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| <b>Exhibit No.:</b>             | _____  |
| <b>Issue(s):</b>                | Plant-Related Balances<br>and Adjustments/<br>Capital Structure/<br>Return on Equity/<br>Debt Cost |
| <b>Witness/Type of Exhibit:</b> | Robertson/Rebuttal   |
| <b>Sponsoring Party:</b>        | Public Counsel   |
| <b>Case No.:</b>                | SR-2013-0016   |

**REBUTTAL TESTIMONY**

**OF**

**TED ROBERTSON**

Submitted on Behalf of the Office of the Public Counsel

**EMERALD POINTE UTILITY COMPANY**

**CASE NO. SR-2013-0016**

April 11, 2013

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


In the Matter of the Request for an                     )  
Increase in Sewer Operating Revenues of        )  
Emerald Pointe Utility Company.                )        **File No. SR-2013-0016**

**AFFIDAVIT OF TED ROBERTSON**

STATE OF MISSOURI    )  
  )    ss  
COUNTY OF COLE     )

Ted Robertson, of lawful age and being first duly sworn, deposes and states:


1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Ted Robertson, C.P.A.  
Chief Public Utility Accountant

Subscribed and sworn to me this 11<sup>th</sup> day of April 2013.



JERENE A. BUCKMAN  
My Commission Expires  
August 23, 2013  
Cole County  
Commission #09754037

  
\_\_\_\_\_  
Jerene A. Buckman  
Notary Public

My Commission expires August 23, 2013.

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**REBUTTAL TESTIMONY  
OF  
TED ROBERTSON**

**EMERALD POINTE UTILITY COMPANY, INC.  
CASE NO. SR-2013-0016**

8 **I. INTRODUCTION**

9 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

10 A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

11  
12 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

13 A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as  
14 the Chief Public Utility Accountant.

15  
16 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

17 A. My duties include all activities associated with the supervision and operation of the  
18 regulatory accounting section of the OPC. I am also responsible for performing audits  
19 and examinations of the books and records of public utilities operating within the state of  
20 Missouri.

21  
22 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER  
23 QUALIFICATIONS.

24 A. I graduated in May, 1988, from Missouri State University in Springfield, Missouri, with  
25 a Bachelor of Science Degree in Accounting. In November of 1988, I passed the

1 Uniform Certified Public Accountant Examination, and I obtained Certified Public  
2 Accountant (CPA) certification from the state of Missouri in 1989. My CPA license  
3 number is 2004012798.

4  
5 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC  
6 UTILITY ACCOUNTING?

7 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel since  
8 July 1990, I have attended the NARUC Annual Regulatory Studies Program at Michigan  
9 State University, and I have also participated in numerous training seminars relating to  
10 this specific area of accounting study.

11  
12 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC  
13 SERVICE COMMISSION (COMMISSION OR MPSC)?

14 A. Yes, I have testified on numerous issues before this Commission. Please refer to  
15 Schedule TJR-1, attached to this testimony, for a listing of cases in which I have  
16 submitted testimony.

17  
18 **II. PURPOSE OF TESTIMONY**

19 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

1 A. The purpose of this rebuttal testimony is to present the Public Counsel's positions  
2 regarding the ratemaking positions taken by the MPSC Staff for various plant-related  
3 balances and adjustments (i.e., plant-in-service, depreciation expense, accumulated  
4 depreciation reserve, contributions in aid of construction, etc.) and capital-related costs  
5 (i.e., capital structure, return on equity and debt cost).

6  
7 **III. PLANT-RELATED BALANCES AND ADJUSTMENTS**

8 Q. WHAT IS THE ISSUE?

9 A. Public Counsel's review of Staff's workpapers that support its plant-related  
10 recommendations identified several errors (some of which are material and some that are  
11 not) that should be corrected as they will change the plant-related balances and ultimate  
12 cost of services recommended by Staff.

13  
14 Q. PLEASE DESCRIBE THE ERRORS PUBLIC COUNSEL IDENTIFIED IN STAFF'S  
15 WORKPAPERS.

16 A. Staff workpaper Plant-Maint-With Pipeline, Tab: Sewer Detail- Last Case Rec,  
17 contained a double-counted reserve adjustment in Account 363. Regarding the error,  
18 Staff's response to Public Counsel DR No. 64 stated, in part, "It does appear that the \$24  
19 was double-counted when Staff utilized the amounts from the last case. While this

1 amount is not significant, Staff will make the change to remove the \$24 should revised  
2 workpapers be filed."

