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Witness: *Lisa K. Hanneken*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *SR-2013-0016*
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

LISA K. HANNEKEN

EMERALD POINTE UTILITY COMPANY

CASE NO. SR-2013-0016

Jefferson City, Missouri
April 2013

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OF
LISA K. HANNEKEN
EMERALD POINTE UTILITY COMPANY
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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **LISA K. HANNEKEN**

4 **EMERALD POINTE UTILITY COMPANY**

5 **CASE NO. SR-2013-0016**

6 Q. Please state your name and business address.

7 A. Lisa K. Hanneken, 111 N. 7th Street, Suite 105, St. Louis, MO 63101.

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by the Missouri Public Service Commission (“Commission”) as a
10 Utility Regulatory Auditor V in the Auditing Unit of the Utility Services Department, Regulatory
11 Review Division of the Commission Staff (“Staff”).

12 **EXECUTIVE SUMMARY**

13 Q. What is the purpose of your surrebuttal testimony in this proceeding?

14 A. My surrebuttal testimony will address an update made to Staff’s accounting
15 schedules that were filed as part of Staff’s direct testimony in this case. The revisions to Staff’s
16 accounting schedules will be filed concurrently with this testimony. The update includes changes
17 to Staff’s rate base amounts, as well as additional updates for rate case expense as discussed in
18 Staff Witness Leslie Rose’s surrebuttal testimony. In addition, I will address concerns raised in
19 the Office of the Public Counsel’s (“OPC”) witness Ted Robertson’s rebuttal testimony filed in
20 this case.

21 **PLANT ADJUSTMENTS**

22 Q. Please explain the background of the plant adjustments.

1 A. On March 29, 2013 OPC submitted several data requests (Nos. 60-75) to Staff
2 based upon OPC's review of Staff's workpapers that support its plant-related recommendations.
3 These data requests inquired about certain calculations and methodologies utilized by Staff in its
4 analysis of rate base and plant in service items for Emerald Pointe Utility Company's
5 (Emerald Pointe's or Company's) rate case. Staff responded to each of OPC's data requests on
6 April 2, 2013. Mr. Robertson refers to these data requests and Staff's responses in his rebuttal
7 testimony.

8 Q. In his rebuttal testimony, does Mr. Robertson list several items he identified as
9 errors found in his review of Staff's plant workpapers?

10 A. Yes, he details each item, as well as the response to the data requests received
11 from Staff regarding these items. In most cases, Staff agrees with Mr. Robertson's observations;
12 however, Staff would not categorize all of these items as errors. For example, one of the items is
13 related to Mr. Robertson's assertion that the rounding of numbers in the calculation of an amount
14 should be lengthened to include more decimal places. While this may result in a slightly different
15 result, Staff contends this type of item does not constitute an error on Staff's part.

16 Q. Which of the items described in OPC's testimony does Staff agree to?

17 A. Staff has revised its plant workpapers to take into account Mr. Robertson's
18 concerns, and the changes are now reflected in the revised accounting schedules filed
19 concurrently with this surrebuttal testimony. Staff has made changes to reflect the items listed in
20 Mr. Robertson's rebuttal testimony on pages 3, line 14, through page 5, line 19, related to OPC's
21 Data Request Nos. 64, 65, 68, 69, 70 and 71.

22 Q. Does Staff agree to other items discussed in Mr. Robertson's rebuttal testimony?

1 A. Yes, Staff has made changes to its plant workpapers to take into account
2 Mr. Robertson's concerns discussed beginning on page 10, line 5 through page 14, line 6 of his
3 rebuttal testimony. The changes are more fully discussed in Staff witness Art Rice's surrebuttal
4 testimony in this case.

5 **CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC) BALANCES**

6 Q. Does Staff disagree with any items Mr. Robertson addresses in his rebuttal
7 testimony?

8 A. Yes, Staff disagrees with Mr. Robertson's approach regarding CIAC balances
9 which are discussed on page 6, line 2 through page 7, line 3 of his rebuttal testimony.

10 Q. In general, what is this issue?

11 A. Some companies are authorized through their tariffs to collect certain fees related
12 to the installation of meters for new customers. When rates are set, these fees are typically
13 synchronized with the amount the companies will pay for materials, labor, equipment and other
14 items to install the new meters. These costs are placed in plant in service, while the fees collected
15 are also placed in rate base as CIAC, as an offset to the plant amount.

