Yes, this is indicated in Ms. Dietrich's testimony.

4 **Q. Was OPC a signatory to the Partial Disposition Agreement?**

5 A. No. OPC had several concerns with the Partial Disposition Agreement, which are outlined in
6 *OPC's Response of the Office of the Public Counsel to Partial Disposition Agreement and*
7 *Request for Evidentiary Hearing* filed by OPC on September 11, 2017 in EFIS.

8 **Q. In particular, is it unclear to OPC whether Staff and Indian Hills have come to an**
9 **agreement regarding item six of the Partial Disposition Agreement?**

10 A. Yes. Item six of the Partial Disposition Agreement states, "The parties agree to \$143,010 for
11 the operation and maintenance expense portion of the revenue requirement;". However, in
12 direct testimony, witnesses from both Staff and Indian Hills have made arguments related to
13 the accounting treatment of leak repairs. OPC believes the accounting of leak repairs remains
14 a disputed item of operations and maintenance expense based on Staff's response to OPC data
15 request 51. As shown in Schedule KNR-1 of this rebuttal testimony, Staff specifically
16 explains that Staff and Indian Hills disagree on what is used to calculate the \$143,010 for
17 operation and maintenance expense and due to this disagreement, do not have an agreement
18 for the operation and maintenance expense portion of the revenue requirement.

19 For example, Staff states in OPC data request 51, "It appears that the company believed that
20 \$143,010 would be the annual amount for Operation and Maintenance Expense, none of it
21 would be amortized, and that Staff would also be proposing some other additional
22 amortization expense." Staff indicates in response to OPC data request 50, as shown in
23 Schedule KNR-2, the annual level of operation and maintenance expense includes \$124,020
24 of on-going annual expense plus the amortization for leak repairs of \$18,990 for the next three

1 years. However, in Company witness, Mr. Macias' direct testimony, page 5, lines 15-17, he
2 states the revenue requirement for maintenance and repair expense should be \$99,303.

3 **Q. Based on this evidence, does OPC believe the Commission should approve the Partial**
4 **Disposition Agreement between Staff and Indian Hills?**

5 A. No, based on the evidence described previously and other concerns OPC identified in its
6 response to the Partial Disposition Agreement, the Commission should not approve the Partial
7 Disposition Agreement. It is clear, based on the numerous calculations between parties that
8 the revenue requirement for operations and maintenance expense has not been agreed upon
9 as indicated in the Partial Disposition Agreement.

10 **III. OUTSIDE SERVICES – MANAGEMENT CONSULTING FEES**

11 **Q. Why is Staff including management consulting fees in Indian' Hills cost of service?**

12 A. Staff witness Ms. Grisham states in her direct testimony, "Staff has included this expense due
13 to the previous owner's institutional knowledge regarding the system. Due to the general lack
14 of electronic records for this operation prior to the transfer in March 2016, entering into a
15 contract to enable the new Indian Hills ownership to access the previous owner as needed
16 appears to be a reasonable expenditure."

17 **Q. Does OPC agree with Staff?**

18 A. No. As stated in my direct testimony, OPC has excluded costs associated with this contract,
19 because Indian Hills has not kept any logs, timesheets, or detailed invoices for the previous
20 owner detailing any consultant services provided. Therefore, OPC is unable to determine if
21 the time spent consulting by the previous owner is appropriate for the dollar amount agreed
22 to in the contract.

1 **IV. LEAK REPAIRS**

2 **Q. Indian Hills' witness, Mr. Macias, claims that the on-going level of maintenance expense**
3 **has increased outside of the test year selected by Staff for this current rate case and**
4 **therefore does not agree with Staff's calculation of operation and maintenance expense.**
5 **Does it appear the Company is requesting a level of expense associated with a period**
6 **other than the test year of twelve months ending March 31, 2017?**

7 **A. Yes.**

8 **Q. Does OPC believe a level of expense outside of the test year should be included?**

9 **A. No. An update period was not included in this case; therefore, costs outside of the test year**
10 **should not be included in the cost of service as this violates the matching principle, which**
11 **requires all elements of the revenue requirement to be included in the Indian Hills' cost of**
12 **service at the same general point in time. The inclusion of leak repairs is further discussed in**
13 **OPC witness, Mr. John Robinett's rebuttal testimony.**

14 **V. AUDITING AND INCOME TAX PREPARATION FEES**

15 **Q. Company witnesses, Mr. Cox and Mr. Macias, both indicate Staff has excluded audit**
16 **and income tax preparation fees for Indian Hills and its portion allocated from First**
17 **Round. Does OPC agree with the Company?**