3  
4 Q. PLEASE CONTINUE.

5 A. Staff workpaper Plant-Maint-With Pipeline, Tab: Additions, contained an accumulated  
6 reserve summation error in Account 373. Regarding the error, Staff's response to Public  
7 Counsel DR No. 65 stated, "Yes, this does appear to be an error. Any subsequent  
8 revisions to Staff's workpapers will include this change."

9  
10 Q. PLEASE CONTINUE.

11 A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained an  
12 allocation of hookup fees at water-10% and sewer-90%; however, the contract  
13 supporting the fees indentifies the allocation as water-9.1% and sewer-90.9%.  
14 Regarding the error, Staff's response to Public Counsel DR No. 68 stated, in part,  
15 "Converting Public Counsel's percentages above (9.1% and 90.9%) to numbers and  
16 rounding them produces the same numbers that Staff utilized. Staff will consider  
17 utilizing more decimal places should any workpaper revisions be filed."

18  
19 Q. PLEASE CONTINUE.

1 A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained  
2 calculations for the amortization of CIAC that utilized an incorrect depreciation rate for  
3 water Account 314. Regarding the error, Staff's response to Public Counsel DR No. 69  
4 stated, "It appears that these rates did not get updated during the finalization of the  
5 workpaper. Any subsequent revisions to Staff's workpapers will include this change."

6 Q. PLEASE CONTINUE.

7 A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained  
8 calculations for the amortization of CIAC that utilized an incorrect depreciation rate for  
9 sewer Account 373. Regarding the error, Staff's response to Public Counsel DR No. 70  
10 stated, "It appears that these rates did not get updated during the finalization of the  
11 workpaper. Any subsequent revisions to Staff's workpapers will include this change."

12  
13 Q. PLEASE CONTINUE.

14 A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Branson Canyon, contained  
15 updates for all water and sewer plant through February 28, 2013; however, the associated  
16 CIAC was updated only through 11/30/2012. Regarding the error, Staff's response to  
17 Public Counsel DR No. 71 stated, "Updating through February for these items was not  
18 included in Staff's calculation. Staff will consider updating these items through February  
19 should any subsequent revisions to Staff's workpapers be filed."



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Q. PLEASE CONTINUE.

A. Staff workpaper Plant-Maint-With Pipeline, Tab: CIAC Hookups, contained an analysis of CIAC based on the \$400 new water customer fee charged to the utility's customers. A total of \$29,800 was charged to customers, but Staff only located \$12,221 in new plant costs so the difference, \$17,579, was allegedly accounted for by Staff as part of its miscellaneous revenues analysis. Regarding the error, Staff's response to Public Counsel DR No. 73 stated, in part, "The additional amount, \$17,579, did not relate to actual plant or installation charges, therefore, Staff accounted for the additional funds as part of its miscellaneous revenues analysis."

Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE STAFF'S ALLEGED TREATMENT OF THE ADDITIONAL \$17,579 AS MISCELLANEOUS REVENUES IS APPROPRIATE?

A. No, it is not. Public Counsel's review of the Staff's workpapers did not find where any of the \$17,579 was included as a miscellaneous revenue. In fact, it is my understanding that, on a going forward basis, because these fees should exactly equal plant costs, Staff did not include either the contributions or the plant in its recommended plant or CIAC balances, and therefore none was included in miscellaneous revenues either. Ratepayers

1           paid the \$17,579 as CIAC and those funds should be accounted for in the utility's plant  
2           as such whether or not cost of the associated plant was equal to or less than the  
3           contributions obtained from ratepayers.

4  
5   Q.    DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE FINAL UPDATE  
6           PERIOD UTILIZED BY STAFF FOR PLANT-RELATED BALANCES?

7   A    Yes. Staff's workpapers show that it has updated most plant-related balances through  
8           February 28, 2013; however, this date is approximately five months prior to the effective  
9           date for rate change in this case. Public Counsel, in DR No. 72, questioned if the Staff  
10          intended to update its plant balances to a date more likely to coincide with the effective  
11          date of rates in the case because this case is being processed under the small rate case  
12          procedures and updates of plant in these types of cases is often done. Staff's response  
13          was, "Staff will not be updating beyond February 28, 2013, as it will not have the ability  
14          to review and update all the other relevant factors in the rate case, which would be  
15          required to adhere to the matching principle."

