

FILED
January 13, 2011
Data Center
Missouri Public
Service Commission

Exhibit No.:

Issues:

Out of Period Adjustments:

Rate Case Expense

PSC Assessment

Witness:

V. William Harris

Sponsoring Party:

MoPSC Staff

Type of Exhibit:

Rebuttal Testimony

File No:

SR-2010-0320

Date Testimony Prepared:

December 21, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

TIMBER CREEK SEWER COMPANY

FILE NO. SR-2010-0320

Jefferson City, Missouri
December 2010

Exhibit No. 14
Date 1-5-11 Reporter Tu
File No. SR-2010-0320

1
2
3
4
5
6
7
8
9

TABLE OF CONTENTS OF
REBUTTAL TESTIMONY OF
V. WILLIAM HARRIS, CPA, CIA
TIMBER CREEK SEWER COMPANY
FILE NO. SR-2010-0320

Rate case expense 1

Ratemaking process 2

PSC Assessment 4

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

REBUTTAL TESTIMONY

OF

V. WILLIAM HARRIS, CPA, CIA

TIMBER CREEK SEWER COMPANY

FILE NO. SR-2010-0320

Q. Please state your name and business address.

A. V. William Harris, Fletcher Daniels State Office Building, Room G8,
615 East 13th Street, Kansas City, Missouri 64106.

Q. Are you the same V. William Harris that filed Direct Testimony dated
November 23, 2010 in this proceeding?

A. Yes.

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to address the Direct Testimony of
Timber Creek Sewer Company (Timber Creek or Company) witness Derek L. Sherry on the
subjects of rate case expense and Missouri Public Service Commission (PSC) Assessments.

Rate case expense

Q. What is Timber Creek's position on the issue of rate case expense?

A. On page 11, lines 5 and 6, of his Direct Testimony, Mr. Sherry states
the Company is "seeking to recover all rate case expenses from the previous rate
case SR-2008-0080".

1 Mr. Sherry goes on to state (page 12, lines 1 through 3) that the Company is
2 seeking an additional \$40,000 of estimated rate case expense in this case to be amortized
3 over a 3-year period.

4 Q. Please respond to Mr. Sherry's statements.

5 A. As for Mr. Sherry's latter statement, Staff is also recommending a 3-year
6 amortization of (prudently incurred) rate case expenses (please refer to the table on page 6 of
7 my Direct Testimony). However, Staff is estimating an amount of \$23,073 to be adjusted to
8 actual costs as they become known.

9 Staff opposes Mr. Sherry's proposal to include rate case expenses from the
10 last case because the inclusion of previous rate case expense, or any other expense or
11 revenue, outside the updated test year in this case is highly improper and violates
12 ratemaking principles.

13 **Ratemaking process**

14 Q. Please explain the Staff's opposition.

15 A. The ratemaking process involves the development of rates established
16 through the proper matching of revenues and expenses over a specified period of time
17 (known as the test year) adjusted by updating that information through a known and
18 measurable update period.

19 Once new rates have been developed and become effective, any given
20 expense or revenue will likely increase or decrease over time. To only consider the increase
21 or decrease in any single expense or revenue without accounting for all others over the same
22 given time period is known as single-issue ratemaking and would result in ratepayers being
23 charged improper amounts for the provision of utility service.

1 Staff opposes Timber Creek's recovery of prior rate case expense as well
2 as prior annual PSC Assessment increases (please refer to the testimony of Staff
3 witness James A. Busch) for the reasons outlined and because inclusion of these prior
4 expenses in the current case would also constitute "retroactive ratemaking".

5 Q. What is "retroactive ratemaking"?

6 A. In 1979, the Missouri Supreme Court defined "retroactive ratemaking" as
7 "...the setting of rates which permit a utility to recover past losses or which require it to
8 refund past excess profits collected under a rate that did not perfectly match expenses plus
9 rate of return with the rate actually established." State ex rel. Utility Consumers Council of
10 Missouri, Inc. v. Public Service Commission, 585 S.W. 2d 41, 59 (Mo. 1979).

11 Q. What amount of rate case expense from the previous rate case in Case
12 No. SR-2008-0080 is the Company seeking to recover in this rate proceeding?

13 A. Mr. Sherry identifies an \$18,175 amount for reimbursement of costs which he
14 identifies as costs relating to the time he spent on the last case. It is not proper to include
15 these past costs. If Timber Creek wanted reimbursement of those costs then it should have
16 requested such treatment in the last case.

17 Q. Were you assigned to the last Timber Creek rate case?

18 A. Yes. I was the auditor who reviewed the costs in the Company's last rate
19 case, Case No. SR-2008-0080. At no time did Mr. Sherry, or any one representing Timber
20 Creek, indicate there were costs associated with Mr. Sherry's time nor did anyone request
21 those costs be included in that rate case. Had they done so, Staff would have considered
22 reasonable and prudent costs in that case. However, it is improper to include costs from
23 three years ago for reimbursement in future rates determined in this case.

1 Q. Has the Company recovered the costs Mr. Sherry is requesting in this case for
2 his time spent on Case No. SR-2008-0080?

3 A. Yes. As will be discussed later in this rebuttal testimony, the costs Mr.
4 Sherry claims the Company incurred for the time he spent on the last rate case has been fully
5 recovered in rates by Timber Creek.

