

Exhibit No. _____
Issue: Capital Structure, Management
Consulting Fees, Rate Design, AFUDC
Witness: Josiah Cox
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Indian Hills
Case No.: WR-2017-0259
Date: November 13, 2017

Missouri Public Service Commission

Surrebuttal Testimony

of

Josiah Cox

On Behalf of

Indian Hills Utility Operating Company, Inc.

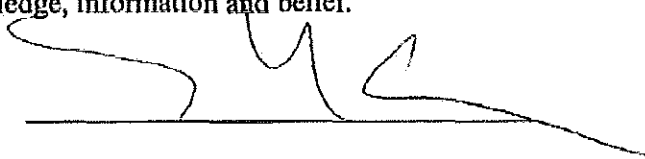
November 13, 2017

IH Exhibit No. 3
Date 11-27-17 Reporter KF
File No. WR-2017-0259

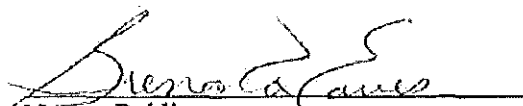
AFFIDAVIT

STATE OF MISSOURI)
)
COUNTY OF St. Louis) ss

I, Josiah Cox, state that I am the President of Indian Hills Utility Operating Company, Inc. and, that the answers to the questions posed in the attached Surrebuttal Testimony are true to the best of my knowledge, information and belief.



Subscribed and sworn to before me this 13th day of November, 2017.


Notary Public

My Commission Expires: 01/31/2021



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**SURREBUTTAL TESTIMONY OF
JOSIAH COX
INDIAN HILLS UTILITY OPERATING COMPANY, INC.**

WITNESS INTRODUCTION

1

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

3 A. My name is Josiah Cox. My business address is 500 Northwest Plaza Drive
4 Suite 500. St. Ann MO, 63074

5 **Q. WHAT IS YOUR POSITION WITH INDIAN HILLS UTILITY OPERATING
6 COMPANY, INC. (INDIAN HILLS OR COMPANY)?**

7 A. I hold the office of President of Indian Hills and Central States Water Resources,
8 Inc.

9 **Q. ARE YOU THE SAME JOSIAH COX THAT PROVIDED DIRECT AND
10 REBUTTAL TESTIMONY IN THIS PROCEEDING?**

11 A. Yes.

PURPOSE

12
13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
15 of: Office of the Public Counsel ("OPC") witness Michael P. Gorman, concerning
16 Capital Structure; OPC witness Keri Roth concerning management consulting
17 fees; Missouri Public Service Commission Staff ("Staff") witness Curt Gateley
18 concerning rate design; and, Staff Witness Jennifer Grisham concerning AFUDC.

19

RESPONSE TO OPC WITNESS GORMAN
CAPITAL STRUCTURE

1
2
3
4 **Q. OPC WITNESS GORMAN OFFERS AN “ACTUAL” CAPITAL STRUCTURE**
5 **FOR INDIAN HILLS IN HIS REBUTTAL TESTIMONY. IS MR. GORMAN’S**
6 **“ACTUAL” CAPITAL STRUCTURE ACCURATE?**

7 A. No. Mr. Gorman develops his capital structure based on an “analysis” of the
8 Indian Hills 2016 financial audit. Mr. Gorman ignores the \$2,114,937 in Property,
9 Plant, and Equipment carried in the audited financials. Mr. Gorman instead uses
10 the total capitalization inside the financial audit of \$45,748 and the long term note
11 inside the current liabilities section of the audit of \$1,609,551. Mr. Gorman's
12 “analysis” then suggests a total plant in service of \$1,655,748. OPC’s own
13 witness Keri Roth identifies a greater plant in service of \$1,793,334. Mr. Gorman
14 has chosen to ignore the Property, Plant, and Equipment carried in the Indian
15 Hills audited financials and OPC witness Roth’s plant in service number to
16 produce his “actual” capital structure.

17 **Q. HOW DID YOU DETERMINE THE ACTUAL INDIAN HILLS’ CAPITAL**
18 **STRUCTURE?**

19 A. The Company used the plant in service amount from the partial stipulation
20 agreement between the Company and the Staff divided into the Company’s debt
21 principal approved by the Commission and borrowed by the Company.

22 **RESPONSE TO OPC WITNESS ROTH**
23 **MANAGEMENT CONSULTING FEES**

24
25 **Q. IN HER REBUTTAL TESTIMONY OPC WITNESS ROTH PROPOSES A**
26 **DISALLOWANCE OF THE MANAGEMNT CONSULTING FEES INCURRED**

1 **BY INDIAN HILLS. WHAT IS OPC WITNESS ROTH'S BASIS FOR THIS**
2 **PROPOSAL?**

3 A. Ms. Roth "disallows" the management consulting fees because there are not
4 logs, timesheets, or detailed invoices associated with the management
5 consulting fees.