16  
17   Q.    DO YOU AGREE WITH THE STAFF'S POSITION ON UPDATING THE PLANT-  
18          RELATED BALANCES?

1 A. No. Staff's position that the matching principle would be violated is not reasonable  
2 given that the main driver, and reason for two time extensions, in the case was to achieve  
3 the inclusion of the new construction undertaken to eliminate the sewer treatment plant.  
4 In addition, many of the remaining costs and revenues associated with the Staff's  
5 recommended cost of service were actually developed by Staff to represent the cost  
6 structure of a similar sized utility and not based on Company's actual booked costs  
7 because of the utility's unapproved billing practices and extremely poor accounting and  
8 records maintenance. Staff's alleged violation of the matching principle is not valid  
9 because, excluding plant and possibly revenues, material cost changes are unlikely to  
10 occur given that Staff itself developed many of the costs in its recommended cost of  
11 services.

12  
13 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION REGARDING THE  
14 UPDATING OF PLANT-RELATED BALANCES?

15 A. It is Public Counsel's recommendation that the plant-related balances be updated as close  
16 to the effective date of the rate change as possible. Since Staff is likely to make changes  
17 to correct known errors in its analysis it would be a simple task to extend those changes  
18 to account for plant changes such as updated additions, retirements, depreciation, etc., in

1           order to match a truer cost of service at the date closest to the actual date of the rate  
2           change.

3  
4   Q.   PLEASE SUMMARIZE THE PUBLIC COUNSEL'S RECOMMENDATIONS  
5       REGARDING THE STAFF'S RECOMMENDED WATER SYSTEM PLANT-  
6       RELATED BALANCES.

7   A.   Public Counsel's primary issues with the Staff's recommendations are, in addition to the  
8       need to update the balances to a date closer to the effective date of rates, the errors  
9       discussed above related to the Branson Canyon CIAC and the meter Hookup CIAC. I  
10      believe that the allocation and depreciation of the Branson Canyon CIAC was calculated  
11      incorrectly. Whereas, I believe that the Hookup CIAC does not include \$17,579 paid by  
12      ratepayers, but not recognized in the Staff's recommendations. Correction of those errors  
13      would resolve all issues Public Counsel has with the Staff's recommendations for the  
14      water system plant-related balances.

15  
16   Q.   DOES PUBLIC COUNSEL HAVE ADDITIONAL ISSUES WITH THE STAFF'S  
17       RECOMMENDED SEWER SYSTEM PLANT-RELATED BALANCES?

18   A.   Yes. As with the water system, and the need to update the balances, Public Counsel  
19      believes that the Staff's recommendations contain errors, as discussed previously, related

1 to the calculation and depreciation of the Branson Canyon CIAC. Furthermore, Public  
2 Counsel believes that certain aspects of Staff's ratemaking treatment for the recent  
3 retirement of the sewer treatment plant requires correction.

4  
5 Q. PLEASE EXPLAIN PUBLIC COUNSEL'S UNDERSTANDING OF THE STAFF'S  
6 TREATMENT OF THE SEWER TREATMENT PLANT RETIREMENTS.

7 A. In its workpapers Staff shows that it retired or transferred sewer treatment plant from  
8 Accounts 310-T&D Land & Land Rights, 311- T&D Structures and Improvements, 373-  
9 Treatment and Disposal Equipment and 375-Outfall Sewer Lines. These retirements  
10 occurred because of the new construction line to and treatment contract with the City of  
11 Hollister.

12  
13 To effectuate the ratemaking for the retirements, Staff reduced the plant balances to zero  
14 and offset each account's accumulated depreciation reserve balance by an equal  
15 corresponding amount (except for the land account which is not depreciated and is being  
16 treated as transferred to non-regulated property). For the three non-land accounts, all of  
17 which were not yet fully depreciated, this resulted in negative accumulated depreciation  
18 reserve balances which Staff then assigned to the accumulated depreciation reserve for  
19 Account 363-Pumping Plant. The accumulated depreciation reserve balance for Account

1 363-Pumping Plant prior to the assignment was over-depreciated by more than 57% and  
2 after the reassignment is under-depreciated by almost 11% (prior to the addition of the  
3 costs of the newly constructed pipeline). Staff also transferred the net Branson Canyon  
4 CIAC booked in Account 373-Treatment and Disposal Equipment to Account 352.2-  
5 Collection Sewers - Gravity.