18 **A. No. Both OPC and Staff have included costs for auditing and income tax preparation fees**
19 **expensed by First Round during the test year. OPC and Staff included a level of expense**
20 **associated with First Round's 2015 audited financials and income tax returns. As stated in**
21 **my direct testimony, the invoice provided for Indian Hills' 2016 audited financials was paid**
22 **outside of the test year, and OPC was not provided copies of the audited financials until after**
23 **direct testimony was filed in the current case. Also, OPC has not been provided any invoices**
24 **showing tax preparation for Indian Hills during the test year.**

1 **Q. Has the Commission previously disallowed costs outside of the test year?**

2 A. Yes. In the *Report and Order* in the Hillcrest rate case numbered WR-2016-0064, the
3 Commission disallowed estimated costs of auditing and tax preparation fees, because
4 allowing these costs would violate the matching principle. The same would apply in the
5 current case. Although the invoice has been paid, or known and measurable, the expense was
6 paid outside of the test year. Therefore, including this expense would also violate the
7 matching principle.

8 **VI. RATE CASE EXPENSE**

9 **Q. What forms of rate case expense has the Company incurred?**

10 A. Indian Hills has incurred rate case expense related to customer notices, attorney fees, and
11 consulting fees.

12 **Q. How has the Company proposed to treat rate case expense in this case?**

13 A. The Company proposes to normalize rate case expense over three years, as stated in Mr. Cox's
14 direct testimony.

15 **Q. Has Indian Hills provided copies of invoices related to rate case expense?**

16 A. Yes. Indian Hills has provided copies of invoices for attorney fees and one of its consultants.

17 **Q. Does Indian Hills expect there to be additional rate case expense?**

18 A. Yes. Indian Hills indicated in its response to OPC data request 43, "The outside rate case
19 expenses are based upon hourly rates. Thus, they will be more, or less depending upon the
20 process necessary to reach a resolution in this case (for example, whether the matter is tried;
21 if so, how many issues are tried, length of hearing, etc.). Given the uncertainty as to what will
22 be required, Indian Hills does not have an estimate of those future expenses."

1 **Q. How does OPC propose to treat rate case expense in this case?**

2 A. At the time this testimony is written, OPC has requested from Indian Hills additional
3 information related to rate case expense, and therefore, does not yet have a proposal. OPC
4 will update its position in surrebuttal testimony.

5 **VII. CORPORATE ALLOCATION FACTOR**

6 **Q. Does OPC agree with Staff's calculated corporate allocation factor in the current case?**

7 A. Yes.

8 **Q. How did Staff calculate the corporate allocation factor in the current case?**

9 A. As stated in Staff witness, Ms. Sarver's direct testimony, "Corporate allocations were based
10 upon an analysis of CSWR employee hours assigned to the regulated and non-regulated
11 companies; then, Staff determined an appropriate allocation factor for the
12 indirect/administrative hours in the test year, and this factor was used to allocate corporate
13 costs."

14 **Q. Has OPC supported the calculation of corporate allocation factors based on employee
15 hours in the past?**

16 A. Yes. In the Hillcrest rate case numbered WR-2016-0064 and the Raccoon Creek rate case
17 numbered SR-2016-0202, I filed testimony supporting a corporate allocation factor based on
18 actual time spent at a utility.

19 **VIII. EMPLOYEE SALARIES**

20 **Q. How has Staff calculated employee salaries?**

21 A. Staff witness, Ms. Sarver, explains in her direct testimony that Staff has calculated employee
22 salaries using mean level, or mid-range, MERIC rates. However, the same year of data was

1 not used for all employees. Some employees were calculated using 2013 wage information
2 and some employees were calculated using 2015 wage information.

3 **Q. Why did Staff use wage information from separate years when calculating employee**
4 **salaries?**

5 A. It is OPC's understanding that Staff used various years due to significant fluctuation in
6 MERIC data from year to year.

7 **Q. Did Staff utilize actual employee hours to calculate wages for Indian Hills?**

8 A. Yes. As previously stated in the corporate allocation section of my testimony, the corporate
9 allocation calculated by Staff was based on actual employee hours. The allocation factor was
10 then applied to the MERIC wages utilized by Staff.

11 **Q. Does OPC agree with Staff's wage calculations?**

12 A. No. OPC agrees with Staff's corporate allocation calculation. However, OPC does not agree
13 with Staff's use of multiple years of data in MERIC. As stated in my direct testimony, OPC
14 believes the most current year of data available in MERIC should be utilized to calculate
15 salaries to include in the cost of service for Indian Hills. Also, OPC does not agree with
16 Staff's use of the Chief Executive classification for Mr. Josiah Cox. As explained in my direct
17 testimony, the top manager of small water and sewer companies in Missouri is usually
18 classified as a general manager.