16 Q. What happens if there is a mismatch between what the customer pays for the fee
17 and what the company pays for the installation?

18 A. Should the installation costs exceed the fee, the entire amount of costs is placed in
19 plant, and the entire amount of the fee collected is placed in CIAC as an offset. The difference is
20 represented in a higher plant balance in order to allow the company to recover the unreimbursed
21 costs it incurred in installing the meter. If, on the other hand, the fee is greater than the amount it
22 costs to install the meter and it is possible to appropriately account for all incurred plant costs,
23 then a true overage in the fee collected has occurred. The additional amount of CIAC can be

1 included in rate base to offset other company investment not related to the reason the fee was
2 collected. However, an alternative approach is to include the overage in the calculation of
3 miscellaneous revenues, as the amount truly had a revenue-producing effect for the utility. Either
4 of these alternatives relies upon the existence of adequate records that accurately show the
5 installation costs incurred and the fees collected.

6 Q. How does this relate to the relationship between Emerald Pointe's plant costs and
7 CIAC fees?

8 A. Emerald Pointe is authorized through its tariffs to collect \$400 for each new water
9 customer connection. This fee is meant to cover the materials and installation (labor, equipment,
10 etc.) costs related to the new connection. Based upon a review of the Company's historical
11 records of the costs booked in relation to new meter installations, as well as discussion with
12 Company officials, Staff believes that for a period of several years Emerald Pointe only included
13 the costs of materials used to install meters in its plant accounts, and not any of the labor costs
14 incurred to install meters, which should have been reflected in the plant balances as well. The
15 shortfall in the amount of plant booked for meter installations consequently caused the CIAC
16 charge billed to customers to be significantly greater than the amount of associated plant.

17 Q. Is the Company currently recording the amount of plant associated with meter
18 installations appropriately?

19 A. Since 2011, the Company has maintained adequate records so that Staff was able
20 to confirm the amounts of the installation costs going forward. As was intended, the \$400 closely
21 matches the total amount of costs to install the meter. However, for a portion of time prior to
22 2011, there is a mismatch of these numbers.

1 Q. Would it be appropriate to include the full amount of the CIAC fees associated
2 with meter installations as an offset to rate base?

3 A. No. Given the unique circumstances in this case, Staff concluded it would be
4 inappropriate to include the full amount as CIAC fees as a rate base offset. Instead, Staff set the
5 amount of CIAC fees associated with meter installations equal to the amount of the meter
6 installation plant actually booked by Emerald Pointe in prior years. If Staff had included the full
7 amount of fees collected as CIAC as an offset to rate base, in Staff's opinion, it would have been
8 necessary to determine an accurate amount of plant costs incurred by the Company to offset the
9 CIAC, which Staff is unable to do.

10 Q. What methodology did Staff use to account for the difference in CIAC fees paid
11 by the customers and the plant costs related to meter installations during the period of time when
12 records are inadequate?

13 A. Since it would be inappropriate to include the full amount of CIAC fees in rate
14 base without also including the correct plant costs, Staff listed this difference as "miscellaneous
15 revenues." However, as Mr. Robertson points out in his rebuttal testimony, Staff's approach to
16 annualizing miscellaneous revenues in this case did not reflect the amount of additional CIAC in
17 Staff's ongoing cost of service. Since the differences between the CIAC charges and the
18 underlying plant costs no longer exist, Staff cannot include these non-ongoing items in its cost of
19 service calculation.

20 Q. What would be the change in rate base should Staff include all prior CIAC fees
21 collected from customers, as well as an estimate of the appropriate amount of plant related to
22 prior meter installations, in its rate base?

1 A. None. If Staff were to include all the CIAC fees and the offsetting amount of plant
2 investment the fees were designed to cover, the amounts would offset each other and no rate base
3 change would take place.

4 Q. What is Mr. Robertson's proposal related to the amounts Staff calculated for new
5 water customer fees charged to the utility's customers to cover the utility's cost of installing a
6 meter for that customer?

7 A. Mr. Robertson recommends including the amount of confirmed fees collected, but
8 ignoring any amount of un-booked meter installation costs.

