

*Exhibit No.:*  
*Issues:* *Auditing and Income Tax  
Preparation Fees;  
Corporate Allocation;  
Corporate Payroll*  
*Witness:* *Ashley Sarver*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No.:* *WR-2017-0259*  
*Date Testimony Prepared:* *November 13, 2017*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING DEPARTMENT**

**SURREBUTTAL TESTIMONY**

**OF**

**ASHLEY SARVER**

**INDIAN HILLS UTILITY OPERATING COMPANY, INC.**

**CASE NO. WR-2017-0259**

*Jefferson City, Missouri  
November 2017*

**\*\* Denotes Confidential Information \*\***

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **ASHLEY SARVER**

4 **INDIAN HILLS UTILITY OPERATING COMPANY, INC.**

5 **CASE NO. WR-2017-0259**

6 Q. Please state your name and business address.

7 A. Ashley 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 IV in the Auditing Department, Commission Staff Division of  
12 the Commission Staff (“Staff”).

13 Q. Are you the same Ashley Sarver who has previously filed direct testimony and  
14 rebuttal testimony in this proceeding?

15 A. Yes.

16 Q. What is the purpose of your surrebuttal testimony in this proceeding?

17 A. The purpose of my testimony is to respond to the rebuttal testimony of Indian  
18 Hills Utility Operating Company, Inc. (“Indian Hills” or “Company”) regarding corporate  
19 allocations, corporate allocations in regards to payroll, treatment of tax and audit fees, and the  
20 MERIC job title and experience levels portion of corporate allocations. I will also address  
21 The Office of the Public Counsel (“OPC”) rebuttal testimony concerning tax and income tax  
22 preparation fees.

1 **AUDITING AND INCOME TAX PREPARATION FEES**

2 Q. What is the Company's position concerning auditing and income tax  
3 preparation fees for this case?

4 A. Company witness Phil Macias states in his rebuttal testimony on page 5,  
5 lines 12-14, "Indian Hill's direct costs of \$13,750 (\$10,000, financial audit and \$3,750, tax  
6 preparation) combined with a 18% allocation of CSWR's audit and tax fees of \$13,750, 18%  
7 of which is \$2,475, for a total \$16,225."

8 Q. Does Staff agree with the Company that \$16,225 should be included in the cost  
9 of service?

10 A. No. In Staff's rebuttal testimony, Staff included the cost of the Indian Hill's  
11 financial statement audit for December 31, 2016 in the amount of \$9,000. Staff also included  
12 an allocation amount of the actual amount of financial auditing costs and tax preparation fees  
13 paid by First Round in the amount of \$2,076. Staff disallowed the retainer fees for  
14 maintenance of fixed assets and related depreciation schedules and a retainer for assistance in  
15 recording of initial purchase transactions of \$1,000. Staff also did not include costs for Indian  
16 Hill's tax preparation because Staff had not received invoices for tax services for Indian Hills.

17 Q. Has Staff updated its auditing cost recommendation since Staff's rebuttal  
18 testimony to take new information into account?

19 A. Yes. After reviewing the invoices provided in Mr. Phil Macias rebuttal  
20 testimony (schedule PM-1R-C), Staff has included costs for the December 2016 financial  
21 statements and tax preparation for Indian Hills and First Round. For Indian Hill's, Staff  
22 included \$9,500 for the preparation of financial statements and \$2,500 tax preparation and for  
23 First Round Staff is including an allocated portion of \$9,500 for preparation of financial  
24 statements and \$2,500 for preparation of the tax returns.

Surrebuttal Testimony of  
Ashley Sarver

1 Q. Is Staff disallowing any costs for Indian Hills'?

2 A. Yes. Staff has disallowed the retainer for assistance in recording of  
3 initial purchase transactions of \$500 and \$1,250 for the review of amended 2016 corporate  
4 tax returns.

5 Q. Why is Staff proposing to disallow these fees?

6 A. These fees are non-recurring costs.

7 Q. Has Mr. Macias incorrectly stated the amount of financial audit costs in his  
8 rebuttal testimony?

9 A. Yes. Mr. Macias included \$10,000 for the financial audit cost. According to  
10 the invoices provided to Staff and the invoices attached to Mr. Macias's rebuttal testimony  
11 (Schedule PM-1R-C), First Round was billed \$9,500 for the financial statement preparation  
12 for 2016 (invoice number 95863).

13 Q. Is Staff disallowing any costs of First Round?

14 A. Yes, Staff is disallowing the costs associated with the preparation and review  
15 of amended 2016 partnership tax returns of \$1,250.

16 Q. Why is Staff proposing to disallow this cost?

17 A. This fee is a non-recurring cost.

18 Q. What is OPC's position concerning the auditing income tax preparation  
19 fees issue?

20 A. On page 5, lines 2 through 7, of Company witness Ms. Keri Roth's rebuttal  
21 testimony, she states:

22 In the *Report and Order* in the Hillcrest rate case numbered WR-2016-  
23 0064, the Commission disallowed estimated costs of auditing and tax  
24 preparation fees, because allowing these costs would violate the  
25 matching principle. The same would apply in the current case.  
26 Although the invoice has been paid, or known and measurable, the

Surrebuttal Testimony of  
Ashley Sarver

1 expense was paid outside of the test year. Therefore, including this  
2 expense would also violate the matching principle.