6 **PSC Assessment**

7 Q. What is Timber Creek's proposal concerning the PSC Assessment?

8 A. Timber Creek has determined an amount it claims it has not recovered in
9 rates relating to the Annual PSC Assessment. This amount (\$45,902) represents costs the
10 Company claims it has incurred for the Commission's reimbursement of its costs over the
11 level reflected in rates. Staff believes it would be improper to include these past costs in
12 future rates in much the same way as previously discussed above regarding Mr. Sherry's
13 past reimbursements (\$18,175). Past costs are past costs and should not be reflected in
14 future rate structures.

15 Q. How did Timber Creek determine the amount of PSC Assessment it claims it
16 has not recovered from its customers?

17 A. The Company compared the amount paid to the Commission over the
18 last three years to the amount reflected in rates determined in the last rate case - Case No.
19 SR-2008-0080. Timber Creek believes it has under recovered the PSC Assessment from its
20 customers since the last rate case went into effect December 1, 2007.

21 Q. Has the Company paid PSC Assessment costs in excess of the level reflected
22 in rates?

1 A. Yes, it has. The level of PSC Assessment costs reflected in rates is \$21,998.

2 Timber Creek has paid the following in PSC Assessment costs:

3 2008 \$24,648

4 2009 \$36,884

5 2010 \$74,381

6 Q. Has Timber Creek already recovered the additional PSC Assessment costs
7 and the monies paid out for Mr. Sherry's reimbursements in the prior rate case?

8 A. Yes, it has. In examining the revenue the Company has received since the
9 current rates were established in Case No. SR-2008-0080, it is clear that Timber Creek has
10 experienced notable customer growth resulting in a significant increase in revenues over the
11 levels reflected in rates from the last case.

12 The following table compares the "extra" revenues the Company has collected since
13 current rates became effective on December 1, 2007 to the Company's expenses above the
14 expense level used in setting rates, over the same time period. This table lists all the
15 expenses incurred by the Company that were above the expense level used to establish rates
16 in the last case, not just the ones Mr. Sherry has singled out for reimbursement in this case.
17 Even if Mr. Sherry's prior period expenses were not included in the table, it is still evident
18 from the \$472,779 plus net over-recovery illustrated by the table below that Mr. Sherry has
19 already more than recovered the \$64,077 (\$45,902 for the PSC Assessment and \$18,175 for
20 Mr. Sherry past costs for Case No. SR-2008-0080) he seeks in this case.

21

22

23

24 *continued on next page*

Rebuttal Testimony of
V. William Harris

1

12-mo. ended	Description	# of Cust	Revenue \$	Rate \$	Difference	Expense \$	Rate \$	Difference
12/31/06	SR-2008-0080 Test Year	1,192	\$447,380			\$374,964		
09/30/07	K&M update - rates effective 12/01/07	1,248	\$457,131	\$457,131	\$0	\$518,541	\$518,541	\$0
12/31/07	Annual Report	1,312	\$511,287	\$457,131	\$54,156	\$433,900	\$518,541	(\$84,641)
12/31/08	Annual Report	1,430	\$662,693	\$457,131	\$205,562	\$547,133	\$518,541	\$28,592
12/31/09	SR-2010-0320 Test Year	1,495	\$669,736	\$457,131	\$212,605	\$634,350	\$518,541	\$115,809
06/30/10	K&M update - rates effective Spring 2011	1,526	\$669,110	\$457,131	\$241,979	\$700,304	\$518,541	\$181,763
				TOTAL	\$714,302		TOTAL	\$241,523
			Net Difference			\$472,779		

2

3 Q. If the Commission includes past costs in this case should it also include the
4 revenues collected above the level in rates?

5 A. Yes. Should the Commission decide to include the prior period expenses
6 being sought by the Company, Staff would ask that the Commission also include prior
7 period revenues that were covered from Timber Creek's customers over and above what was
8 reflected in the last rate case. If the Commission were to include the collected revenues over
9 the levels put in the rate case, the net difference between these revenues and expenses is
10 \$472,779 which the Company would have to reimburse. Clearly, this is not the desire of
11 Staff. But if prior period costs are included for recovery in future rates determined from this
12 case, then equity would require customers also be given credit for higher revenues collected
13 over the levels included in the past rate case.

1 Q. Does Staff believe it would be appropriate to reflect these excess net
2 revenues in this case?

3 A. No. Just as it is improper to reflect recovery of prior costs, it is equally
4 improper to include the excess net revenues in the revenue requirement calculation. The
5 significance of the comparison of the prior revenues with the prior costs is that Timber
6 Creek has fully recovered the additional costs Mr. Sherry is proposing in his Direct
7 Testimony from the growth in customers and the resulting growth in revenues.

8 Q. Does this conclude your Rebuttal Testimony?

9 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Timber Creek Sewer Company Request for a) Case No. SR-2010-0320
Rate Increase.)

AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

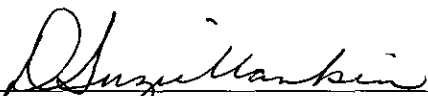
V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



V. William Harris

Subscribed and sworn to before me this 21st day of December, 2010.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 08, 2012 Commission Number: 08412071
--



Notary Public