6 **Q. HAS OPC BEEN PROVIDED WITH A COPY OF THE MANAGEMENT**
7 **CONSULTING AGREEMENT?**

8 A. Yes. Indian Hills has provided a copy of the agreement to the OPC.

9 **Q. ARE THERE ANY TIMESHEETS, LOGS, OR DETAILED INVOICES**
10 **REQUIRED BY THE MANAGEMENT CONSULTING AGREEMENT?**

11 A. No. The agreement calls for the previous Owner to consult on an as needed
12 basis in exchange for a fixed monthly payment.

13 **Q. HAS THE PREVIOUS OWNER PROVIDED THESE SERVICES?**

14 A. Yes. Ms. Stanley has been utilized by the Professional Engineer to help locate
15 elements of the water system that are not documented, clarify existing
16 connection points.

17 **RATE DESIGN**

18 **Q. IN HIS REBUTTAL TESTIMONY, STAFF WITNESS CURTIS GATELEY**
19 **STATES THAT THE STAFF DOES NOT SUPPORT OPC'S RATE DESIGN.**
20 **DOES THE COMPANY AGREE WITH STAFF WITNESS GATELEY?**

21 A. Yes, to an extent. Indian Hills agrees with the Staff that OPC's rate design,
22 which has a different customer base charge based on seasonality, does not

1 effectively provide an opportunity for Indian Hills to recover whatever revenue
2 requirement may be ordered in this case.

3 **Q. DO YOU HAVE A POTENTIAL ALTERNATIVE RATE DESIGN TO THOSE**
4 **OFFERED BY OPC AND STAFF?**

5 A. Yes. A rate design that contains a seasonally adjusted commodity charge. That
6 is, I would recommend that the water commodity charge be higher during the
7 lake recreation season. The lake recreation season is when second home
8 owners are most often present and thus the drinking water system is running at
9 the MDNR mandated design peak to accommodate the additional demand
10 generated by most to all existing homeowners being present simultaneously.

11 **Q. WHY IS A SEASONALLY ADJUSTED COMMODITY CHARGE**
12 **APPROPRIATE?**

13 A. Indian Hills agrees with OPC witness Geoff Marke that there is a variation in
14 occupancy and seasonal water use by Indian Hills ratepayers that causes the
15 entire drinking water system to run at its design peak in the summer associated
16 with second homes during seasonal recreational lake use. Because the system
17 must be constructed to provide service during peak usage times, a rate design
18 with higher commodity charge during the peak usage season would more
19 efficiently pass costs to customers based on system utilization. This type of rate
20 design, in conjunction with a standard monthly base charge, if properly
21 implemented, would provide that users of the system, whether they are full time
22 residents or second home owners, are proportionally bearing the ongoing costs
23 associated with the provision of water service to the entire community year-

1 round. In addition, a seasonally adjusted commodity charge would allocate more
2 costs to users who participate in the peak demand consumption that drives the
3 total system MDNR design requirements.

4 **Q. FOR WHAT PERIOD OF TIME WOULD YOU PROPOSE THAT THE**
5 **SEASONALLY ADJUSTED COMMODITY CHARGE BE IN PLACE?**

6 A. We would suggest this timeframe for a seasonally adjusted commodity rate be in
7 place from April 1st through September 30th. This is similar to the "recreational
8 season" used by the Missouri Department of Natural Resources (MDNR) uses in
9 the context of Water Quality. (10 CSR 20-7.031- Table A)

10 **AFUDC**

11 **Q. STAFF WITNESS JENNIFER GRISHAM STATES IN HER REBUTTAL**
12 **TESTIMONY THAT THE AFUDC RATE IS THE CARRYING COST OF THE**
13 **SUM OF CONSTRUCTION DOLLARS BOOKED PER MONTH TO THE**
14 **CONSTRUCTION WORK IN PROGRESS ACCOUNT MUTLIPLD BY THE**
15 **APPROPRIATE CARRYING COST DEBT RATE. DO YOU AGREE WITH**
16 **STAFF WITNESS GRISHAM'S REBUTTAL TESTIMONY ON AFUDC?**

17 A. Yes, I agree with Ms. Grisham's rebuttal testimony on AFUDC and have no
18 further dispute with Staff in regard to this issue.

19 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

20 A. Yes, it does.