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Local public hearings
Witness: Jill Schwartz
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Sponsoring Party: Liberty Utilities
Case No.: WR-2018-0170
Date Testimony Prepared: August 7, 2018

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

SURREBUTTAL TESTIMONY

OF

JILL SCHWARTZ

ON BEHALF OF

**LIBERTY UTILITIES (MISSOURI WATER) LLC
d/b/a LIBERTY UTILITIES**

AUGUST 2018



SURREBUTTAL TESTIMONY
OF
JILL SCHWARTZ
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SURREBUTTAL TESTIMONY
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JILL SCHWARTZ
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BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
FILE NO. WR-2018-0170

1 **I. WITNESS, COMPANY AND ISSUE INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jill Schwartz. My business address is 602 South Joplin Avenue, Joplin, MO
4 64802.

5 **Q. ARE YOU THE SAME JILL SCHWARTZ WHO PREVIOUSLY FILED DIRECT
6 AND REBUTTAL TESTIMONY IN THIS PROCEEDING ON BEHALF OF
7 LIBERTY UTILITIES?**

8 A. Yes, I am.

9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS
10 CASE?**

11 A. The purpose of my surrebuttal testimony is to respond to a number of the
12 recommendations made or positions taken by the Staff of the Missouri Public Service
13 Commission (“Staff”) and Mr. William Stannard on behalf of Silverleaf Resorts and
14 Orange Lake Country Club (hereinafter, collectively, “Silverleaf”), as well as to comment
15 on the local public hearings held in this case.

16 **II. RATE CASE EXPENSE**

17 **Q. DID STAFF ADDRESS THE ISSUE OF RATE CASE EXPENSE FOR THIS
18 CASE?**

1 A. Yes. In his rebuttal testimony, Mr. Harrison states that Staff will be reviewing the
2 ongoing expenses incurred by the Company associated with this rate case, and that any
3 prudent rate case expenses should be normalized over a period of five years, as opposed
4 to the two year amortization period I proposed in my rebuttal testimony.

5 **Q. DO YOU AGREE THAT A FIVE YEAR NORMALIZATION PERIOD IS**
6 **APPROPRIATE IN THIS CASE?**

7 A. No. Mr. Harrison recommends a five-year amortization period for rate case expenses
8 based on the fact that it has been seven to eleven years since the Company's last rate
9 case. However, as I noted in my rebuttal testimony, Staff has proposed (and the
10 Company has agreed) that Liberty file a rate case within two years from the date that new
11 rates authorized in this case go into effect to address the Company's recent acquisition of
12 the properties of Ozark International.

13 **Q. DOES THE COMPANY HAVE ANY OTHER CONCERNS ABOUT**
14 **AMORTIZING RATE CASE EXPENSE OVER A 5 YEAR PERIOD?**

15 A. Yes. As indicated above, the Company expects to file its next rate case within two years
16 after the implementation of new rates in this proceeding; it will have approximately three
17 years of unamortized rate case expense from the current case when it files its next case.
18 As such, extending the amortization period of the rate case expenses incurred for the
19 current case will only compound the impact on customers in the next rate case.

20 **III. UPDATE OF CIAC RATE BASE OFFSET**

21 **Q. MR. HARRISON NOTES THAT HE HAS MADE A RATE BASE ADJUSTMENT**
22 **THAT HAS THE EFFECT OF REDUCING STAFF'S RECOMMENDED**

1 **INCREMENTAL RATE INCREASE BY \$11,640. DOES LIBERTY CONTEST**
2 **THIS ADJUSTMENT?**

3 A. No.

4 **IV. SILVERLEAF'S REQUEST TO BE EXEMPTED**
5 **FROM LIBERTY'S NEXT RATE CASE**

6 **Q. DOES THE COMPANY AGREE WITH SILVERLEAF'S PROPOSAL THAT IT**
7 **SHOULD BE EXCLUDED FROM LIBERTY'S NEXT RATE CASE?**

8 A. Absolutely not. Although Silverleaf is currently served by a separate rate schedule, it is
9 part of Liberty Utilities (Missouri Water) LLC, the legal entity and operating utility that
10 files the rate case. In order for the Company to achieve fair and reasonable rates for all of
11 its customers, all of the revenues, expenses and investments need to be reviewed as part
12 of a rate case. This is particularly important to ensure the proper allocation of the costs of
13 shared services and corporate overhead allocations. Additionally, Liberty's goal over
14 time is to continue to move in the direction of rate consolidation of its water and sewer
15 systems as a means of efficiently managing the costs to operate these smaller systems.
16 Simply put, there is no basis to exclude Silverleaf from the Company's next rate case.