6  
7 Q. PLEASE EXPLAIN THE CORRECTION PUBLIC COUNSEL BELIEVES SHOULD  
8 BE MADE TO THE STAFF'S RATEMAKING TREATMENT OF THE SEWER  
9 TREATMENT PLANT RETIREMENTS.

10 A. Public Counsel's opposition to Staff's recommendations for this issue focuses on only  
11 one account and that is Account 373-Treatment and Disposal equipment. Public  
12 Counsel believes that the Staff's assignment of the net Branson Canyon CIAC booked in  
13 Account 373-Treatment and Disposal Equipment to Account 352.2-Collection Sewers -  
14 Gravity is not the appropriate treatment for the cost. Public Counsel believes that since  
15 Staff booked the CIAC in Account 373, the net CIAC should have stayed in Account  
16 373 and been utilized to determine the account's actual negative accumulated  
17 depreciation reserve balance. In other words, Staff assignment of the net Branson  
18 Canyon CIAC to the collection sewers account created a mismatch of dollars in the  
19 balances of the two accounts.

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For example, the balances for Account 373 prior to the Staff's retirement adjustments were: plant \$276,330, accumulated reserve \$205,580, CIAC \$53,297 and CIAC reserve \$20,579. Staff's adjustments developed a negative accumulated depreciation reserve of \$70,750 (\$276,330 minus \$205,580) which it assigned to Account 363 and a net Branson Canyon CIAC of \$32,718 (\$53,297 minus \$20,579) which it assigned to Account 352.2. Public Counsel believes that the proper way to treat the costs is to account for all the costs in Account 373 together and to not create the mismatch Staff recommends. As such, Public Counsel recommends that the negative accumulated depreciation reserve for Account 373 is actually \$38,032 (which consists of the accumulated reserve balance of \$205,580 reduced by the plant retirement of \$276,330 and increased by net CIAC of \$32,718 which is the ratepayer funded portion of the plant that was not fully depreciated).

- Q. IF THE COMMISSION AUTHORIZES PUBLIC COUNSEL'S RECOMMENDATION FOR ACCOUNT 373, WILL THAT HAVE ANY IMPACT ON RATE BASE?
- A. No, but the mismatch of costs Staff is recommending will be eliminated.

1 Q. ISN'T PUBIC COUNSEL USUALLY OPPOSED TO THE REDISTRIBUTION OF  
2 NEGATIVE ACCUMULATED DEPRECIATION RESERVE BALANCES THAT  
3 OCCUR WHEN PLANT IS RETIRED PREMATURELY?

4 A. Public Counsel has on occasion, and will in the future, oppose such redistributions under  
5 certain circumstances such as early retirements caused by improper actions of  
6 management and/or failure by management or operators to provide a reasonable level of  
7 maintenance to keep the plant protected and operating as expected. Public Counsel is  
8 also concerned that the redistributions cause an embedded increase in net rate base that  
9 will likely never be eliminated since the associated plant has already been retired. Public  
10 Counsel believes that in most circumstances a better methodology would be to allow the  
11 negative accumulated depreciation reserve balances to be amortized to expense over a  
12 reasonable period of time so recovery is provided to shareholders and any over-recovery  
13 can be tracked and returned to ratepayers rather than provide a return on non-existent  
14 plant to shareholders forever.

15  
16 Q. WHY IS PUBLIC COUNSEL NOT OPPOSED TO THE REDISTRIBUTION OF  
17 NEGATIVE ACCUMULATED DEPRECIATION BALANCES IN THIS CASE?

18 A. Public Counsel believes that this case is unique from some other cases in which we've  
19 participated in that the Commission authorized the utility to construct the Hollister



1 pipeline based on a cost/benefit analysis that showed the construction and connection to  
2 the City of Hollister's treatment plant to be more efficient and economical. Therefore,  
3 the resulting sewer treatment plant retirements occurred not because of improper actions  
4 of management or operators, but because the benefits of the Hollister pipeline and  
5 contract to both shareholders and ratepayers outweighed the option of maintaining the  
6 retired plant.

