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Auditing and Income  
Tax Preparation Fees /  
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**DIRECT TESTIMONY**

**OF**

**KERI ROTH**

Submitted on Behalf of the Office of the Public Counsel

**HILLCREST UTILITY OPERATING COMPANY, INC.**

CASE NO. WR-2016-0064

April 15, 2016

OPC Exhibit No. 001  
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**NP**



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**DIRECT TESTIMONY**  
**OF**  
**KERI ROTH**  
**HILLCREST UTILITY OPERATING COMPANY, INC.**  
**CASE NO. WR-2016-0064**

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. By whom are you employed and in what capacity?**

5 A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Public Utility  
6 Accountant.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the OPC.

9 **Q. What is the nature of your duties at the OPC?**

10 A. My duties include performing audits and examinations of the books and records of public  
11 utilities operating within the state of Missouri.

12 **Q. Please describe your educational background.**

13 A. I graduated in May 2011 from Lincoln University in Jefferson City with a BS in  
14 Accounting.

15 **Q. Have you received specialized training related to public utility accounting?**

16 A. Yes. In addition to being employed by the OPC since September 2012, I have also attended  
17 the NARUC Utility Rate School held by Michigan State University.

1 **Q. Have you previously filed testimony before the Missouri Public Service Commission**  
2 **(“Commission” or “PSC”)?**

3 A. Yes. Please refer to Schedule KNR-1, attached to this testimony, for a listing of cases in  
4 which I have submitted testimony.

5 **Q. Please list the witnesses who will be filing direct testimony on behalf of OPC in this**  
6 **case and the issues they will be addressing in direct testimony?**

7 A. The following individuals will be sponsoring OPC’s positions regarding Hillcrest Utility  
8 Operating Company’s (“Hillcrest” or “Company”):

- 9 • Keri Roth – Employee wages, auditing and income tax preparation fees, and  
10 property tax expense
- 11 • James Russo – Rate design, affordability of proposed rates, and phased-in rates  
12  
13

14 **Q. Please provide an overview of Hillcrest and the services they provide.**

15 A. Hillcrest’s parent company Central States Water Resources, Inc. (“CSWR”) formed on  
16 January 27, 2014 and employs three individuals who allocate a portion of their time to  
17 Hillcrest and two other subsidiaries: Raccoon Creek Utility Operating Company, Inc.  
18 (“Raccoon Creek”) and Indian Hills Utility Operating Company, Inc. (“Indian Hills”).

19 Hillcrest has one water system and one sewer system located in and around Cape Girardeau.  
20 The water system serves 242 water customers and the sewer system serves 240 sewer  
21 customers. Most of these customers overlap save for two that do not use the sewer system.

22 Raccoon Creek has three sewer systems: W.P.C. Sewer Company (“WPC”), West 16<sup>th</sup>  
23 Street Sewer Company (“West 16<sup>th</sup>”) located in Sedalia, and Village Water and Sewer  
24 Company, Inc. (“Villages”) located in Knob Noster. In total, Raccoon Creek serves  
25 approximately 500 sewer customers.

1 Indian Hills has one water system located near Cuba. The water system serves  
2 approximately 700 water customers in and around the Indian Hills subdivision.

3 In looking at these water and sewer systems in their total sum, Hillcrest is actually a minimal  
4 percentage of the overall work CSWR performs around Missouri.

5  
6 **II. Employee Wages**

7 **Q. What are the job duties of each employee at CSWR?**

8 **A.** As described in the Company response to OPC Data Request 1314:

9 Mr. Josiah Cox – Lead and direct overall company strategy and  
10 direction, directly responsible for utility acquisitions, direct contact  
11 for regulatory compliance (PSC, OPC, MDNR, Attorney General),  
12 responsible for construction management, responsible for  
13 engineering management, responsible for third party contractor  
14 acquisition/contract negotiation/management, and director of all  
15 financing activities including debt and equity raises.

16 Mr. Jack Chalfant – Assists in directing overall company strategy,  
17 establish and maintain a companywide financial accounting system,  
18 establish and maintain utility NARUC accounting system, establish  
19 and maintain a NARUC to GAAP financial reporting system,  
20 directly responsible for utility audits, directly responsible for annual  
21 accounting audits, interface directly with utility financial regulators  
22 to help CSWR manage customer rate increases, create long term cost  
23 accounting systems, help to open a new state utility markets by  
24 researching their individual financial requirements, and help create  
25 and maintain a long term companywide financial operations program  
26 both at the utility and corporate level.

