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EXHIBIT

Exhibit No.:
Issue(s): Plant-Related Balances and Adjustments/ Capital Structure/ Return on Equity/ Debt Cost
Witness/Type of Exhibit: Robertson/Rebuttal
Sponsoring Party: Public Counsel
Case No.: SR-2013-0016

REBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of the Office of the Public Counsel

EMERALD POINTE UTILITY COMPANY

CASE NO. SR-2013-0016

April 11, 2013

Public Counsel Exhibit No. 23
Date 5-9-13 Reporter SB
File No. SR 2013 0016

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Request for an Increase in Sewer Operating Revenues of Emerald Pointe Utility Company.	)))	**File No. SR-2013-0016**

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant 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.

Ted Robertson, C.P.A.
Chief Public Utility Accountant

Subscribed and sworn to me this 11th day of April 2013.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037

Jerene A. Buckman
Notary Public

My Commission expires August 23, 2013.

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REBUTTAL TESTIMONY
OF
TED ROBERTSON

EMERALD POINTE UTILITY COMPANY, INC.
CASE NO. SR-2013-0016

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as the Chief Public Utility Accountant.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. My duties include all activities associated with the supervision and operation of the regulatory accounting section of the OPC. I am also responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated in May, 1988, from Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November of 1988, I passed the

Uniform Certified Public Accountant Examination, and I obtained Certified Public Accountant (CPA) certification from the state of Missouri in 1989. My CPA license number is 2004012798.

Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC UTILITY ACCOUNTING?

A. Yes. In addition to being employed by the Missouri Office of the Public Counsel since July 1990, I have attended the NARUC Annual Regulatory Studies Program at Michigan State University, and I have also participated in numerous training seminars relating to this specific area of accounting study.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION (COMMISSION OR MPSC)?

A. Yes, I have testified on numerous issues before this Commission. Please refer to Schedule TJR-1, attached to this testimony, for a listing of cases in which I have submitted testimony.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony is to present the Public Counsel's positions regarding the ratemaking positions taken by the MPSC Staff for various plant-related balances and adjustments (i.e., plant-in-service, depreciation expense, accumulated depreciation reserve, contributions in aid of construction, etc.) and capital-related costs (i.e., capital structure, return on equity and debt cost).

III. PLANT-RELATED BALANCES AND ADJUSTMENTS

Q. WHAT IS THE ISSUE?

A. Public Counsel's review of Staff's workpapers that support its plant-related recommendations identified several errors (some of which are material and some that are not) that should be corrected as they will change the plant-related balances and ultimate cost of services recommended by Staff.

Q. PLEASE DESCRIBE THE ERRORS PUBLIC COUNSEL IDENTIFIED IN STAFF'S WORKPAPERS.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: Sewer Detail- Last Case Rec, contained a double-counted reserve adjustment in Account 363. Regarding the error, Staff's response to Public Counsel DR No. 64 stated, in part, "It does appear that the $24 was double-counted when Staff utilized the amounts from the last case. While this amount is not significant, Staff will make the change to remove the $24 should revised workpapers be filed."

Q. PLEASE CONTINUE.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: Additions, contained an accumulated reserve summation error in Account 373. Regarding the error, Staff's response to Public Counsel DR No. 65 stated, "Yes, this does appear to be an error. Any subsequent revisions to Staff's workpapers will include this change."

Q. PLEASE CONTINUE.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained an allocation of hookup fees at water-10% and sewer-90%; however, the contract supporting the fees indentifies the allocation as water-9.1% and sewer-90.9%. Regarding the error, Staff's response to Public Counsel DR No. 68 stated, in part, "Converting Public Counsel's percentages above (9.1% and 90.9%) to numbers and rounding them produces the same numbers that Staff utilized. Staff will consider utilizing more decimal places should any workpaper revisions be filed."