7  
8 **IV. CAPITAL STRUCTURE/RETURN ON EQUITY/DEBT COST**

9 Q. WHAT IS THE ISSUE?

10 A. It is Public Counsel's position that the MPSC Staff has based its recommended weighted  
11 rate of return (WROR) for both the water and sewer operations on an analysis of  
12 Company's financial and business risk profiles that is not representative of the existing  
13 capital structure and debt costs. Public Counsel opposes Staff's position because it is  
14 subjectively based on a hypothetical capital structure which infuses equity for one utility  
15 and reduces it for another in the determination of the cost of services. It also relies on an  
16 extrapolation of much higher 30 year corporate bond yields for publicly rated utilities as  
17 a surrogate for Company's actual debt costs in developing Staff's recommended return on  
18 equity.

1 Q. WHAT METHODOLOGY DOES STAFF UTILIZE TO DEVELOP ITS  
2 RECOMMENDED RETURN ON EQUITY?

3 A. The MPSC Staff's response to Public Counsel DR No. 60 provided a document titled,  
4 "Small Utility Return on Equity (ROE)/Rate of Return (ROR) Methodology" which  
5 describes the basis and procedures of Staff's analysis. On page one of the document it  
6 states:

7  
8 The FA Department's new procedure is based on a fairly generic risk  
9 premium methodology. Staff will apply a "standard" risk premium to a  
10 reasonable estimate of the current cost of debt for the subject company to  
11 arrive at an estimated return on equity. Because small water and sewer  
12 companies typically don't issue debt that is actively traded, the FA  
13 Department must rely on its estimate of the subject company's credit  
14 rating and then determine a recent average cost of utility debt for this  
15 rating based on data the FA Department receives from its current source  
16 for utility debt yields, BondsOnline. The Department then adds the  
17 "standard" risk premium to this current cost of debt to estimate the cost of  
18 common equity. These capital costs are then applied to the appropriate  
19 weights in the capital structure to estimate a fair and reasonable rate of  
20 return. (Emphasis added)

21  
22  
23 Q. WHAT IS THE WEIGHTED RATE OF RETURN RECOMMENDED BY THE MPSC  
24 STAFF?

25 A. For both the water and sewer operations the Staff's pre-tax weighted rate of return is  
26 7.34% which is based on an estimated 13.26% return on equity and 5.36% cost of debt

1 and a hypothetical capital structure containing 25% equity and 75% debt. However, it is  
2 my understanding that the water utility does not have any debt thus, while Staff imputed  
3 the sewer operations debt cost to the water operation capital structure, Public Counsel  
4 only utilized it in the analysis of the water system's return on equity.

5  
6 Q. DID STAFF DEVELOP AN ESTIMATE FOR COMPANY'S COST OF DEBT  
7 DIFFERENT FROM COMPANY'S ACTUAL DEBT COST IN ORDER TO DEVELOP  
8 AN ESTIMATE FOR RETURN ON EQUITY?

9 A. Yes. Staff did not use the sewer operation's actual 5.36% cost of debt identified above to  
10 develop its estimate for return on equity for either the water or sewer operation. Instead,  
11 Staff utilized a "hypothetical" capital structure to develop an estimated credit rating  
12 which it then used to arrive at an estimate of a corporate bond yield which, when added  
13 with a Staff determined 4% risk premium, resulted in Staff's recommended return on  
14 equity for both the water and sewer operations.

15  
16 Q. WHY DID STAFF NOT USE COMPANY'S ACTUAL DEBT CAPITAL COSTS IN  
17 ITS DEVELOPMENT OF A RETURN ON EQUITY?

18 A. Staff's position on this issue appears subjective to Public Counsel as Staff provided no  
19 reasoning for the substitution other than Staff believes it appropriate. In the Small

1 Utility Return on Equity (ROE)/Rate of Return (ROR) Methodology document Staff

2 provided it states:

3  
4 In situations in which a small water and sewer utility has debt capital in  
5 excess of 75%, the FA Department believes it is appropriate to use a  
6 hypothetical capital structure that limits debt to 75% of total capital.  
7 Although it could be argued that Staff should also use a hypothetical  
8 capital structure if a company's capital structure is not cost efficient due to  
9 a high equity ratio, the FA Department decided not to limit the amount of  
10 equity in the capital structure.  
11  
12

13 Staff provided no other support as to why it believes Company's actual capital structure  
14 debt costs are not more representative of its actual debt yield than a made-up estimate  
15 based on inflating the equity portion of the capital structure for the sewer operation and  
16 deflating the equity portion of the capital structure for the water operation.  
17

18 Q. WHY WAS THE SEWER OPERATION DEBT INCURRED?

19 A. In SF-2013-0346 Company requested authorization to issue up to \$1,000,000 of secured  
20 indebtedness associated with the construction of a sewer line and to eliminate the existing  
21 wastewater treatment facility and to convert it to a lift station. This application was  
22 supplemented with a request to obtain a \$62,000 loan from Whiter River Valley Electric  
23 Cooperative, Inc. (White River) to purchase two commercial power generators for

1 placement at lift stations. Both requests were authorized by the Commission in its Order  
2 Granting Authority To Issue Indebtedness issued on February 13, 2013.