3 Q. Do you agree with OPC that because the date that these invoices were paid  
4 falls outside of the test year prevents them from being included in this rate case?

5 A. No. Indian Hills did not incur any tax preparation or auditing costs during the  
6 test year, but will incur these costs in the future on an ongoing basis. It is reasonable to  
7 include a known and measurable amount in rates for these costs.

8 Q. What is the total amount for audit services and tax preparation that Staff has  
9 included in the cost of service?

10 A. Staff has included the following invoices listed in the table below:

11 \*\*

____ ____	_____	____
____	_____	____
____	_____	____
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____	_____	____
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____	_____	____

12 \*\*

13 Q. What amount for these services is included in Indian Hill's cost of service?

14 A. \$13,993.

1 **CORPORATE ALLOCATION**

2 Q. Company witness Phil Macias states in his rebuttal testimony on page 6  
3 lines 17-18, "Staff reduced labor expense by 10% by applying an estimated capitalization rate.  
4 This is improper." Does Staff agree with the statement?

5 A. No. This is reasonable and a very conservative estimated capitalization  
6 percentage to be applied to payroll expense. Indian Hills has constructed new plant and is  
7 planning on replacing many mains throughout the system.

8 Q. Company witness Phil Macias states in his rebuttal testimony on page 6  
9 lines 18 through page 7 line 5:

10 First it assumes that each employee contributed 10% on their labor to  
11 capital related efforts. That assumption is unreasonable. For example,  
12 zero percent of the customer service labor is related to construction.  
13 Likewise, not all accounting team members are involved in capital  
14 projects. Because Staff was unable to establish a direct labor hour to  
15 capital project relationship, they used a ratio of operations &  
16 maintenance (O&M) expense to CSWR payroll (PR) expense.  
17 However, by definition, this ratio is not capital related. It is O&M to  
18 PR, not capital to PR. Capital and O&M are two distinctly different  
19 functional activities and there is not reasonable basis to assume that one  
20 ratio in any way approximates the other. The inability to develop and  
21 apply a genuinely capital based rate does not legitimize the use of an  
22 improper alternative.

23 Are the customer service labor and accounting team members involved in capital projects?

24 A. Yes. They review and pay invoices for the construction projects.

25 Q. What capitalization percentage did the Company use in its directly filing for  
26 this case?

27 A. 0%

28 Q. Is this reasonable?

Surrebuttal Testimony of  
Ashley Sarver

1 A. No. Indian Hills has spent approximately half a million dollars on  
2 improvements so it is not reasonable to assign no payroll costs to construction activity.

3 Q. Will the Company have improvements in the future?

4 A. Yes. The Company has agreed in the Partial Disposition Agreement to submit  
5 a Distribution System Improvement Plan, then use this assessment to create a five year  
6 schedule for replacement of mains and service connections where necessary and prudent.

7 Q. Why is the Company's approach unreasonable for capitalizing salaries?

8 A. Indian Hill does not capitalize any level of salaries to construction. From a  
9 ratemaking perspective, this approach overstates payroll expense recovered in cost of service.  
10 If Indian Hill's 0% capitalization proposal were adopted for annualizing Indian Hill's total  
11 payroll in this case, payroll expense would be overstated by \$5,747 using Staff's  
12 recommended capitalization percentage.

13 Q. Why should a portion of salaries be capitalized?

14 A. In general, water companies are capital intensive entities where ongoing  
15 construction activity is necessary to meet the water needs of current and future customers;  
16 therefore, construction is a significant and on-going activity of a utility company.  
17 Construction activity not only involves actual physical construction, but also requires  
18 planning, budgeting, monitoring, and record keeping along with other activities. Some of  
19 these activities can be directly identifiable with specific construction projects, but others  
20 cannot be directly identified with a project. The fact that the activity cannot be directly  
21 identified with a project does not mean that the activity was not performed in support of the  
22 construction. Where construction activities take place and funds are expended, indirect costs  
23 occur. A reasonable amount of indirect costs should be assigned to construction activities.



Surrebuttal Testimony of  
Ashley Sarver

1 Q. Is Indian Hills in what would be described as “a major construction phase?”

2 A. Yes. As stated above, Indian Hills currently has several construction projects  
3 planned for the future. These projects include line replacement; therefore, one can reasonable  
4 assume that many of Indian Hills employees are committing a significant amount of their time  
5 to the planning and ongoing oversight of these construction projects.

6 Q. Did Staff develop an estimated operations & maintenance (“O&M”) expense, a  
7 reciprocal of the capitalization percentage, to apply to payroll expense?

