

Exhibit No.:
Issue: Property Tax Expense
Rate Case Expense
Witness: Ashley R. Sarver
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WR-2016-0064
Date Testimony Prepared: May 11, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

ASHLEY R. SARVER

HILLCREST UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2016-0064

Jefferson City, Missouri
May 2016

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1 **PROPERTY TAX EXPENSE**

2 Q. What is the Company's position on property tax expense?

3 A. Company witness Josiah Cox states in his direct testimony at page 19, lines
4 9 through 14:

5 Based upon an original submission to Cape Girardeau County,
6 Hillcrest estimates that its property taxes will be approximately
7 \$18,723 in 2016. However, Hillcrest is currently working with the
8 Cape Girardeau County Assessor's office in regard to the assessment
9 in an effort to make these taxes as affordable as the County Assessor
10 will allow. Hillcrest hopes to be able to update this information in its
11 rebuttal testimony.

12 Q. What is Staff's position on property tax expense?

13 A. Staff's recommended level of property tax expense is \$164 for water and
14 \$164 for sewer. This amount is the actual property tax paid by Hillcrest and an allocated
15 portion of taxes paid for Hillcrest's parent company, Central States Water Resources
16 ("CSWR") in 2015.

17 Q. Is Staff's property tax expense an estimate?

18 A. No, Staff used the actual property tax paid by Hillcrest and CSWR to
19 determine the appropriate level of property tax expense to include in Hillcrest's cost
20 of service.

21 Q. Why does Staff believe that Company's position of using an estimate for
22 property tax expense is inappropriate?

23 A. Staff believes it is improper to include an estimated level of property
24 tax expenses in the cost of service for two reasons. First, the Company's proposal uses
25 estimated amounts of property tax expense for the plant improvements that were assessed as
26 of January 1, 2016. If Staff were to include a level of property tax expense in this case for

1 the improvements as Company suggests, Staff would be violating the known and measurable
2 standard normally used to set rates in this jurisdiction. Second, the plant additions and
3 improvements made by Hillcrest in 2015 were not assessed for property tax purposes until
4 January 1, 2016, which is beyond the update period in this case. Further, the payment of
5 these taxes will not be made until approximately December 31, 2016, which is well beyond
6 the date rates will become effective in this case.

7 **RATE CASE EXPENSE**

8 Q. Has the Company provided invoices supporting its incurred rate case expense
9 for this proceeding?

10 A. Yes. However, the last invoice provided to Staff was from Johansen
11 Consulting Services, LLC, during a meeting on January 13, 2016. Staff has not received any
12 additional cost support for this expense since that meeting.

13 Q. Has Staff excluded any rate case expense to date incurred by Hillcrest?

14 A. No. To date, Staff has found the invoices for rate case expense to be
15 reasonable, necessary and prudent.

16 Q. Does Staff agree with the Company's proposal on rate case expense explained
17 in Mr. Cox's Direct Testimony at page 32, lines 10-14?

18 Accordingly, an allowance for rate case expense (normalized over
19 three years) should be included in the revenue requirement in this
20 proceeding that includes invoices of Hillcrest's attorney and expenses
21 related to the rate case (such as those associated with customer
22 notices).

23 A. Staff does agree with Mr. Cox that rate case expense should be normalized
24 over a three year period. Per the Disposition Agreement filed in this case; within 12-18
25 months after the effective date of an order approving the Disposition Agreement filed in this

1 case, either Staff will initiate a rate review or the Company will file a rate case. If, after
2 18 months, Hillcrest files a rate case and an evidentiary hearing is needed, it could take up to
3 11-months from the date the initiating letter is filed for rates to be changed. Under this
4 scenario, rates would change in January 2019, which is 29 months away from the effective
5 date of the rates for this case. If Staff should have to initiate an earnings complaint as a result
6 of its rate review the timeline might extend to three years or more. It is also possible that
7 Staff's rate review would reveal that rates do not need to be changed. Based upon all of
8 these scenarios, a three year normalization appears to be reasonable.

9 Q. Does Staff agree with the Company's proposal of updating rate case expense
10 to a cut-off date after post-hearing briefs are due?

11 A. Yes. Staff agrees with the Company that a cut-off date after the post-hearing
12 briefs should be established for submission of rate case expense incurred by the Company.
13 Staff recommends a cut-off date of June 22, 2016, a week after the reply briefs in this case
14 are to be filed. Staff is recommending that Hillcrest's rate case expense be treated in the
15 traditional manner for small water and sewer companies; that is, the Company should be
16 allowed an opportunity to recover in rates the full amount of reasonable and prudently
17 incurred rate case expenses over a reasonable normalization period. Staff will continue to
18 examine the actual costs incurred by Hillcrest relating to the processing of the rate case and
19 include all prudently incurred expenses in the cost of service analysis during the course of
20 this proceeding.

21 Q. What is the amount of rate case expense the Company has paid to date?

22 A. As of May 10, 2016, the Company has submitted to Staff invoices totaling
23 \$2,054 for rate case expense. 50% of these costs have been assigned to Hillcrest's water

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1 | operations and 50% to its sewer operations. Hillcrest is responsible for providing Staff with
2 | invoices to support its ongoing incurred rate case expense. Staff will continue to update rate
3 | case expense in this proceeding through June 22, 2016.

4 | Q. Does this conclude your rebuttal testimony?

5 | A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Water Rate Increase)
Request of Hillcrest Utility Operating)
Company, Inc.)
)
)


Case No. WR-2016-0064

AFFIDAVIT OF ASHLEY R. SARVER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW Ashley R. Sarver and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

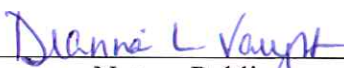


Ashley R. Sarver

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of May, 2016.





Notary Public