Q. PLEASE CONTINUE.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained calculations for the amortization of CIAC that utilized an incorrect depreciation rate for water Account 314. Regarding the error, Staff's response to Public Counsel DR No. 69 stated, "It appears that these rates did not get updated during the finalization of the workpaper. Any subsequent revisions to Staff's workpapers will include this change."

Q. PLEASE CONTINUE.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained calculations for the amortization of CIAC that utilized an incorrect depreciation rate for sewer Account 373. Regarding the error, Staff's response to Public Counsel DR No. 70 stated, "It appears that these rates did not get updated during the finalization of the workpaper. Any subsequent revisions to Staff's workpapers will include this change."

Q. PLEASE CONTINUE.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained updates for all water and sewer plant through February 28, 2013; however, the associated CIAC was updated only through 11/30/2012. Regarding the error, Staff's response to Public Counsel DR No. 71 stated, "Updating through February for these items was not included in Staff's calculation. Staff will consider updating these items through February should any subsequent revisions to Staff's workpapers be filed."

Q. PLEASE CONTINUE.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Hookups, contained an analysis of CIAC based on the $400 new water customer fee charged to the utility's customers. A total of $29,800 was charged to customers, but Staff only located $12,221 in new plant costs so the difference, $17,579, was allegedly accounted for by Staff as part of its miscellaneous revenues analysis. Regarding the error, Staff's response to Public Counsel DR No. 73 stated, in part, "The additional amount, $17,579, did not relate to actual plant or installation charges, therefore, Staff accounted for the additional funds as part of its miscellaneous revenues analysis."

Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE STAFF'S ALLEGED TREATMENT OF THE ADDITIONAL $17,579 AS MISCELLANEOUS REVENUES IS APPROPRIATE?

A No, it is not. Public Counsel's review of the Staff's workpapers did not find where any of the $17,579 was included as a miscellaneous revenue. If fact, it is my understanding that, on a going forward basis, because these fees should exactly equal plant costs, Staff did not include either the contributions or the plant in its recommended plant or CIAC balances, and therefore none was included in miscellaneous revenues either. Ratepayers paid the $17,579 as CIAC and those funds should be accounted for in the utility's plant as such whether or not cost of the associated plant was equal to or less than the contributions obtained from ratepayers.

Q. DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE FINAL UPDATE PERIOD UTILIZED BY STAFF FOR PLANT-RELATED BALANCES?

A Yes. Staff's workpapers show that it has updated most plant-related balances through February 28, 2013; however, this date is approximately five months prior to the effective date for rate change in this case. Public Counsel, in DR No. 72, questioned if the Staff intended to update its plant balances to a date more likely to coincide with the effective date of rates in the case because this case is being processed under the small rate case procedures and updates of plant in these types of cases is often done. Staff's response was, "Staff will not be updating beyond February 28, 2013, as it will not have the ability to review and update all the other relevant factors in the rate case, which would be required to adhere to the matching principle."

Q. DO YOU AGREE WITH THE STAFF'S POSITION ON UPDATING THE PLANT-RELATED BALANCES?

A. No. Staff's position that the matching principle would be violated is not reasonable given that the main driver, and reason for two time extensions, in the case was to achieve the inclusion of the new construction undertaken to eliminate the sewer treatment plant. In addition, many of the remaining costs and revenues associated with the Staff's recommended cost of service were actually developed by Staff to represent the cost structure of a similar sized utility and not based on Company's actual booked costs because of the utility's unapproved billing practices and extremely poor accounting and records maintenance. Staff's alleged violation of the matching principle is not valid because, excluding plant and possibly revenues, material cost changes are unlikely to occur given that Staff itself developed many of the costs in its recommended cost of services.

Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE UPDATING OF PLANT-RELATED BALANCES?

A. It is Public Counsel's recommendation that the plant-related balances be updated as close to the effective date of the rate change as possible. Since Staff is likely to make changes to correct known errors in its analysis it would be a simple task to extend those changes to account for plant changes such as updated additions, retirements, depreciation, etc., in order to match a truer cost of service at the date closest to the actual date of the rate change.

Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S RECOMMENDATIONS REGARDING THE STAFF'S RECOMMENDED WATER SYSTEM PLANT-RELATED BALANCES.

A. Public Counsel's primary issues with the Staff's recommendations are, in addition to the need to update the balances to a date closer to the effective date of rates, the errors discussed above related to the Branson Canyon CIAC and the meter Hookup CIAC. I believe that the allocation and depreciation of the Branson Canyon CIAC was calculated incorrectly. Whereas, I believe that the Hookup CIAC does not include $17,579 paid by ratepayers, but not recognized in the Staff's recommendations. Correction of those errors would resolve all issues Public Counsel has with the Staff's recommendations for the water system plant-related balances.

Q. DOES PUBLIC COUNSEL HAVE ADDITIONAL ISSUES WITH THE STAFF'S RECOMMENDED SEWER SYSTEM PLANT-RELATED BALANCES?

A. Yes. As with the water system, and the need to update the balances, Public Counsel believes that the Staff's recommendations contain errors, as discussed previously, related to the calculation and depreciation of the Branson Canyon CIAC. Furthermore, Public Counsel believes that certain aspects of Staff's ratemaking treatment for the recent retirement of the sewer treatment plant requires correction.

Q. PLEASE EXPLAIN PUBLIC COUNSEL'S UNDERSTANDING OF THE STAFF'S TREATMENT OF THE SEWER TREATMENT PLANT RETIREMENTS.

A. In its workpapers Staff shows that it retired or transferred sewer treatment plant from Accounts 310-T&D Land & Land Rights, 311- T&D Structures and Improvements, 373-Treatment and Disposal Equipment and 375-Outfall Sewer Lines. These retirements occurred because of the new construction line to and treatment contract with the City of Hollister.

To effectuate the ratemaking for the retirements, Staff reduced the plant balances to zero and offset each account's accumulated depreciation reserve balance by an equal corresponding amount (except for the land account which is not depreciated and is being treated as transferred to non-regulated property). For the three non-land accounts, all of which were not yet fully depreciated, this resulted in negative accumulated depreciation reserve balances which Staff then assigned to the accumulated deprecation reserve for Account 363-Pumping Plant. The accumulated deprecation reserve balance for Account

363-Pumping Plant prior to the assignment was over-depreciated by more than 57% and after the reassignment is under-depreciated by almost 11% (prior to the addition of the costs of the newly constructed pipeline). Staff also transferred the net Branson Canyon CIAC booked in Account 373-Treatment and Disposal Equipment to Account 352.2-Collection Sewers - Gravity.

Q. PLEASE EXPLAIN THE CORRECTION PUBLIC COUNSEL BELIEVES SHOULD BE MADE TO THE STAFF'S RATEMAKING TREATMENT OF THE SEWER TREATMENT PLANT RETIREMENTS.

A. Public Counsel's opposition to Staff's recommendations for this issue focuses on only one account and that is Account 373-Treatment and Disposal equipment. Public Counsel believes that the Staff's assignment of the net Branson Canyon CIAC booked in Account 373-Treatment and Disposal Equipment to Account 352.2-Collection Sewers - Gravity is not the appropriate treatment for the cost. Public Counsel believes that since Staff booked the CIAC in Account 373, the net CIAC should have stayed in Account 373 and been utilized to determine the account's actual negative accumulated depreciation reserve balance. In other words, Staff assignment of the net Branson Canyon CIAC to the collection sewers account created a mismatch of dollars in the balances of the two accounts.