19 **Q. Does the Company have a different recommendation than Staff?**

20 A. Yes. As stated in Company witness, Mr. Macias' direct testimony on page 12, lines 21 – 23,
21 and page 13, lines 1 – 2, states, "All the salaries should be adjusted using the EPI in order to
22 accurately reflect current market conditions, rather than utilizing data that is two years old.
23 Moreover, in the case of the Central States employees, each employee's actual experience,
24 education levels, and current job roles demand that the individual be recognized as

1 “experienced.” Furthermore, Company witness, Mr. Thomas’ direct testimony on page 9,
2 lines 11 – 12 states, “[t]he Commission should order salaries based on job descriptions and an
3 Experienced level for salaries that have been proposed by Indian Hills.”

4 **Q. Does OPC agree with the Company’s recommendation?**

5 A. No. In the Hillcrest rate case numbered WR-2016-0064, the same recommendation was made
6 to use the Employment Cost Index (EPI) inflation rates and to use the level of experience
7 when calculating salaries, both of which the Commission did not approve. The Commission
8 did not approve to adjust salaries for inflation because the data used in the Hillcrest rate case
9 was less than one year old at the end of the update period in that case. The same would apply
10 to this case if the Commission approves OPC’s recommendation of using 2016 MERIC data.
11 The data would be less than one year old at the end of the test year in this case, twelve months
12 ending March 31, 2017.

13 Also, OPC does not agree with the use of experience level wages. It is OPC’s understanding
14 the employees of First Round only have experience of approximately three and a half years
15 or less with regulated water and sewer utilities.

16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes.

Missouri Public Service Commission

Respond Data Request

Data Request No.	0051
Company Name	MO PSC Staff-(All)
Case/Tracking No.	WR-2017-0259
Date Requested	9/6/2017
Issue	Other - Other
Requested From	Nicole Mers
Requested By	Keri Roth
Brief Description	Item (6) Partial Disposition Agreement
Description	Please explain the facts in dispute regarding the unresolved issue of repair expense between Staff and the Company. How is this separate from the dollar amount agreed upon for operation and maintenance expenses in item (6) of the Partial Disposition Agreement of Small Water Company Revenue Increase Request?
Response	Based upon discussions between Curtis Gateley and Josiah Cox, Staff's perspective on the fact in dispute is that Staff considered \$56,969 of the amount for Operation and Maintenance Expense to be amortized over three years, instead of the 5 years in the Day 90 and Day 120 work papers. It appears that the company believed that \$143,010 would be the annual amount for Operation and Maintenance Expense, none of it would be amortized, and that Staff would also be proposing some other additional amortization expense. Because of this disagreement, Staff and the Company disagree on the amount of Operation and Maintenance Expense, as well as the amount of Amortization expense and these remain issues between Staff and the Company. This is not separate from the Operation and Maintenance Expense in item 6 of the Partial Disposition Agreement. Response provided by Jennifer Grisham (jennifer.grisham@psc.mo.gov).
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **WR-2017-0259** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **MO PSC Staff-(All)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **MO PSC Staff-(All)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Schedule KNR-1

Account	Test Year		Staff		one-time amortiaton	CIAC entry	amortization	OPC	
	Amount	Allowed	Disallowed	Plant					
603	\$ -		200					\$ -	
623	\$ 14,268	\$ 13,681.00		\$ 1,496.00				\$ 20,367	
635		\$ 630.00						\$ -	
641	\$ 4,036	\$ 5,381.00						\$ 5,381	
642	\$ 94,920	\$ 71,103.00	\$ 9,900.00					\$ 90,567	
660	\$ 9,687	\$ 800.00						\$ -	
662	\$ 10,575			\$ 10,575.00				\$ -	
663	\$ (650)							\$ -	
611	\$ 80,684	\$ 26,532.00		\$ 1,701.00	\$ 56,969.00		\$ 11,394.00	\$ -	
614	\$ 763					\$ 763.00		\$ -	
631	\$ 5,373	\$ 5,071.00		\$ 304.00				\$ 5,069	
632	\$ 7,457					\$ 7,457.00		\$ -	
670		\$ 495.00						\$ -	
672	\$ 503					\$ 503.00		\$ -	
673	\$ 127		127					\$ 127	
Total	\$ 227,743	\$ -	\$ 124,020	\$ 9,900	\$ 14,076	\$ 56,969	\$ 8,723	\$ 11,394	\$121,511
Staff with 5 year amortization		\$ 135,414							
Company without plant & CIAC	\$ 204,944								
Staff with one-time	\$ 195,044	\$ 180,989							
Staff with 3 year amortizaion	\$ 18,989.67	\$ 143,009.67							