17 **V. RATE DESIGN CORRECTION**

18 **Q. MR. STANNARD REFERS TO AN ERROR IN STAFF'S DIRECT TESTIMONY**
19 **WHICH WOULD HAVE RESULTED IN REVENUES BEING COLLECTED IN**
20 **EXCESS OF THE AMOUNT STAFF HAS DETERMINED TO BE FAIR AND**
21 **REASONABLE. HAS STAFF MADE THIS ADJUSTMENT TO ITS PROPOSED**
22 **RATE DESIGN?**

23 A. It is my understanding that Staff will be adjusting its proposed rate design in its
24 surrebuttal testimony to address this matter.

1 **VI. RATE IMPACT OF THE COMPANY'S PROPOSED COST OF CAPITAL**

2 **Q. MR. STANNARD DISAGREES THAT THE REVENUE REQUIREMENT**
3 **IMPACT OF THE COMMISSION ADOPTING THE COMPANY'S PROPOSED**
4 **COST OF CAPITAL WOULD BE APPROXIMATELY +\$60,000. DO YOU**
5 **AGREE WITH HIS ANALYSIS?**

6 A. No. Mr. Stannard discusses the revenue impact associated with a particular rate of return
7 determination as if it is an amount separate from, or in addition to, the revenue
8 requirement and he speaks in terms of the incremental amount representing an "over-
9 recovery." A utility's cost of capital is just one component in the overall determination
10 of its cost of service. Accordingly, the overall revenue calculation that results from the
11 use of the Company's proposed cost of capital, if adopted by the Commission, would
12 generate a revenue requirement that rates would be designed to recover. This would not
13 be an "over-recovery."

14 **Q. DO YOU AGREE WITH MR. STANNARD'S CALCULATIONS OF THE**
15 **REVENUE IMPACT OF THE USE OF THE COMPANY'S PROPOSED COST**
16 **OF CAPITAL?**

17 A. No. Mr. Stannard overstates the revenue impact of the Company's proposed cost of
18 capital components. Tables 4 and 5 included in Mr. Stannard's rebuttal testimony appear
19 to compare the Company's proposed revenues for Silverleaf included in its direct
20 testimony to the proposed revenues for Silverleaf in Staff's direct testimony which results
21 in a difference greater than the estimated \$60,000 impact I referred to in my direct
22 testimony.

1 **Q. CAN YOU EXPLAIN WHY MR. STANNARD’S CALCULATION RESULTS IN A**
2 **GREATER DIFFERENCE THAN THE ESTIMATE INCLUDED IN YOUR**
3 **DIRECT TESTIMONY?**

4 A. As I mentioned previously, cost of capital (capital structure and ROE) is only one
5 component of a revenue requirement calculation. There were several differences in the
6 revenue requirement calculations proposed by the Company and Staff, in addition to the
7 capital structure and ROE. My estimated impact of \$60,000 refers to the overall impact
8 of Staff’s calculated revenue requirement, including all of their adjustments, but instead
9 applies the Company’s proposed equity ratio (53%) and proposed ROE (10.25%).
10 Instead, Mr. Stannard is simply comparing the difference between the revenue
11 requirement proposed by the Company and the proposed revenue requirement of the
12 Staff. Mr. Stannard’s calculation does not take into account all of the adjustments
13 proposed by Staff that the Company has accepted.

14 **VII. SILVERLEAF’S PROPOSED RATE PHASE-IN**

15 **Q. DO YOU AGREE WITH MR. STANNARD’S PROPOSAL TO PHASE-IN THE**
16 **AUTHORIZED RATE INCREASE OVER A PERIOD OF FOUR YEARS?**

17 A. No. A rate phase-in such as that proposed by Silverleaf is unjustified.

18 **Q. WHAT IS THE BASIS FOR YOUR CLAIM THAT IT IS UNJUSTIFIED?**

19 A. While I recognize that the increases proposed by the Company and Staff in customer and
20 commodity charges are significant, they are needed to recover capital investments made
21 by the Company to improve the system, as well as increases to operations and
22 maintenance (“O&M”) expenses. The revenue requirement as determined by the
23 Commission is just that; the revenue required to fund costs of operation and to recover

1 the capital invested and to provide a reasonable return on that investment. Not allowing
2 the Company an opportunity to recover its cost of service is unjustified. A fraction of the
3 revenue requirement established by the Commission is, by definition, insufficient to
4 ensure the Company's ability to recover its investments and operating expenses
5 associated with providing safe and reliable service.