For example, the balances for Account 373 prior to the Staff's retirement adjustments were: plant \$276,330, accumulated reserve \$205,580, CIAC \$53,297 and CIAC reserve \$20,579. Staff's adjustments developed a negative accumulated depreciation reserve of \$70,750 (\$276,330 minus \$205,580) which it assigned to Account 363 and a net Branson Canyon CIAC of \$32,718 (\$53,297 minus \$20,579) which it assigned to Account 352.2. Public Counsel believes that the proper way to treat the costs is to account for all the costs in Account 373 together and to not create the mismatch Staff recommends. As such, Public Counsel recommends that the negative accumulated depreciation reserve for Account 373 is actually \$38,032 (which consists of the accumulated reserve balance of \$205,580 reduced by the plant retirement of \$276,330 and increased by net CIAC of \$32,718 which is the ratepayer funded portion of the plant that was not fully depreciated).

Q. IF THE COMMISSION AUTHORIZES PUBLIC COUNSEL'S RECOMMENDATION FOR ACCOUNT 373, WILL THAT HAVE ANY IMPACT ON RATE BASE?

A. No, but the mismatch of costs Staff is recommending will be eliminated.

Q. ISN'T PUBIC COUNSEL USUALLY OPPOSED TO THE REDISTRIBUTION OF NEGATIVE ACCUMULATED DEPRECATION RESERVE BALANCES THAT OCCUR WHEN PLANT IS RETIRED PREMATURELY?

A. Public Counsel has on occasion, and will in the future, oppose such redistributions under certain circumstances such as early retirements caused by improper actions of management and/or failure by management or operators to provide a reasonable level of maintenance to keep the plant protected and operating as expected. Public Counsel is also concerned that the redistributions cause an embedded increase in net rate base that will likely never be eliminated since the associated plant has already been retired. Public Counsel believes that in most circumstances a better methodology would be to allow the negative accumulated depreciation reserve balances to be amortized to expense over a reasonable period of time so recovery is provided to shareholders and any over-recovery can be tracked and returned to ratepayers rather than provide a return on non-existent plant to shareholders forever.

Q. WHY IS PUBLIC COUNSEL NOT OPPOSED TO THE REDISTRIBUTION OF NEGATIVE ACCUMULATED DEPRECIATION BALANCES IN THIS CASE?

A. Public Counsel believes that this case is unique from some other cases in which we've participated in that the Commission authorized the utility to construct the Hollister pipeline based on a cost/benefit analysis that showed the construction and connection to the City of Hollister's treatment plant to be more efficient and economical. Therefore, the resulting sewer treatment plant retirements occurred not because of improper actions of management or operators, but because the benefits of the Hollister pipeline and contract to both shareholders and ratepayers outweighed the option of maintaining the retired plant.

IV. CAPITAL STRUCTURE/RETURN ON EQUITY/DEBT COST

Q. WHAT IS THE ISSUE?

A. It is Public Counsel's position that the MPSC Staff has based its recommended weighted rate of return (WROR) for both the water and sewer operations on an analysis of Company's financial and business risk profiles that is not representative of the existing capital structure and debt costs. Public Counsel opposes Staff's position because it is subjectively based on a hypothetical capital structure which infuses equity for one utility and reduces it for another in the determination of the cost of services. It also relies on an extrapolation of much higher 30 year corporate bond yields for publicly rated utilities as a surrogate for Company's actual debt costs in developing Staff's recommended return on equity.

Q. WHAT METHODOLOGY DOES STAFF UTILIZE TO DEVELOP ITS RECOMMENDED RETURN ON EQUITY?

A. The MPSC Staff's response to Public Counsel DR No. 60 provided a document titled, "Small Utility Return on Equity (ROE)/Rate of Return (ROR) Methodology" which describes the basis and procedures of Staff's analysis. On page one of the document it states:

> The FA Department's new procedure is based on a fairly generic risk premium methodology. Staff will apply a "standard" risk premium to a <u>reasonable estimate of the current cost of debt</u> for the subject company to arrive at an estimated return on equity. Because small water and sewer companies typically don't issue debt that is actively traded, the FA Department must rely on its estimate of the subject company's credit rating and then determine a recent average cost of utility debt for this rating based on data the FA Department receives from its current source for utility debt yields, BondsOnline. The Department then adds the "standard" risk premium to this current cost of debt to estimate the cost of common equity. These capital costs are then applied to the appropriate weights in the capital structure to estimate a fair and reasonable rate of return. (Emphasis added)

Q. WHAT IS THE WEIGHTED RATE OF RETURN RECOMMENDED BY THE MPSC STAFF?

A. For both the water and sewer operations the Staff's pre-tax weighted rate of return is 7.34% which is based on an estimated 13.26% return on equity and 5.36% cost of debt and a hypothetical capital structure containing 25% equity and 75% debt. However, it is my understanding that the water utility does not have any debt thus, while Staff imputed the sewer operations debt cost to the water operation capital structure, Public Counsel only utilized it in the analysis of the water system's return on equity.

Q. DID STAFF DEVELOP AN ESTIMATE FOR COMPANY'S COST OF DEBT DIFFERENT FROM COMPANY'S ACTUAL DEBT COST IN ORDER TO DEVELOP AN ESTIMATE FOR RETURN ON EQUITY?

A. Yes. Staff did not use the sewer operation's actual 5.36% cost of debt identified above to develop its estimate for return on equity for either the water or sewer operation. Instead, Staff utilized a "hypothetical" capital structure to develop an estimated credit rating which it then used to arrive at an estimate of a corporate bond yield which, when added with a Staff determined 4% risk premium, resulted in Staff's recommended return on equity for both the water and sewer operations.

Q. WHY DID STAFF NOT USE COMPANY'S ACTUAL DEBT CAPITAL COSTS IN ITS DEVELOPMENT OF A RETURN ON EQUITY?

A. Staff's position on this issue appears subjective to Public Counsel as Staff provided no reasoning for the substitution other than Staff believes it appropriate. In the Small

Utility Return on Equity (ROE)/Rate of Return (ROR) Methodology document Staff provided it states:

> In situations in which a small water and sewer utility has debt capital in excess of 75%, the FA Department believes it is appropriate to use a hypothetical capital structure that limits debt to 75% of total capital. Although it could be argued that Staff should also use a hypothetical capital structure if a company's capital structure is not cost efficient due to a high equity ratio, the FA Department decided not to limit the amount of equity in the capital structure.

Staff provided no other support as to why it believes Company's actual capital structure debt costs are not more representative of its actual debt yield than a made-up estimate based on inflating the equity portion of the capital structure for the sewer operation and deflating the equity portion of the capital structure for the water operation.

Q. WHY WAS THE SEWER OPERATION DEBT INCURRED?

A. In SF-2013-0346 Company requested authorization to issue up to $1,000,000 of secured indebtedness associated with the construction of a sewer line and to eliminate the existing wastewater treatment facility and to convert it to a lift station. This application was supplemented with a request to obtain a $62,000 loan from Whiter River Valley Electric Cooperative, Inc. (White River) to purchase two commercial power generators for placement at lift stations. Both requests were authorized by the Commission in its Order Granting Authority To Issue Indebtedness issued on February 13, 2013.

Q. WAS THE FINAL LOAN FROM WHITE RIVER VALLEY ELECTRIC COOPERATIVE, INC. MORE THAN $62,000?

A. Yes. The final amount loaned was increased to $66,860.

Q. AT WHAT INTEREST RATES WERE THE LOANS ISSUED?

A. The $1,000,000 loan was issued at an interest rate of 5.5% while the loan from White River Valley Electric Cooperative, Inc. was issued at an interest rate of 3.15%.

Q. WHAT IS THE SEWER OPERATION'S ACTUAL WEIGHTED COST OF DEBT AFTER TAKING INTO ACCOUNT THE WHITE RIVER LOAN MODFICATION?