3  
4 Q. WAS THE FINAL LOAN FROM WHITE RIVER VALLEY ELECTRIC  
5 COOPERATIVE, INC. MORE THAN \$62,000?

6 A. Yes. The final amount loaned was increased to \$66,860.

7  
8 Q. AT WHAT INTEREST RATES WERE THE LOANS ISSUED?

9 A. The \$1,000,000 loan was issued at an interest rate of 5.5% while the loan from White  
10 River Valley Electric Cooperative, Inc. was issued at an interest rate of 3.15%.

11  
12 Q. WHAT IS THE SEWER OPERATION'S ACTUAL WEIGHTED COST OF DEBT  
13 AFTER TAKING INTO ACCOUNT THE WHITE RIVER LOAN MODFICATION?

14 A. The actual weighted cost of debt, after updating the capital structure for the increase in the  
15 White River loan, is 5.35% or 0.01% less than the 5.36% cost of debt recommended by  
16 Staff in its hypothetical capital structure.

17  
18 Q. WHAT IS THE SEWER OPERATION'S ACTUAL CAPITAL STRUCTURE AFTER  
19 TAKING INTO ACCOUNT THE WHITE RIVER LOAN MODFICATION?

1 A. The MPSC Staff's response to Public Counsel DR No. 60 and/or the Staff Accounting  
2 Schedules filed to support its direct testimony identifies the actual capital structure of the  
3 sewer operation as 20.14% equity and 79.86% debt and the water operation as 100.00%  
4 equity and 0.0% debt. However, due to an increase in the principle amount of the White  
5 River loan, the current actual sewer operation capital structure is 19.77% equity and  
6 80.23% debt.

7  
8 Q. SINCE THE COMPANY HAS ACTUALLY ISSUED DEBT AT MARKET BASED  
9 RATES, WHY DID STAFF FIND IT NECESSARY TO ESTIMATE A CREDIT  
10 RATING AND DEBT YIELD IN ITS DEVELOPMENT OF AN APPROPRIATE  
11 RETURN ON EQUITY?

12 A. Based on my review of the Staff's analysis, it appears that Staff believes since the  
13 Company does not have actively traded debt, Staff must develop an estimate of its credit  
14 rating and then apply an appropriate bond yield for debt based on that estimated credit  
15 rating. Staff then adds a 4% risk premium to the selected bond yield to achieve its  
16 recommended return on equity.

17  
18 Q. DOES THE FACT THAT THE COMPANY'S DEBT IS NOT ACTIVELY TRADED IN  
19 ANY WAY MINIMIZE THE FACT THAT IT HAS REAL DEBT?

1 A. No. Staff's position that the utility's debt analysis must be based on credit ratings and bond  
2 yields of large actively traded corporations that have little in common with this utility is a  
3 mystery to me. The Company has sewer operation debt and that debt has a cost (or yield to  
4 holder of the debt) and as such is the real-world actual cost to the Company as determined  
5 by the utility and the parties that issued the loans to it. The process is the same. A party  
6 provides funding to the utility in exchange for documents on how it will be repaid (e.g., a  
7 note or a bond). Whether or not the debt is actively traded has no bearing on the ultimate  
8 cost of the debt to the utility.

9  
10 Q. DOES PUBLIC COUNSEL BELIEVE STAFF'S ANALYSIS AND  
11 RECOMMENDATION TO BE NONSENSICAL?

12 A. Yes. Public Counsel finds it nonsensical for Staff to completely ignore the Company's  
13 actual capital structures in favor of a hypothetical capital structure which it may deem more  
14 appropriate or more efficient; particularly, when Staff itself supported the issuance of the  
15 aforementioned sewer operation debt and resulting capital structure in the Company's  
16 recent financing Case No. SF-2013-0346. If it was appropriate then, why not now?

