

**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

INDIAN HILLS STATEMENT OF POSITION

COMES NOW Indian Hills Utility Operating Company, Inc. (“Indian Hills” or “Company”), and, as its Statement of Position, concerning the issues contained in the *List of Issues, Order of Witnesses, Order of Cross-Examination and Order of Opening* filed on November 21, 2017, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

I. Payroll

- a. What are the appropriate job titles to be used in MERIC to compare and determine labor expense associated with Mr. Josiah Cox and Mr. Todd Thomas?
- b. What are the appropriate MERIC salary wages?
- c. Should the Employment Cost Index inflation rate be applied in setting such amounts?
- d. What allocation factor (actual or assumed) should be used to determine payroll?
- e. What level of experience should be used to set the labor expense associated with each employee?

Indian Hills’ Position:

- a. Mr. Cox and Mr. Thomas’ job titles for MERIC salary data should be 11-1011 Chief Executive – Experienced, and 11-1021 General and Operations Manager – Experienced, respectively.
- b. An allocated total of \$56,705 should be included for salaries.
- c. The most currently available MERIC data (MERIC 2016) should be used for all employees, with adjustment for the consumer price index to reflect current trends.

- d. The Commission should use a “per customer” allocation, which would result in an 18% allocation of payroll for Indian Hills.
- e. The CSWR employees providing services to Indian Hills should be identified as experienced for purposes of MERIC salary data.

*Macias Dir., p. 8-15; Macias Reb., p. 6-11; Macias Sur., p. 7-12.
Thomas Dir., 7-9; Thomas Reb., p. 2-7; Thomas Sur., p. 1-4.*

II. Auditing and Tax Preparation Fees

- a. What is the appropriate amount of Indian Hill’s auditing and tax preparation (accounting) costs to include in Indian Hill’s cost of service?
- b. Should accounting costs paid outside the test year be included in Indian Hill’s cost of service?

Indian Hills’ Position: The 2016 Financial Audit and the 2016 Income Tax Returns are an integral component of the 2016 Indian Hills financial year, tax year, and test year. Costs related to the preparation of those items should be included in Indian Hills’ revenue requirement at the level identified in the Surrebuttal Testimony of Staff witness Sarver (p. 4).

*Macias Dir., p. 6-8; Macias Reb., p. 5-6; Macias Sur., p. 6.
Cox Dir., p. 22-24.*

III. Management Consulting Fees

- a. Should a management consulting fee be included in the cost of service for Indian Hills?

Indian Hills’ Position – Yes. Ms. Stanley is used to locate elements of the water system that were not documented in drawings or plans, clarify existing connection points, and to assist with other matters where her historical knowledge of the system is valuable.

Cox Reb., p. 17-18; Cox Sur., 2-3.

IV. Bank Fees

- a. What is the appropriate level of bank fees to include in the cost of service for Indian Hills?

Indian Hills’ Position: The Commission should recognize the Company’s lockbox fees (otherwise known as Bank Analysis Fees) in Indian Hills’ revenue requirement as the level proposed by Staff.

Macias Reb., p. 11-13; Macias Sur., p. 12.

V. Rate Case Expense

- a. What is the appropriate rate case expense to include in the cost of service for Indian Hills?

Indian Hills' Position: Indian Hills' rate case expenses, brought forward to a cut-off date at least one week after the filing of the post-hearing brief (and normalized over three years) should be included in the revenue requirement.

Cox Dir., p. 28-29.

VI. Treatment of Leak Repair Costs

- a. What are the appropriate accounts to book leak repair?
- b. What is the appropriate level of leak repair to include in the cost of service?

Indian Hills' Position: The existing water distribution system has been in a state of disrepair due to its substandard construction and other factors over the last 50 years. Repairs on the systems, even with additional investment in replacement of mains and services, will be a continuing expense. The Commission should include \$99,303 in Indian Hills' revenue requirement for leak repair costs and reject the proposal to amortize past costs.

*Macias Dir., p. 5-6; Macias Reb., p. 2-3; Macias Sur., p. 2-4.
Thomas Dir., p. 4-7; Thomas Reb., p. 7-9; Thomas Sur., p. 5-6.*

VII. Extension of Electric Service

- a. Should the Company be able to capitalize the electric line extension?
- b. If so, what are the appropriate accounts to book the extension of electric line service?

Indian Hills' Position: The cost paid to Crawford Electrical Cooperative for the construction of electric service should be recorded as utility plant in USOA Account 325 as these improvements were an ordinary and necessary cost directly associated with the new well, booster pumps, ground storage, and well house.

*Macias Reb., p. 3-4; Macias Sur., p. 4-5.
Thomas Reb., p. 15-17.*

VIII. Rate Design

- a. How should rates be developed based on the cost of service approved in this case?

- b. Should a seasonal rate design be adopted in this case, and if so, what should be the structure of the seasonal and non-seasonal rates?

Indian Hills' Position: Indian Hills generally supports the rate design proposed by Staff. However, Indian Hills supports a slight adjustment to that proposal that would include a seasonally adjusted commodity charge to be in place from April 1 through September 30.

Cox Sur., p. 3-5.

IX. Rate of Return

- a. What capital structure should be used for determining rate of return?
- b. What cost of debt should be used for determining rate of return?
- c. What return on common equity should be used for determining rate of return?

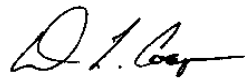
Indian Hills' Position:

- a. The Commission should use a capital structure consisting of 21.2% equity and 78.8% debt.
- b. The 14% interest rate reflected in Indian Hills' existing financing agreement is the cost of debt.
- c. A return of equity of 15.20% is appropriate given the size and risks associated with Indian Hills.

*D'Ascendis Dir., All; D'Ascendis Reb., All; D'Ascendis Sur., All.
Thaman Dir., All; Thaman Reb., All.
Cox Dir., p. 24-28; Cox Reb., p. 2-16; Cox Sur., p. 2.*

WHEREFORE, Indian Hills submits this Statement of Position for the Commission's consideration.

Respectfully submitted,



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ATTORNEYS FOR INDIAN HILLS
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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail or by U.S. Mail, postage prepaid, on November 21, 2017, to the following:

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