9 Q. What affect would this recommendation have on rate base?

10 A. It would increase the amount of CIAC, but not have an offsetting entry to plant.
11 The result would be a reduction to the Company's amount of rate base. Staff asserts that OPC's
12 approach to the CIAC fees issues would understate Emerald Pointe's rate base.

13 **UPDATES OF PLANT BALANCES**

14 Q. Does Staff disagree with any other item Mr. Robertson addresses in his rebuttal
15 testimony?

16 A. Yes, Staff also disagrees with Mr. Robertson's recommendation to extend the
17 update period of plant-related balances as discussed on page 7, line 5 through page 9, line 2 of
18 his rebuttal testimony.

19 Q. What plant-balance update date was originally established in this case according
20 to the timeline filed by the Staff on July 20, 2012?

21 A. The date approved by the Commission was October 1, 2012. It was intended that
22 this date would capture the Company's new pipeline project.

23 Q. Were extensions to that date approved in this case?

1 A. Actually, there were two. On October 15, 2012, the Commission granted a 60-day
2 extension in this case to allow the Company extra time to complete its pipeline project and
3 provide Staff with additional data. Later, on February 15, 2013, the Commission granted an
4 additional 30 days.

5 Q. What update date did the Staff utilize in its calculations?

6 A. Staff made its calculations based on a February 28, 2013, update period.

7 Q. Why was this date chosen?

8 A. This date allowed Staff to obtain all relevant plant-balance data related to the new
9 pipeline project, as well as other data related to other issues in the case. Since the case was
10 extended, Staff was able to review all items that may have changed subsequent to its original
11 calculations prior to the pipeline's completion.

12 Q. Would it be appropriate for Staff to adopt Mr. Robertson's proposal to update the
13 plant-balances as close as possible to the effective date of the rate change as possible?

14 A. No. As Staff stated in its response to OPC's Data Request No.72, Staff will not
15 have the ability to review and update all the other relevant factors in the rate case other than plant
16 in service costs, which would be required to adhere to the matching principle.

17 Q. What is the matching principle?

18 A. This implies that any known and measurable factors influencing revenues,
19 expenses and rate base occurring by a specific point in time should be considered in the
20 development of the revenue requirement. For example, even though a capital item is closed to
21 plant in service and capable of serving a specific group of future customers by the cut-off date,
22 an appropriate relationship will not be maintained by including the related revenue requirement
23 in the determination of the cost of service without also including the associated revenue.

1 Q. Does Mr. Robertson address Staff's concern regarding the matching principle in
2 his rebuttal testimony?

3 A. Yes, on page 8, lines 1 through 11, Mr. Robertson asserts that since Staff
4 developed an estimated level of cost for some of the Company's expenses, based upon the
5 circumstances presented in this case, it follows that Staff can simply update the plant balances
6 and not review any other expenses or revenues which may have changed.

7 Q. Does Staff agree with this approach?

8 A. No, it does not. While some of Staff's expense allowances may have been
9 estimated, such as the Company's new expenses related to the City of Hollister fees, many of the
10 expense levels are based upon actual amounts, as well actual customer levels and usage amounts
11 utilized by Staff for its revenue calculations. To not include all relevant factors would be
12 inconsistent in maintaining the matching principle.

13 Q. Are there circumstances in a rate proceeding where Staff may update plant and
14 related items while ignoring all other factors?

15 A. Yes. In Infrastructure System Replace Surcharge (ISRS) cases, Staff does in fact
16 do this. However, the ISRS is not a part of a general rate case and, by statute, does not contain an
17 analysis of revenues or non-plant related balances. This is appropriate treatment based on the
18 premise of the ISRS and what calculations are intended to be included for ISRS purposes. It is
19 not appropriate during the course of a general rate case which takes into account all relevant
20 factors.

21 Q. Does this conclude your surrebuttal testimony?

22 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF LISA K. HANNEKEN

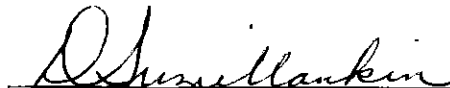
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lisa K. Hanneken, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


LISA K. HANNEKEN

Subscribed and sworn to before me this 29th day of April 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070


Notary Public