17  
18 Staff's extrapolation of credit ratings and bond yields for debt costs of larger water and  
19 sewer utilities that have actively traded debt makes little sense when compared to a small

1 water and sewer company that actually has issued debt that is based on and subject to  
2 current market rates as determined by the parties (investors) that loaned the utility the  
3 funds. Just because the Company's current loans are not sold to the public at large does not  
4 make the debt costs less relevant than Staff's estimated debt yield. In fact, Company's  
5 actual debt costs are more relevant because they are a component of its actual capital  
6 structure and true cost of service. Staff's recommendation of the cost of debt utilized in the  
7 return on equity analysis is merely an estimate based on subjective reassignment of the  
8 Company's actual capital structure. That reassignment creates an estimate of both higher  
9 and lower equity components, an estimate of higher debt cost and an estimate of higher  
10 return on equity; none of which are supported by the Company's actual cost structure.

11  
12 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION?

13 A. It is Public Counsel's recommendation that the Company's actual capital structure and debt  
14 costs be utilized in the determination of its return on equity and weighted rate of return. If  
15 the Commission believes that a 4% risk premium is an appropriate adder to Company's  
16 actual debt cost then utilizing the simple risk premium methodology would yield a 9.35%  
17 return on equity (5.35% + 4.0%) for both the water and sewer operations assuming that the  
18 water utility could obtain debt at the same cost level as the sewer utility's debt. Including a  
19 9.35% return on equity in the weighted rate of return analysis with Company's actual



1 capital structure and debt cost yields a Public Counsel recommended weighted rate of  
2 return before income tax of 6.14% for the sewer operation and 9.35% for the water  
3 operation. Because the water operation has no debt and equity has a higher cost than debt  
4 its total WROR is the actual return on equity. Compared to Staff's recommended weighted  
5 rate of return before income tax of 7.34% for both utilities, Public Counsel's  
6 recommendation is 120 basis points less for the sewer utility and 201 basis points higher  
7 for the water utility, but both of Public Counsel's recommendation are based on Company's  
8 actual capital structures and debt costs - not estimates.

9  
10 Q. WHAT IS THE DIFFERENCE IN CAPITAL REVENUE REQUIREMENTS TO BE  
11 RECOVERED FROM RATEPAYERS IF THE COMMISSION AUTHORIZES PUBLIC  
12 COUNSEL'S RECOMMENDATIONS?

13 A. The difference is capital revenue requirements can be approximated by comparing Staff's  
14 and OPC's recommended WROR including income tax against the Staff's recommended  
15 rate bases (recognizing that Public Counsel believes Staff's plant-related balances and thus,  
16 rate bases, contain errors and are not accurate). The total revenue requirement utilizing  
17 Staff's hypothetical capital structure and other estimates for return on equity and debt costs  
18 is \$124,848 while Public Counsel's which is based on Company's actual operations is  
19 \$110,971. Public Counsel's recommendations represent a difference of \$13,877 which

1 ratepayers would not have to compensate the utility if its actual capital structure and debt  
2 costs are utilized. Public Counsel believes that the \$13,877 reduction makes rates more  
3 affordable for ratepayers while appropriately compensating the utility based on its actual  
4 capital structure and cost of service.