27 Ms. Brenda Eaves – Establish and direct overall company office  
28 operations, designing and implementing office policies by  
29 establishing standards and procedures; measuring results against  
30 standards; making necessary adjustments, maintain on-going AP/AR  
31 records, interface with customer service contractors, direct final

1 customer late pay programs, maintain customer service  
2 disconnect/reconnect functions with O&M Contractors, maintain  
3 overall office efficiency by planning and implementing office  
4 systems and equipment procurement.  
5

6 **Q. What yearly salaries are paid to CSWR's employees?**

7 **A.** The yearly salaries are shown in the chart below:

Employee	Title	Salary Amount
Josiah Cox	President	** **
Jack Chalfant	Chief Financial Officer	** **
Brenda Eaves	Office Manager	** **
Source: OPC Data Request 1314		

8  
9 **Q. Do small water and sewer companies operating in Missouri have employees with the**  
10 **title of President?**

11 **A.** No. The top manager of small water and sewer companies in Missouri are usually classified  
12 as general managers.

13 **Q. What percentage of CSWR employee salaries is the Company allocating to Hillcrest?**

14 **A.** Of the total \*\* \*\* CSWR compensation, 14% is allocated to Hillcrest. The dollar  
15 amount allocated is \*\* \*\*. The 14% allocation factor was determined by CSWR  
16 based on the ratio of Hillcrest customers to total company customers.

17 **Q. How has Staff determined employee wage amounts?**

18 **A.** Staff has used 2013 Missouri Economic Research and Information Center ("MERIC") mean  
19 payroll rates in the St. Louis Region for each employee, which is geographically relevant to  
20 what we are analyzing here.

1 **Q. What is the hourly rate Staff is including in Hillcrest's cost of service for each CSWR**  
2 **employee?**

3 A. Mr. Cox's hourly rate is \*\* \*\*, Mr. Chalfant's hourly rate is \*\* \*\*, and Ms.  
4 Eaves' hourly rate is \*\* \*\*. This can be seen on the "Salary Compare" tab provided  
5 from Staff's payroll workpaper in Schedule KNR-2 and marked "Highly Confidential".

6 **Q. Are these hourly rates reasonable?**

7 A. No. Based on OPC's review of compensation for other similar sized utility companies in  
8 Missouri, these hourly rates are not reasonable.

9 **Q. Can you provide examples of employee wages for other similar small water and sewer**  
10 **companies for employees in similar positions?**

11 A. Yes. Please see Schedule KNR-3, marked "Highly Confidential", for a description of  
12 similar systems in Missouri.

13 **Q. Has the Commission made rulings in previous cases regarding employee wages of**  
14 **"general and operations managers" of small water and sewer companies?**

15 A. Yes. In case numbered SR-2013-0321, the Commission states in its *Report and Order*, filed  
16 on April 2, 2014, page 29:

17 The evidence supports an hourly wage of \$39.65 for Mr. Kallash at  
18 598 hours per year; or, \$23,710.70 annually.

19  
20 Mr. Kallash is the general and operations manager for Lincoln County Sewer and Water,  
21 LLC ("LCSW") performing similar duties as Mr. Cox is performing for Hillcrest. LCSW  
22 consists of approximately 112 water and sewer customers.

23 **Q. How many annual work hours is Staff including for Mr. Cox's compensation for his**  
24 **work on Hillcrest?**



1 A. Staff has included \*\* \*\* hours, as shown on Schedule KNR-2. Staff has based the  
2 number of hours for Mr. Cox on the timesheets provided by the Company.

3 **Q. Does OPC agree with Staff's annual work hours for Mr. Cox's work on Hillcrest?**

4 A. No. OPC believes any hours worked prior to the closing date of the assets, March 13, 2015,  
5 should be reallocated to non-regulated business activities. Therefore, OPC has adjusted its  
6 calculation to \*\* \*\* hours annually. OPC strongly recommends the Commission  
7 order CSWR employees to provide specific descriptions on their timesheets of the duties  
8 performed during hours worked for all regulated utilities under CSWR.