A. The actual weighted cost of debt, after updating the capital structure for the increase in the White River loan, is 5.35% or 0.01% less than the 5.36% cost of debt recommended by Staff in its hypothetical capital structure.

Q. WHAT IS THE SEWER OPERATION'S ACTUAL CAPITAL STRUCTURE AFTER TAKING INTO ACCOUNT THE WHITE RIVER LOAN MODFICATION?

A. The MPSC Staff's response to Public Counsel DR No. 60 and/or the Staff Accounting Schedules filed to support its direct testimony identifies the actual capital structure of the sewer operation as 20.14% equity and 79.86% debt and the water operation as 100.00% equity and 0.0% debt. However, due to an increase in the principle amount of the White River loan, the current actual sewer operation capital structure is 19.77% equity and 80.23% debt.

Q. SINCE THE COMPANY HAS ACTUALLY ISSUED DEBT AT MARKET BASED RATES, WHY DID STAFF FIND IT NECESSARY TO ESTIMATE A CREDIT RATING AND DEBT YIELD IN ITS DEVELOPMENT OF AN APPROPRIATE RETURN ON EQUITY?

A. Based on my review of the Staff's analysis, it appears that Staff believes since the Company <u>does not have actively traded debt</u>, Staff <u>must</u> develop an estimate of its credit rating and then apply an appropriate bond yield for debt based on that estimated credit rating. Staff then adds a 4% risk premium to the selected bond yield to achieve its recommended return on equity.

Q. DOES THE FACT THAT THE COMPANY'S DEBT IS NOT ACTIVELY TRADED IN ANY WAY MINIMIZE THE FACT THAT IT HAS REAL DEBT?

A. No. Staff's position that the utility's debt analysis must be based on credit ratings and bond yields of large actively traded corporations that have little in common with this utility is a mystery to me. The Company has sewer operation debt and that debt has a cost (or yield to holder of the debt) and as such is the real-world actual cost to the Company as determined by the utility and the parties that issued the loans to it. The process is the same. A party provides funding to the utility in exchange for documents on how it will be repaid (e.g., a note or a bond). Whether or not the debt is actively traded has no bearing on the ultimate cost of the debt to the utility.

Q. DOES PUBLIC COUNSEL BELIEVE STAFF'S ANALYSIS AND RECOMMENDATION TO BE NONSENSICAL?

A. Yes. Public Counsel finds it nonsensical for Staff to completely ignore the Company's actual capital structures in favor of a hypothetical capital structure which it may deem more appropriate or more efficient; particularly, when Staff itself supported the issuance of the aforementioned sewer operation debt and resulting capital structure in the Company's recent financing Case No. SF-2013-0346. If it was appropriate then, why not now?

Staff's extrapolation of credit ratings and bond yields for debt costs of larger water and sewer utilities that have actively traded debt makes little sense when compared to a small water and sewer company that actually has issued debt that is based on and subject to current market rates as determined by the parties (investors) that loaned the utility the funds. Just because the Company's current loans are not sold to the public at large does not make the debt costs less relevant than Staff's estimated debt yield. In fact, Company's actual debt costs are more relevant because they are a component of its actual capital structure and true cost of service. Staff's recommendation of the cost of debt utilized in the return on equity analysis is merely an estimate based on subjective reassignment of the Company's actual capital structure. That reassignment creates an estimate of both higher and lower equity components, an estimate of higher debt cost and an estimate of higher return on equity; none of which are supported by the Company's actual cost structure.

Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION?