6 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH MR. STANNARD'S**
7 **PROPOSED PHASE-IN?**

8 A. Yes. Mr. Stannard suggests in his rebuttal testimony that Silverleaf's proposed phase-in
9 approach mitigates some of his concerns about rate shock by only implementing one
10 quarter of the increase in year one. Based on the proposed fixed charges and commodity
11 charges reflected in Tables 14 and 15 of Mr. Stannard's testimony, the Company would
12 be under-earning its authorized revenue requirement in years 1 and 2, but then would be
13 over-earning its authorized revenue requirement in years 3 and 4. Finally, in year 5 the
14 fixed charges and commodity charge would be decreased based on the Company's cost of
15 service established in this case. Mr. Stannard proposes significant changes year over year
16 in the fixed and commodity charges over a 5 year period. Specifically for water, Mr.
17 Stannard proposes annual increases in both the fixed and commodity charges ranging
18 from approximately 15% to nearly 33% in years 1 through 4, and then proposes a 27%
19 decrease in the fixed and commodity charges in year 5. In addition to the Company's
20 inability to recover its cost of service in years 1 and 2, Mr. Stannard's proposal will
21 generate wild swings in customer rates for a 5 year period. These constant changes in
22 rates will further generate questions, confusion and frustration for customers and have no
23 apparent basis or justification.

VIII. STIPULATION AND AGREEMENT

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Q. HAVE THE COMPANY AND STAFF FILED A STIPULATION AND AGREEMENT IN THIS CASE?

A. Yes. The Company and Staff have entered into an agreement with respect to all remaining issues, other than the revenue requirement impact of a rate case expense allowance.

Q. DOES LIBERTY WATER RECOMMEND THAT THE COMMISSION ADOPT THE TERMS OF THE STIPULATION AND AGREEMENT AS GROUNDS FOR A FAIR RESOLUTION OF THIS CASE?

A. Yes. The Company believes that the Stipulation and Agreement represents a reasonable compromise of all revenue requirement issues but one, and of all matters associated with the methods used to design rates.

Q. WILL THE RATES SET FORTH IN ATTACHMENT A TO THE STIPULATION AND AGREEMENT NEED TO BE ADJUSTED TO ACCOUNT FOR RATE CASE EXPENSE ALLOWED BY THE COMMISSION?

A. Yes. Since the revenue requirement for rate case expense is not included in the terms of the Stipulation and Agreement, the actual rates authorized by the Commission will differ from those set out in Attachment A in order to include the amount of, and amortization period specified for, rate case expense that will be determined by the Commission.

Q. HOW WILL THAT COME ABOUT?

A. It is my understanding that the Commission will be asked to hear the evidence on that topic and to decide the reasonable amount of, and the appropriate period over which to normalize and amortize, rate case expense incurred by Liberty Water in this case.

IX. LOCAL PUBLIC HEARINGS

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Q. DID YOU ATTEND EACH OF THE PUBLIC HEARINGS HELD IN THIS CASE?

A. Yes. I attended all of the public hearings held in Pineville, Branson and Pacific, Missouri.

Q. DID OTHER REPRESENTATIVES OF THE COMPANY ALSO ATTEND?

A. Yes. The Company views the local public hearings scheduled by the Commission as an important opportunity for our customers to express to the Commission concerns they may have regarding the cost or quality of their utility service. It is also an opportunity for our local employees and management to hear first-hand what customers have to say about these subjects and to talk with customers directly if they are interested in doing so. Accordingly, operational, customer experience and regulatory personnel attended each meeting.

Q. WHAT WERE YOUR MAJOR TAKEAWAYS FROM THE TESTIMONY OF THE COMPANY’S CUSTOMERS AT THE PUBLIC HEARINGS?

A. As expected in any rate case, customers have concerns about the size and impact of the requested rate increase, particularly for low income customers and customers on fixed incomes. Additionally, and consistent with several of the comments filed by customers in EFIS, customers expressed concerns about service related issues.

Q. HOW IS THE COMPANY ADDRESSING THOSE MATTERS?

A. As laid out in the Stipulation and Agreement filed by the Company and Staff on August 3, 2018, the Company agrees to take several actions to improve the quality of service provided to water and sewer customers located in Missouri.


Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

1 A. Yes, it does.

AFFIDAVIT OF JILL SCHWARTZ

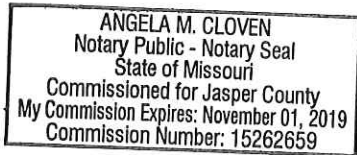
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

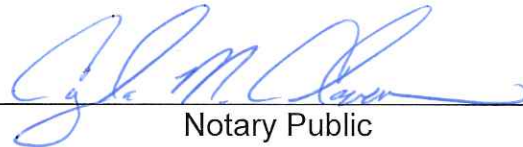
On the 6th day of August 2018, before me appeared Jill Schwartz, to me personally known, who, being by me first duly sworn, states that she is Senior Manager of Rates and Regulatory Affairs of Liberty Utilities – Central Region and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.



Jill Schwartz

Subscribed and sworn to before me this 6th day of August, 2018.





Notary Public

My commission expires: 11/01/19.