

Exhibit No.:

Issue(s):

Corporate Allocation Factor/
Employee Wages/
Auditing and Income
Tax Preparation Fees/
Property Taxes/
Rate Case Expense
Roth/Rebuttal
Public Counsel
SR-2016-0202

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

REBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

**RACCOON CREEK UTILITY
OPERATING COMPANY INC.**

CASE NO. SR-2016-0202

Denotes Highly Confidential Information that has been redacted

October 13, 2016

NP

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

In the Matter of the Application)	
of a Rate Increase for Raccoon Creek)	Case No. SR-2016-0202
Utility Operating Company Inc.)	

AFFIDAVIT OF KERI ROTH

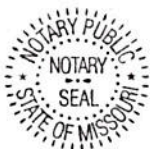
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Keri Roth, of lawful age and being first duly sworn, deposes and states:

1. My name is Keri Roth. I am a Public Utility Accountant III 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.


Keri Roth
Public Utility Accountant III

Subscribed and sworn to me this 13th day of October 2016.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037


Jerene A. Buckman
Notary Public

My Commission expires August, 2017.

TABLE OF CONTENTS

Testimony	Page
Introduction	1
Corporate Allocation Factor	1
Employee Wages	2
Auditing and Income Tax Preparation Fees	4
Property Taxes	6
Rate Case Expense	7

REBUTTAL TESTIMONY
OF
KERI ROTH
RACCOON CREEK UTILITY OPERATING COMPANY, INC.
CASE NO. SR-2016-0202

I. INTRODUCTION

Q. Please state your name and business address.

A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

Q. Are you the same Keri Roth who has filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to respond to the direct testimony from Raccoon Creek Utility Operating Company, Inc. ("Raccoon Creek" or "Company") witness Mr. Josiah Cox and Missouri Public Service Commission Staff ("Staff") witness Mr. Paul Harrison regarding the corporate allocation factor, employee wages, auditing and income tax preparation fees, property tax expense, and rate case expense.

II. Corporate Allocation Factor

Q. What corporate allocation factor is the Company recommending using in Raccoon Creek's cost of service?

A. Based on Mr. Cox's direct testimony regarding the allocation of audit and tax preparation fees, the Company is recommending using Staff's corporate allocation factor of 17.01%.

Q. Does OPC agree with Staff's allocation factor?

1 A. No. As discussed in my direct testimony, OPC believes Staff needs to update its list of
2 companies being acquired by Mr. Cox to more accurately calculate its corporate allocation
3 factor.

4 **Q. It was discussed in your direct testimony that OPC is waiting for additional data from**
5 **the Company to determine the allocation factor using the customer numbers and**
6 **estimated capital investments from the updated list of future acquisitions to determine**
7 **how Staff's allocation factor could possibly change. Has OPC received this data?**

8 A. Yes, please see Schedule KNR-1, marked Highly Confidential ("HC"). As discussed in my
9 direct testimony, if Staff were to calculate their corporate allocation factor based on
10 customer numbers alone, Staff's allocation factor would be approximately 13.74%.
11 However, as shown on Schedule KNR-2, marked HC, if Staff were to calculate their
12 corporate allocation factor based on customer numbers and estimated capital investments,
13 Staff's allocation factor would be approximately 14.37% that is far less than the current
14 recommendation of 17.01%. This change would represent a more accurate corporate
15 allocation factor because it is based on a list of companies that Mr. Cox has provided stating
16 estimated filing dates of acquisition cases in the very near future.

17
18 **III. Employee Wages**

19 **Q. Is the Raccoon Creek rate case being performed under the Small Utility Rate Case**
20 **Procedure rule?**

21 A. Yes. The Company filed its case pursuant to Commission rule 4 CSR 240-3.050. As stated
22 in my direct testimony, that rule describes a small water or sewer utility as serving 8,000 or
23 fewer customers.

24 **Q. Does Staff identify Raccoon Creek as a small utility?**

1 A. Yes. Staff witness Harrison states in his direct testimony on page 11, line 23 through page
2 12, line 3 while discussing the recommendation of “mean” level payroll:

3 Raccoon Creek is a relatively small Company with only 521
4 customers. If First Round acquires more systems, gains more
5 experience and becomes a larger utility company, it may be
6 appropriate at that time to re-evaluate the level of compensation for
7 the First Round employees.