A. It is Public Counsel's recommendation that the Company's actual capital structure and debt costs be utilized in the determination of its return on equity and weighted rate of return. If the Commission believes that a 4% risk premium is an appropriate adder to Company's actual debt cost then utilizing the simple risk premium methodology would yield a 9.35% return on equity (5.35% + 4.0%) for both the water and sewer operations assuming that the water utility could obtain debt at the same cost level as the sewer utility's debt. Including a 9.35% return on equity in the weighted rate of return analysis with Company's actual capital structure and debt cost yields a Public Counsel recommended weighted rate of return before income tax of 6.14% for the sewer operation and 9.35% for the water operation. Because the water operation has no debt and equity has a higher cost than debt its total WROR is the actual return on equity. Compared to Staff's recommended weighted rate of return before income tax of 7.34% for both utilities, Public Counsel's recommendation is 120 basis points less for the sewer utility and 201 basis points higher for the water utility, but both of Public Counsel's recommendation are based on Company's actual capital structures and debt costs - not estimates.

Q. WHAT IS THE DIFFERENCE IN CAPITAL REVENUE REQUIREMENTS TO BE RECOVERED FROM RATEPAYERS IF THE COMMISSION AUTHORIZES PUBLIC COUNSEL'S RECOMMENDATIONS?

A. The difference is capital revenue requirements can be approximated by comparing Staff's and OPC's recommended WROR including income tax against the Staff's recommended rate bases (recognizing that Public Counsel believes Staff's plant-related balances and thus, rate bases, contain errors and are not accurate). The total revenue requirement utilizing Staff's hypothetical capital structure and other estimates for return on equity and debt costs is $124,848 while Public Counsel's which is based on Company's actual operations is $110,971. Public Counsel's recommendations represent a difference of $13,877 which ratepayers would not have to compensate the utility if its actual capital structure and debt costs are utilized. Public Counsel believes that the $13,877 reduction makes rates more affordable for ratepayers while appropriately compensating the utility based on its actual capital structure and cost of service.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

CASE PARTICIPATION
OF
TED ROBERTSON

Company Name	Case No.
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

CASE PARTICIPATION
OF
TED ROBERTSON

Company Name	Case No.
Missouri Gas Energy	GM-2003-0238
Aquila Inc.	EF-2003-0465
Aquila Inc.	ER-2004-0034
Empire District Electric Company	ER-2004-0570
Aquila Inc.	EO-2005-0156
Aquila, Inc.	ER-2005-0436
Hickory Hills Water & Sewer Company	WR-2006-0250
Empire District Electric Company	ER-2006-0315
Central Jefferson County Utilities	WC-2007-0038
Missouri Gas Energy	GR-2006-0422
Central Jefferson County Utilities	SO-2007-0071
Aquila, Inc.	ER-2007-0004
Laclede Gas Company	GR-2007-0208
Kansas City Power & Light Company	ER-2007-0291
Missouri Gas Utility, Inc.	GR-2008-0060
Empire District Electric Company	ER-2008-0093
Missouri Gas Energy	GU-2007-0480
Stoddard County Sewer Company	SO-2008-0289
Missouri-American Water Company	WR-2008-0311
Union Electric Company	ER-2008-0318
Aquila, Inc., d/b/a KCPL GMOC	ER-2009-0090
Missouri Gas Energy	GR-2009-0355
Empire District Gas Company	GR-2009-0434
Lake Region Water & Sewer Company	SR-2010-0110
Lake Region Water & Sewer Company	WR-2010-0111
Missouri-American Water Company	WR-2010-0131
Kansas City Power & Light Company	ER-2010-0355
Kansas City Power & Light Company	ER-2010-0356
Timber Creek Sewer Company	SR-2010-0320
Empire District Electric Company	ER-2011-0004
Union Electric Company, d/b/a AmerenUE	ER-2011-0028
Missouri-American Water Company	WR-2011-0337
Union Electric Company, d/b/a AmerenMO	EU-2012-0027
Missouri-American Water Company	WA-2012-0066
Union Electric Company, d/b/a AmerenMO	ER-2012-0166
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Kansas City Power & Light Company	ER-2012-0174
Kansas City Power & Light Company GMOC	ER-2012-0175
Empire District Electric Company	ER-2012-0345
Emerald Pointe Utility Company, Inc.	SR-2013-0016