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MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

ASHLEY R. SARVER

HILLCREST UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2016-0064

Jefferson City, Missouri
April 2016

Staff Exhibit No. 11
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1 **DIRECT TESTIMONY**

2 **OF**

3 **ASHLEY R. SARVER**

4 **HILLCREST UTILITY OPERATING COMPANY, INC.**

5 **CASE NO. WR-2016-0064**

6 Q. Please state your name and business address.

7 A. Ashley R. Sarver, Governor Office Building, P.O. Box 360, Jefferson City,
8 Missouri 65102.

9 Q. By whom are you employed and in what capacity?

10 A. I am employed by the Missouri Public Service Commission ("Commission")
11 as a Utility Regulatory Auditor III in the Auditing Department, Commission Staff Division of
12 the Commission Staff ("Staff").

13 **BACKGROUND OF WITNESS**

14 Q. Please describe your educational background, work experience and any cases
15 in which you have previously filed testimony before this Commission.

16 A. My credentials and a listing of cases in which I have filed testimony
17 previously before this Commission are attached to this direct testimony as Schedule ARS-d1.

18 **EXECUTIVE SUMMARY**

19 Q. What is the purpose of your direct testimony?

20 A. The purpose of my direct testimony is to provide Staff's recommendation for
21 rate treatment of property tax expense for Hillcrest Utility Operating Company, Inc.
22 ("Hillcrest" or "Company") to the Commission.

1 Q. What is Staff's recommended property tax expense for Hillcrest?

2 A. Staff used the actual expense paid by Hillcrest and an allocated portion of
3 Central States Water Resources ("CSWR") expense, both as of December 31, 2015, to
4 determine the amount of property tax expense to include in this case. Staff is not
5 recommending that any projected property tax amounts to be paid on December 31, 2016, be
6 included in rates in this proceeding.

7 **PROPERTY TAX EXPENSE**

8 Q. How are property taxes typically assessed by the taxing authority and paid by
9 the utility?

10 A. Property taxes are computed using the assessed property values. The taxing
11 authority, either state or local, uses the utility plant balances assessed as of January 1 of each
12 year. This date is critical because it forms the basis for the property tax bill, which is
13 generally paid at the end of that same year, no later than December 31. Utilities are required
14 to file with the taxing authorities a valuation of their utility property based on the January 1
15 assessment date the first of each year. Several months later, the taxing authorities will
16 provide the utility with what they refer to as an "assessed value" for each category of
17 property owned. Much later in the year (typically in the fall) the utilities are given the
18 property tax rate. Property tax bills are then issued to the utilities with "due dates" of
19 December 31 for each year based on the property tax rates applied to assessed value. For
20 example, a utility will pay property taxes on December 31, 2015, based upon an assessment
21 made of its asset values as of January 1, 2015.

1 Q. How did Staff determine the property tax expense amount in this case?

2 A. During its audit, Staff requested that Hillcrest provide its property tax receipts
3 as of December 31, 2015. The only property tax receipts Staff received as of the time Staff
4 developed its cost of service for Hillcrest were receipts for St. Louis County property taxes
5 charged to Hillcrest's parent company, CWSR. CWSR's home office is based in St. Louis
6 County. Based upon the information available to Staff at the time it filed its original
7 recommendation in this proceeding on 12/10/2015, Staff initially included \$16 for Hillcrest's
8 water operations and \$16 for Hillcrest's sewer operations.

9 Q. Has Staff updated its position for property taxes in this case?

10 A. Yes. Staff has since received updated information regarding actual paid
11 property tax amounts by Hillcrest. Staff contacted the Cape Girardeau County Collector's
12 office and asked for the actual amount of property taxes the Company paid as of December
13 31, 2015. Once this information was received, Staff updated its property tax expense to
14 include the Cape Girardeau real estate taxes paid as of December 31, 2015, and a portion of
15 the property taxes paid to St. Louis County for CWSR. Staff allocated 14%¹ of CWSR's
16 property taxes for St. Louis County to Hillcrest's water and sewer cost of service.

17 Q. What is the updated amount of property taxes that Staff included in its cost of
18 service?

19 A. Staff has now included \$164 for water and \$164 for sewer in the cost of
20 service for property tax expense. This is based on the actual taxes paid as of December 31,
21 2015. The Cape Girardeau County property taxes paid by Hillcrest were \$323 in total. The
22 St. Louis County personal property taxes totaled \$36. Staff applied a 14% corporate

¹ This allocation factor was based upon the current number of water and sewer customers in Hillcrest as compared to the total number of customers that CWSR expects to have once it continues to pursue acquisition of other properties.

1 allocation to CSWR's St. Louis County property taxes, resulting in an assignment of \$6 to
2 Hillcrest. Staff allocated the property tax expense (\$323 + \$6) between Hillcrest's water and
3 sewer operations on a 50/50 basis.

4 Q. Why did Staff use the actual amount of property taxes paid as of December
5 31, 2015, for this case?

6 A. Because this amount is "known and measurable" for ratemaking purposes.

7 Q. What does the term "known and measurable" mean in the ratemaking context?

8 A. The term "known and measurable" means that the utility costs under review
9 are associated with an event that has already occurred and the change in costs associated with
10 the event can be measured with a high degree of accuracy.