8 Emphasis added by OPC.

9 **Q. Does the Company identify Raccoon Creek as a small utility?**

10 A. Yes. Raccoon Creek witness Cox states in his direct testimony on page 3, lines 19 – 20:

11 Central States defines small sewer companies as sewer companies
12 servicing under 8,000 customers by firms that are not publically
13 traded.

14 Emphasis added by OPC.

15 **Q. Does OPC believe rate payers should only be responsible for salary levels of “general
16 and operations manager” and “accountant” or “auditor” for Mr. Cox and Mr.
17 Chalfant, respectively?**

18 A. Yes. Both Staff and the Company clearly define Raccoon Creek as a small utility. As I
19 have previously stated in my direct testimony, Raccoon Creek has approximately 521
20 customers. When you combine the customer count from Hillcrest Utility Operating
21 Company, Inc. (“Hillcrest”) and Indian Hills Utility Operating Company, Inc. (“Indian
22 Hills”) with Raccoon Creek, the total customer count is approximately 1,700 customers.
23 Comparing these numbers to the definition of “small utility” under Commission rule 4 CSR
24 240-3.050, rate payers should not be responsible for reimbursing salary expenses for Mr.
25 Cox and Mr. Chalfant using job titles of a larger utility company as stated by the
26 Commission in the Hillcrest Report and Order, a decision OPC has under appeal. Raccoon
27 Creek, or a combination of all systems owned or being acquired by First Round, are
28 considered a small water and sewer company. It would be more appropriate for reimbursing

1 salaries of larger job titles after First Round CSWR, LLC ("First Round") has acquired
2 enough utility companies to exceed a customer count of 8,000.

3 **Q. How much of employee salaries has Staff allocated to Raccoon Creek?**

4 A. Staff has allocated 17.01% of employee salaries in its cost of service calculation.

5 **Q. Why does OPC disagree with Staff's methodology?**

6 A. OPC believes it is more accurate to include a portion of employee salaries in Raccoon
7 Creek's cost of service based on actual hours spent on Raccoon Creek. Also, as discussed
8 previously, OPC believes Staff's allocation factor of 17.01% is inaccurate and should be
9 updated using the new list of utility companies provided by Mr. Cox showing future
10 acquisitions. If Staff updates its corporate allocation factor using the most current
11 information available, Staff's corporate allocation factor would be very close in line with
12 OPC's recommendation.

13
14 **IV. Auditing and Income Tax Preparation Fees**

15 **Q. In Mr. Cox's direct testimony he states, "The Staff has not included the direct audit**
16 **and tax preparation fees for Raccoon Creek, or Raccoon Creek's pro-rata share of tax**
17 **and audit fees from Central States." Does OPC believe Staff has not included any**
18 **accounting fees?**

19 A. No. Both OPC and Staff have included costs for accounting fees expensed during the test
20 year and update period in this case. The difference in the dollar amount between OPC and
21 Staff is due to the corporate allocation factor. As discussed previously, OPC does not agree
22 with Staff's allocation factor because it does not use the most current information available.

1 **Q. What annual dollar amount is the Company including for auditing and income tax**
2 **preparation fees?**

3 A. The Company is recommending including \$16,125 in its cost of service for auditing and
4 income tax preparation fees. Mr. Cox explains in his direct testimony on page 27, lines 17 –
5 19:

6 \$16,125 which consists of \$4,000 for Raccoon Creek's tax
7 preparation, \$10,000 for Raccoon Creek's Audit fees, a 17%
8 allocation of Central States tax preparation fees, and a 17%
9 allocation of Central States Audit Fees.
10

11 **Q. Does this recommendation differ from what you stated in direct testimony?**

12 A. Yes. This amount is \$3,690 higher than the estimate shown in response to Staff Data
13 Request 6.

14 **Q. Have the invoices been paid?**

15 A. Mr. Cox has stated in his direct testimony that the invoices have been paid; however, OPC
16 has not been provided any documentation showing that these invoices have been paid.

