

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of Rate Increase     )  
Request for Liberty Utilities (Missouri Water) LLC     )     Case No. WR-2018-0170  
d/b/a Liberty Utilities     )

**OFFICE OF THE PUBLIC COUNSEL’S  
RESPONSE TO NON-UNANIMOUS STIPULATION AND AGREEMENT**

**COMES NOW** the Office of the Public Counsel (OPC), by and through counsel, and for its Comments states as follows:

1.     On August 3, 2018, Liberty Utilities (Missouri Water) LLC (“Liberty Utilities”) and the Public Service Commission Staff (“Staff”) inscribed their approval of a Non-unanimous Stipulation and Agreement regarding Liberty Utilities requested rate increase. The Stipulation agrees to, among other things, a return on equity (“ROE”) of 9.75%, and uses that number to calculate Liberty Utilities revenue requirements for the various water and sewer utilities.

2.     The OPC does not object to the revenue requirements as finalized, however the OPC cannot in good conscious support revenue requirement calculations based on an ROE without an associated capital structure.

3.     Similarly to how an interest rate on an asset tells you nothing about the final profit without considering equity, an ROE alone does not determine rates or customer bills. Rather, an ROE is applied to a specific capital structure to calculate revenue requirements and charges.

4.     In his Direct Testimony, Staff witness Paul Harrison suggested an ROE of 10.00% with a capital structure of 42.83% common equity combined with 57.17% long term debt.

5.     Liberty Utilities witness Jill Schwartz’s Direct Testimony proposed Liberty Utilities’ request for an ROE of 10.25% with a capital structure of 53% equity.

6. Presumably, Liberty Utilities and Staff have found a compromise ROE of 9.75%, but have neglected to specify the capital structure. Attachment KNR-1 to OPC's affidavit shows the 9.75% ROE is within Staff's initial range as shown in Staff's (Financial Analysis) Day 90 workpapers in this case. Failure to state a capital structure leaves an open question as to what capital structure is contemplated for calculation of customer's rates. For consumers, the Commission's acceptance of this ROE alone is the functional equivalent of guaranteeing a set loan interest rate without specifying the amount of the principal.

7. In the attached affidavit, the OPC's expert Keri Roth further explains why black box rate setting of an ROE without an agreed to capital structure is troubling.

8. The Commission should direct the signatories, pursuant to Paragraph 18 of its Stipulation and Agreement, to articulate the applicable capital structure the 9.75% ROE is being applied to.

**WHEREFORE**, the OPC cannot endorse the Non-Unanimous Stipulation and Agreement.

Respectfully,

OFFICE OF THE PUBLIC COUNSEL

/s/ Caleb Hall  
Caleb Hall, #68112  
Senior Counsel  
[Caleb.hall@ded.mo.gov](mailto:Caleb.hall@ded.mo.gov)  
200 Madison Street, Suite 650  
Jefferson City, MO 65102  
P: (573) 751-4857  
F: (573) 751-5562

**Attorney for the Office of the Public  
Counsel**

**CERTIFICATE OF SERVICE**

We hereby certify that a true and correct copy of the foregoing was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this 13<sup>th</sup> day of August, 2018, with notice of the same being sent to all counsel of record.

/s/ Caleb Hall