

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

In the Matter of the Water Rate)	
Increase Request of)	
Hillcrest Utility Operating)	Case No. WR-2016-0064
Company, Inc.)	

HILLCREST’S STATEMENTS OF POSITION

COMES NOW Hillcrest Utility Operating Company, Inc. (Hillcrest or Company), and for its Statements of Position, states as follows to the Missouri Public Service Commission (Commission) concerning the issues contained in the *List of Issues, List and Order of Witnesses, Order of Opening Statements, and Order of Cross-Examination*, filed on May 13, 2016:

INTRODUCTION

This is the first rate case in decades for the water and sewer systems formerly known as Brandco Investments, LLC, and now owned by Hillcrest Utility Operating Company, Inc. Hillcrest’s purchase of the systems and approval of its financing was addressed by the Commission in its File No. WO-2014-0340. Hillcrest became the owner of the systems on March 13, 2015.

The Brandco system of had a history of compliance issues. This was especially true on the wastewater side where the wastewater treatment plant had been under multiple Missouri Department of Natural Resources (MDNR) and Missouri Attorney General compliance and enforcement actions.

Hillcrest began construction on drinking water and wastewater improvements approximately 30 days after it acquired the water and sewer systems. Since that time,

Hillcrest has invested approximately \$1,205,000, in water and sewer facilities in order to bring these facilities into compliance.

Cox Dir., pp. 4-14.

1. Payroll

A. What level of experience should be used to set the labor expense associated with each employee? B. Should the Employment Cost Index inflation rates be applied in setting such amounts? C. What is the appropriate number of annual work hours to include in calculating salaries for each employee? D. What is the appropriate hourly rate for each employee? E. What are the appropriate job titles to use in MERIC to compare and determine labor expense associated with Mr. Josiah Cox and Mr. Jack Chalfant?

Hillcrest Position:

A. The employees at issue have substantial years of work experience in various business environments and significant educational backgrounds. They should be considered at the “experience” level, and not the “mean” (or average) level.

B. Yes. The Commission should use the Missouri Economic Research and Information Center (MERIC) wage estimates based on the St. Louis region and a 2014 study, as adjusted for the Employment Cost Index (EPI) inflation rates, order to provide current salary information.

C. It is appropriate to use a full year of work (2,080 hours), as Hillcrest proposes that only fourteen percent (14%) of the total salary be allocated to Hillcrest. The allocation percentage is further discussed in issue 6 below.

D. The process described above identifies the appropriate hourly rates as \$108.93 for Mr. Cox; \$74.71 for Mr. Chalfant; and, \$20.92 for Ms.Eaves.

E. Mr. Cox should be identified under category “11-1011 Experience Chief Executive,” and Mr. Chalfant should be identified under category “11-3031 Experience Financial Manager.”

Cox Dir., pp. 14-18; Cox Reb., pp. 12-19.

2. **Property Taxes**

A. What is the appropriate amount of property taxes to include in the Hillcrest revenue requirements? B. Should estimated property tax amounts be included in rates?

Hillcrest Position:

A. \$2,972, as split between the water and the sewer, should be included in the calculation of the Hillcrest revenue requirements.

B. Yes. Since the last tax bill was paid for Cape Girardeau County, Hillcrest has made over \$1.2 million in improvements to the water and wastewater systems. Those improvements are in service. It is known that they will be taken into account in the property tax Hillcrest will pay this year, as well as future years.

Cox Dir., pp. 18-19; Cox Reb., pp. 19-21.

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

A. What is the appropriate amount of Hillcrest’s auditing and tax preparation (accounting) costs to include in Hillcrest’s cost of service? B. What is the appropriate allocated level of auditing and tax preparation (accounting) costs for Central States Water Resources to include in Hillcrest’s cost of service? C. Should accounting costs incurred and paid in 2016 by Hillcrest be included in Hillcrest’s cost of service?

Hillcrest Position:

A. \$6,000 for Hillcrest’s tax preparation, and \$11,000 for Hillcrest’s Audit fees.

B. \$2,429, which represents a 14% allocation of Central States tax preparation fees, and a 14% allocation of Central States Audit Fees.

C. Yes. Tax preparation and audit fees are a normal course of business for a professionally managed utility. This is particularly important for a utility, or group of utilities, that is actively engaged in attempting to raise capital.

Cox Dir., pp. 19-21.

4. **Rate of Return**

A. What is the appropriate capital structure for purpose of setting Hillcrest's allowed rate of return? B. What is the appropriate allowed ROE to apply to the equity in the ratemaking capital structure? C. What is the appropriate allowed debt rate to apply to the debt in the ratemaking capital structure?

Hillcrest Position:

A. Hillcrest's actual capital structure (19% equity, 81% debt)¹ should be used to calculate the Company's overall rate of return.

B. Hillcrest finds the Staff's range of equity recommendations – 12.88% to 14.13% - to be reasonable.

C. The Company's actual debt cost of fourteen percent (14%) should be used in calculating the overall rate of return, as this was the only debt available to the Company for the purpose of completing the necessary improvements.

Cox Dir., pp. 21-30; Cox Reb., pp. 21-22.

5. **Rate Design**

A. How many classes should Hillcrest's customers be divided into for the purpose of designing rates for both water and sewer? B. What are the proper allocation percentages to be used to allocate expenses between the customer charge and

¹ There is a typographical error in Mr. Cox' Rebuttal Testimony (p. 21) in regard to the percentage of debt in the capital structure that will be corrected to reflect this percentage.

volumetric rate? C. Should a rate increase be implemented all at once or phased-in over time?

Hillcrest Position:

A. Hillcrest does not object to the classes proposed by either the Staff or the OPC.

B. In setting the customer charge and volumetric charge for the water rates, the Commission should be mindful of the fact that water costs are primarily fixed, the average volumes used by Staff may be overstated, and recovery of most costs through the customer charge may be the only way to provide Hillcrest with a reasonable opportunity to recover whatever revenue requirement may be set in this case.

C. There should not be a “phase-in.” A “phase-in” of rates will not provide sufficient cash to keep this small utility viable and the carrying costs associated with the booking of the deferred revenues would have the consequence that, in the end, the customers would pay more out of their pockets, than they would in the absence of a phase-in, all else being equal.

Cox Reb., pp. 8-11.

6. Corporate Allocation

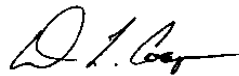
What is the appropriate corporate allocation percentage to apply to corporate costs?

Hillcrest Position: Hillcrest has proposed to use fourteen percent (14%) for this purpose. The 14% represents the percentage of time the Company believes will be required of employees, at some point in the future, provided the organization is able to complete additional acquisitions. Basing the allocation on either current customers or time sheets would result in a higher allocation to Hillcrest.

Cox Reb., p.p. 12-14.

WHEREFORE, Hillcrest respectfully requests that the Commission consider these statements of position.

Respectfully submitted,



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ATTORNEYS FOR HILLCREST UTILITY
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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 on May 13, 2016, to counsel for the parties to Case No. WR-2016-0064.