17 **Q. Does OPC agree with the Company's recommendation?**

18 A. No. As discussed in my direct testimony, the invoices were not received and paid, as Cox
19 stated in his direct testimony, until six months after the update period in this case. To
20 include invoices outside of the test year and update period in this case would violate the
21 matching principle. Also, OPC does not agree with the Company's use of a 17.01%
22 allocation factor to allocation a portion of CSWR's auditing and income tax preparation fees
23 to Raccoon Creek. OPC will review auditing and income tax preparation expenses again in
24 the Company's next general rate case.
25

V. Property Taxes

Q. Mr. Cox has stated in his direct testimony, “Because property taxes were not paid in 2015, the Staff has not provided for Pettis and Johnson County property taxes in Raccoon Creek’s revenue requirement.” Is this a correct statement?

A. No. Property taxes for 2015 were paid by Raccoon Creek to Pettis and Johnson County in January 2016, according to the Company’s general ledger. This period falls during the update period in this rate case. Both OPC and Staff have included 2015 property taxes paid to Pettis and Johnson County in their revenue requirements.

Q. What annual dollar amount is the Company recommending including for property tax expense?

A. The Company is recommending including \$7,905 in its cost of service for property tax expense. Mr. Cox states in his direct testimony on page 26, lines 5 – 6:

Raccoon Creek will pay approximately \$7,905.08 in property taxes to Pettis and Johnson County. The breakdown is \$2,730.38 for WSS and \$2,473.83 for WPC in Pettis County; and \$2,700.87 for the Villages in Johnson County.

Q. Does this recommendation differ from what you stated in your direct testimony?

A. Yes. This amount is \$3,374 higher than the estimate shown in response to Staff Data Request 6.

Q. Does OPC agree with the Company’s recommendation regarding property tax expense?

A. No. Mr. Cox explains in his direct testimony that the Commission should order the \$7,905, because this amount will be incurred in 2016. However, this amount is still an estimate and is not due to be paid until the end of 2016. Even if one subscribed to the argument that

property taxes are incurred on a monthly basis, there are still many months where this expense still has not incurred. The update period in this case was March 31, 2016. Including an amount that is not known and measureable is unfair to rate payers and would violate the matching principle as well. OPC is recommending that the Commission include the amount OPC and Staff have recommended that includes property tax invoices paid during the test year and update period. OPC will review property tax expense again during the Company's next general rate case.

VI. Rate Case Expense

Q. What forms of rate case expense has the Company incurred?

A. Raccoon Creek has incurred rate case expense related to customer notices, attorney fees, and consulting fees.

Q. How has the Company proposed to treat rate case expense in this case?

A. The Company proposes to normalize rate case expense over three years, as stated in Mr. Cox's direct testimony.

Q. Is it typical for a small water or sewer company to hire capital structure and capital cost consultants for assistance in a small general rate case?

A. No, it is highly unusual.

Q. How does OPC propose to treat rate case expense in this case?

A. OPC proposes to normalize rate case expense associated with attorney fees and customer notices over a three year period.

1 **Q. Is OPC proposing a separate amortization period for the rate case expenses related to**
2 **the Company's capital structure and capital cost consultants?**

3 A. Yes. Because it is highly unusual for a small water or sewer company to hire capital
4 structure and capital cost consultants for a small general rate case, a different amortization
5 period for these highly unusual expenses is necessary. For these specific expenses, OPC
6 proposes a five-year amortization period.

7 **Q. Is it unusual for the Commission to order different amortization periods for the**
8 **different types of rate case expenses?**

9 A. No, not at all. It is common for the Commission to order general rate case expense items
10 over the expected time period between rate cases. However, for other non-typical rate case
11 costs, such as a required depreciation study, the Commission has ordered these costs be
12 amortized over five years.

13 **Q. Does this conclude your rebuttal testimony?**

14 A. Yes.

SR-2016-0202

Schedule KNR-1

has been deemed

“Highly Confidential”

in its entirety

SR-2016-0202

Schedule KNR-2

has been deemed

“Highly Confidential”

in its entirety