11 Q. What is the test year for this case?

12 A. Staff used a test period in this case effectively consisting of the four months
13 ending July 31, 2015, with an update period through October 31, 2015, in order to develop its
14 revenue requirement recommendation in this case. Staff normally uses a test year consisting
15 of twelve months of actual financial data as a starting point of its analysis to evaluate if a
16 utility's customer rates are sufficient to cover all of its costs and earn a fair rate of return.
17 However, there was not twelve months of accurate financial data available to the Staff for
18 this audit. Instead, Staff relied upon financial information put together by CSWR after its
19 acquisition of Hillcrest properties, which does not reflect data prior to March 31, 2015, as a
20 starting point for its audit of Hillcrest.

21 Q. Why did Staff not use the Company's estimates of the 2016 property tax
22 payment to calculate property tax expense for this case?

1 A. Plant additions and improvements made by Hillcrest between April 1, 2015
2 and October 31, 2015, would not be assessed for property tax purposes until January 1, 2016,
3 and will not be paid until December 31, 2016, which is beyond the update period in this case
4 and well beyond when rates will become effective in this case. Consequently, Staff's
5 annualized level of the actual property tax expense paid which was included in its direct case
6 should not be updated because the payment date falls beyond this case's timeline. Staff
7 believes that it would be inappropriate to include property tax payments that are paid
8 14-months after the end of the update period in rates, as that action would violate the
9 ratemaking concept referred to as the "matching principle".

10 Q. Please define the ratemaking concept "matching principle."

11 A. The term "matching principle" refers to the practice that all elements of
12 revenue requirement, including revenues, expenses, and rate base, be measured and included
13 in the utility's cost of service at the same general point in time.

14 Q. Why is it important to properly maintain the relationship of the individual
15 components that make up the revenue requirement?

16 A. It is very important that all elements of the revenue requirement be considered
17 at a consistent point in time because various events cause changes to a utility's revenues,
18 expenses, and rate base amounts individually or in combination consequently causing the
19 utility's overall revenue requirement to change over time. Reflecting changes to only one
20 element of the revenue requirement in rates, in this case property taxes, without consideration
21 of all other possible offsetting changes in the other cost of service components would likely
22 lead to a distorted and inaccurate level of customer rates.

Direct Testimony of
Ashley R. Sarver

1 Q. Are there other costs that the Company wants to include in rates beyond the
2 test year and update period in this case?

3 A. Yes. The Company wants to include audit costs and tax preparation fees that
4 will not be known and measurable or paid until December 31, 2016, approximately 14-
5 months after the end of the update period in this case. Staff witness Paul R. Harrison will be
6 addressing this issue in more detail in his direct testimony.

7 Q. Does this conclude your direct testimony?

8 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)
) ss.
COUNTY OF COLE)

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 Direct Testimony; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Ashley R. Sarver

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 15th day of April, 2016.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 28, 2019
Commission Number: 15207377

Dianna L. Vaught

Notary Public

Ashley R. Sarver

Utility Regulatory Auditor

Present Position:

I am a Utility Regulatory Auditor in the Auditing Department, of the Commission Staff Division of the Missouri Public Service Commission. I have been employed by the Missouri Public Service Commission since July 2013.

Education and Employment Background:

I earned a Bachelor of Science degree in Accounting from Missouri State University in Springfield, MO in July 2009. In earning this degree I completed numerous core Accounting and business classes. Prior to joining the Commission, I was employed by the State of Missouri - Department of Corrections from 2009 to 2013 as an Auditor. My duties entailed compiling and reviewing auditing materials from the institutions. After the audit, I would make recommendations according to policy and procedures, internal control and other changes to improve the functions of the institution to the Warden, Deputy Division Director, Inspector General and Deputy Director verbally and in writing.

Case Participation:

Company Name	Case Number(s)	Testimony/Issues
Indian Hills Utility Operating Company, Inc. to Acquire I.H. Utilities, Inc.	WO-2016-0045	Acquisition Case: Rate Base determination
The Empire District Electric Company	ER-2014-0351	Revenue, Customer Growth, Common Stock Issuance Expense Amortization, Uncollectible Accounts, Cash Working Capital, Injuries and Damages, Workman's Compensation, Insurance Expense, Lease Expense, Property Tax Expense, Regulatory Commission Expense
Summit Natural Gas of Missouri, Inc.	GR-2014-0086	Plant in Service, Depreciation Reserve, Gas Stored Inventory, Prepayments and Materials and Supplies Inventory, Customer Advances, Customer Deposits, Payroll, Payroll Taxes, 401(k), and Other Employee Benefit Costs, Incentive Compensation and Bonuses, Customer Deposit Interest Expense, Maintenance Normalization Adjustments, Advertising Expense, Regulatory Expenses, Dues, Rent Expense
Lake Region Water and Sewer	WR-2013-0461 SR-2013-0459	Plant in Service, Depreciation Reserve, Materials and Supplies Inventory, Customer Advances, Contributions in Aid of Construction, Purchase Power, Chemicals, Testing Expense, Supplies and Materials, Tools and Shop Supplies, Insurance, Office Supplies, Telephone, License and Permits, Property Tax