9 **Q. How many annual work hours is Staff including for Mr. Chalfant and Ms. Eaves  
10 compensation for their work on Hillcrest?**

11 A. Staff allocated 14% of the total wages for Mr. Chalfant and Ms. Eaves to Hillcrest because  
12 timesheets were not available for these employees. I would further reiterate we do not have  
13 this information because the employees were not keeping timesheets. It is the understanding  
14 of OPC that employees are now logging their hours.

15 **Q. What is an appropriate hourly rate for each employee of CSWR?**

16 A. Given the size of the utility and the job descriptions of the employees in comparison with  
17 other similar size utilities, OPC believes the following hourly rates are appropriate:

- 18 • Josiah Cox - \*\* \*\* per hour
- 19 • Jack Chalfant - \*\* \*\* per hour
- 20 • Brenda Eaves - \*\* \*\* per hour

21 As shown in Schedule KNR-4, marked "Highly Confidential", OPC used 2013 MERIC  
22 mean hourly rates but adjusted the job titles to more appropriately fit the job descriptions of

1 Mr. Cox and Mr. Chalfant. OPC is not recommending a change to Staff's calculation for  
2 Ms. Eaves' hourly rate.

3  
4 **III. Auditing and Income Tax Preparation Fees**

5 **Q. What annual dollar amount is the Company including for auditing and income tax**  
6 **preparation fees?**

7 A. The Company is including \$2,520 (14% of \$18,000) for accounting fees for Hillcrest as  
8 shown in response to Staff Data Request 2.

9 **Q. What annual dollar amount is Staff including for auditing and income tax preparation**  
10 **fees?**

11 A. Staff has included \$326 (14% of \$2,330) for Hillcrest's accounting fees. This amount is  
12 split evenly between water and sewer. Staff calculated its amount based on historical  
13 information provided in the general ledger. There was only one accounting invoice in 2015  
14 on the general ledger provided by Hillcrest.

15 **Q. Does OPC believe Staff's calculation of annual accounting fees is reasonable?**

16 A. No. However, OPC does not believe there is sufficient documentation available to  
17 accurately determine the proper annual level of auditing and income tax preparation fees.  
18 Hillcrest does not yet have 12 months of data in order to accurately set costs. OPC  
19 understands Hillcrest has provided a quote of \$18,000 as mentioned above to cover the cost  
20 of accounting fees for CSWR. However, Staff has not included this amount in the cost of  
21 service since the costs have not yet been incurred. This cost will be re-evaluated based on  
22 actual invoices at Hillcrest's next general rate case. Therefore, OPC is currently accepting  
23 Staff's calculation.

1 **Q. Will OPC provide an update if additional documentation is provided from Hillcrest?**

2 A. Yes.

3

4 **IV. Property Taxes**

5 **Q. What dollar amount is the Company including for annual property tax expense?**

6 A. The Company has included \$6,223 for annual property tax expensed as shown in response  
7 to Staff Data Request 2. This amount is calculated by using the 2013 tax rate of 0.44%  
8 based on Brandco's – the Company Hillcrest purchased previously in 2014 – 2013 property  
9 taxes paid of \$337 divided by its 2013 net book value of \$75,786. This tax rate was then  
10 multiplied by the Company's calculation of its net book value of \$1,398,840.

11 **Q. Does OPC believe Hillcrest's calculation is reasonable?**

12 A. No. Hillcrest has used book value to calculate annual property tax expense but this is not  
13 the basis. The basis is the property assessment per Section 137.115(1) RSMo (Cum. Supp.  
14 2013).

15 **Q. How much is Staff including annually for property tax expense?**

16 A. Staff is including \$328. To OPC's understanding, Staff contacted the Cape Girardeau  
17 County Assessor office and was given this amount as the property tax expense paid by  
18 December 31, 2015 for Hillcrest.

19 **Q. Does OPC believe Staff's calculation is reasonable?**

20 A. Yes. It is OPC's understanding that Hillcrest has not provided any documentation showing  
21 property tax expense paid for 2015 even though Staff has attempted to collect this  
22 information several times. OPC understands Staff has updated its case through October 31,

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1           2015. Therefore, OPC believes the amount of property taxes paid in 2015 as provided by  
2           the Assessor's office is reasonable because this amount is based on an assessed value.

3   **Q.    Does this conclude your direct testimony?**

4   **A.    Yes.**

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Schedules KNR-2 through KNR-4

have been deemed

“Highly Confidential”

in their entirety.