8 A. Yes. Staff applied an estimated O&M expense ratio to payroll expense.

9 Q. Did the Company provide an actual or estimated O&M expense percentage for  
10 the test year?

11 A. No. The Company does not keep track of time spent on operating/maintenance  
12 activities. Staff requested any available data pertaining to the actual amount of time each  
13 employee spends on construction and operations/maintenance related activity, respectively,  
14 for the Company, but has not received adequate information from Indian Hills on this matter  
15 to date. Therefore, Staff assumed a 90% O&M expense ratio for all employees in determining  
16 its recommended level of payroll expense.

17 Q. Do you have a correction to make to your direct testimony in this case?

18 A. Yes, on page 6, lines 9 thru 10, I state in regard to the proposed 90% O&M  
19 percentage, “This is the same O&M percentage that was used in the recent Hillcrest and  
20 Raccoon Creek rate proceedings.” This statement should be removed. In both of those cases,  
21 an estimated O&M percentage was used for the following three employees: Josiah Cox 85%,  
22 Jack Chalfant 92%, and Brenda Eaves 92%.

23 Q. Why did Staff use a 10% capitalization factor for payroll for all employees?

1           A.     Staff found 10% was a reasonable estimate for all employees due to the  
2 amount of construction that has taken placed and will happen in the future for his system.

3     **CORPORATE PAYROLL**

4           Q.     Has Phil Macias misinterpreted your direct testimony in this proceeding?

5           A.     Yes. According to Phil Macias’ rebuttal testimony on page 10, lines 10  
6 through 13, he states “Staff witness Sarver states on page 5 of her Direct Testimony that the  
7 MERIC data used for the President and Customer Service Manager has been updated 3 times  
8 since 2013. Data for each of the remaining positions has been updated once.” In my direct  
9 testimony on page 4 through 5, I compared MERIC salaries for the Financial Manager and  
10 Accounting and Auditor job titles from 2014 through 2016 and determined that the MERIC  
11 wage levels for 2015 were closer to the three-year average of the wage levels for Todd  
12 Thomas, Phil Macias, and Yolanda Rousseau job categories, and more appropriate than the  
13 2016 wage level to use in setting rates. Staff chose to use the MERIC 2013 employment  
14 wage level information for two of Central States Water Resources (“CSWR”) employees,  
15 Mr. Cox and Ms. Eaves. Both of these employees were with CSWR during the two most  
16 recent rate cases for affiliated CSWR utilities, Hillcrest, Case No. WR-2016-0064, and  
17 Raccoon Creek, Case No. SR-2016-0202, and Staff used the 2013 employment wage level  
18 information for both of these employees in both rate cases.

19           Q.     In Mr. Todd Thomas’ rebuttal testimony, he details the origin of the  
20 “mean level” on the Missouri Occupational Employment Projections – Methodology and  
21 Definitions. Does Staff agree with these definitions?

22           A.     Yes. According to the Missouri Occupational Employment Projections –  
23 Methodology and Definitions, MERIC uses the following definition for the classifying wages:

Surrebuttal Testimony of  
Ashley Sarver

1 Entry Wage - An entry wage is defined as the mean of the lower third  
2 percentile of the sampled population of surveyed workers. In the  
3 Occupational Employment and Wages Estimates, this wage is  
4 calculated by MERIC and included only in WIA and Statewide  
5 estimates.

6  
7 Experienced Wage - An experienced wage is defined as the mean of the  
8 upper two-thirds percentile of the sampled population of surveyed  
9 workers. In the Occupational Employment and Wages Estimates, this  
10 wage is calculated by MERIC and included only in WIA and Statewide  
11 estimates.

12  
13 Mean Wage - The mean wage can also be called the average wage, and  
14 is calculated by summing the wages of all the workers in a given  
15 occupation and then dividing the total wages by the number of workers.  
16 Wages are gathered from the Occupational Employment Statistics  
17 (OES) survey, and estimates are calculated by occupation based on the  
18 Standard Occupational Classification (SOC) system.

19  
20 Median Wage - The median wage is the estimated 50th percentile of  
21 the distribution of wages based on data collected; 50 percent of workers  
22 in an occupation earn less than the median wage, and 50 percent earn  
23 more than the median wage.

24 Q. What wage definition did Staff utilize for making the determination between  
25 experience, mean, and entry wage?

26 A. Staff chose the mean level by using the definition listed above for the  
27 “mean wage,” which is the average wage of all employees in each job classification. Staff’s  
28 position in that CSWR’s employees should not be considered experienced in operating a  
29 small-regulated utility since none of the employees have been with CSWR for more than three  
30 years and some of the personnel have been there less than one year.

31 Q. Does this conclude your surrebuttal testimony?

32 A. Yes, it does.

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


In The Matter of The Rate Increase Request Of            )  
Indian Hills Utility Operating Company, Inc.            )     **Case No. WR-2017-0259**

**AFFIDAVIT OF ASHLEY SARVER**

State of Missouri    )  
                                  ) ss  
County of Cole        )

**COMES NOW** Ashley Sarver, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony*, and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Ashley 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 9<sup>th</sup> day of November, 2017.

  
\_\_\_\_\_  
NOTARY PUBLIC

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