5

6 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

7 A. Yes, it does.

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

| <b>Company Name</b>                  | <b>Case No.</b> |
|--------------------------------------|-----------------|
| Missouri Public Service Company      | GR-90-198       |
| United Telephone Company of Missouri | TR-90-273       |
| Choctaw Telephone Company            | TR-91-86        |
| Missouri Cities Water Company        | WR-91-172       |
| United Cities Gas Company            | GR-91-249       |
| St. Louis County Water Company       | WR-91-361       |
| Missouri Cities Water Company        | WR-92-207       |
| Imperial Utility Corporation         | SR-92-290       |
| Expanded Calling Scopes              | TO-92-306       |
| United Cities Gas Company            | GR-93-47        |
| Missouri Public Service Company      | GR-93-172       |
| Southwestern Bell Telephone Company  | TO-93-192       |
| Missouri-American Water Company      | WR-93-212       |
| Southwestern Bell Telephone Company  | TC-93-224       |
| Imperial Utility Corporation         | SR-94-16        |
| St. Joseph Light & Power Company     | ER-94-163       |
| Raytown Water Company                | WR-94-211       |
| Capital City Water Company           | WR-94-297       |
| Raytown Water Company                | WR-94-300       |
| St. Louis County Water Company       | WR-95-145       |
| United Cities Gas Company            | GR-95-160       |
| Missouri-American Water Company      | WR-95-205       |
| Laclede Gas Company                  | GR-96-193       |
| Imperial Utility Corporation         | SC-96-427       |
| Missouri Gas Energy                  | GR-96-285       |
| Union Electric Company               | EO-96-14        |
| Union Electric Company               | EM-96-149       |
| Missouri-American Water Company      | WR-97-237       |
| St. Louis County Water Company       | WR-97-382       |
| Union Electric Company               | GR-97-393       |
| Missouri Gas Energy                  | GR-98-140       |
| Laclede Gas Company                  | GR-98-374       |
| United Water Missouri Inc.           | WR-99-326       |
| Laclede Gas Company                  | GR-99-315       |
| Missouri Gas Energy                  | GO-99-258       |
| Missouri-American Water Company      | WM-2000-222     |
| Atmos Energy Corporation             | WM-2000-312     |
| UtiliCorp/St. Joseph Merger          | EM-2000-292     |
| UtiliCorp/Empire Merger              | EM-2000-369     |
| Union Electric Company               | GR-2000-512     |
| St. Louis County Water Company       | WR-2000-844     |
| Missouri Gas Energy                  | GR-2001-292     |
| UtiliCorp United, Inc.               | ER-2001-672     |
| Union Electric Company               | EC-2002-1       |
| Empire District Electric Company     | ER-2002-424     |

**CASE PARTICIPATION  
OF  
TED ROBERTSON**

| <b>Company Name</b>                    | <b>Case No.</b> |
|--|-----------------|
| Missouri Gas Energy                    | GM-2003-0238    |
| Aquila Inc.                            | EF-2003-0465    |
| Aquila Inc.                            | ER-2004-0034    |
| Empire District Electric Company       | ER-2004-0570    |
| Aquila Inc.                            | EO-2005-0156    |
| Aquila, Inc.                           | ER-2005-0436    |
| Hickory Hills Water & Sewer Company    | WR-2006-0250    |
| Empire District Electric Company       | ER-2006-0315    |
| Central Jefferson County Utilities     | WC-2007-0038    |
| Missouri Gas Energy                    | GR-2006-0422    |
| Central Jefferson County Utilities     | SO-2007-0071    |
| Aquila, Inc.                           | ER-2007-0004    |
| Laclede Gas Company                    | GR-2007-0208    |
| Kansas City Power & Light Company      | ER-2007-0291    |
| Missouri Gas Utility, Inc.             | GR-2008-0060    |
| Empire District Electric Company       | ER-2008-0093    |
| Missouri Gas Energy                    | GU-2007-0480    |
| Stoddard County Sewer Company          | SO-2008-0289    |
| Missouri-American Water Company        | WR-2008-0311    |
| Union Electric Company                 | ER-2008-0318    |
| Aquila, Inc., d/b/a KCPL GMOC          | ER-2009-0090    |
| Missouri Gas Energy                    | GR-2009-0355    |
| Empire District Gas Company            | GR-2009-0434    |
| Lake Region Water & Sewer Company      | SR-2010-0110    |
| Lake Region Water & Sewer Company      | WR-2010-0111    |
| Missouri-American Water Company        | WR-2010-0131    |
| Kansas City Power & Light Company      | ER-2010-0355    |
| Kansas City Power & Light Company      | ER-2010-0356    |
| Timber Creek Sewer Company             | SR-2010-0320    |
| Empire District Electric Company       | ER-2011-0004    |
| Union Electric Company, d/b/a AmerenUE | ER-2011-0028    |
| Missouri-American Water Company        | WR-2011-0337    |
| Union Electric Company, d/b/a AmerenMO | EU-2012-0027    |
| Missouri-American Water Company        | WA-2012-0066    |
| Union Electric Company, d/b/a AmerenMO | ER-2012-0166    |
| Laclede Gas Company                    | GO-2012-0363    |
| Kansas City Power & Light Company      | ER-2012-0174    |
| Kansas City Power & Light Company GMOC | ER-2012-0175    |
| Empire District Electric Company       | ER-2012-0345    |
| Emerald Pointe Utility Company, Inc.   | SR-2013-0016    |