

**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.)	
)	
Consolidated with,)	Case No. WR-2016-0064
)	
In the Matter of the Sewer Rate)	
Increase Request of)	
Hillcrest Utility Operating)	
Company, Inc.)	

POSITION STATEMENT OF OFFICE OF THE PUBLIC COUNSEL

COMES NOW the Office of the Public Counsel (“OPC”), by and through counsel, and provides its *Statement of Position* with respect to the *Joint List of Issues* filed on behalf of the parties by the Staff of the Missouri Public Service Commission:

OPC’S POSITION ON LIST OF ISSUES

1. Payroll

What level of experience should be used to set the labor expense associated with each employee? Should the Employment Cost Index inflation rates be applied in setting such amounts? What is the appropriate number of annual work hours to include in calculating salaries for each employee? What is the appropriate hourly rate for each employee? What are the appropriate job titles to use in MERIC to compare and determine labor expense associated with Mr. Josiah Cox and Mr. Jack Chalfant?

Response:

It is OPC's position that it is reasonable to include a "mean" or average experience level used in MERIC to base employee salaries. At the end of the update period in this case of October 31, 2015, First Round CSWR employees had less than one year of experience with regulated water and wastewater utilities. The Employment Cost Index inflation rates should not be applied to the MERIC rates chosen for each employee. Inflation rates have not typically been applied to MERIC rates in the past. OPC has used MERIC job titles for each employee to compare salaries for each employee. OPC has determined "General and Operations Manager" to be most appropriate for Mr. Cox and "Accountants and Auditors" to be most appropriate for Mr. Chalfant as these titles best fit the job duties of each employee and have typically been utilized by OPC and Staff in the past to compare salaries. Using these job titles, OPC recommends the "mean" hourly rates identified in Schedule KNR-4, marked "Highly Confidential", attached to Keri Roth's direct testimony. OPC recommends Mr. Cox's hourly rate be multiplied against the annualized hours calculated at 305 hours. OPC determined this number based on the actual number of hours Mr. Cox spent on Hillcrest between March 13, 2015 and October 31, 2015 and then annualized this amount to calculate one full year. Mr. Cox's timesheet shows he spent 10.49% of his time on Hillcrest. Since Mr. Chalfant and Ms. Eaves did not start logging their time spent on Hillcrest until after the acquisition, OPC recommends using Mr. Cox's 10.49% allocation of time on Hillcrest and multiply this amount by the annual salary amounts for Mr. Chalfant and Ms. Eaves to determine the labor expense associated with Hillcrest.

2. Property Taxes

What is the appropriate amount of property taxes to include in the Hillcrest revenue requirements? Should estimated property tax amounts be included in rates?

Response:

The OPC has allowed for \$328.00 in real and personal property taxes for the water and sewer utilities at Hillcrest. This amount represents 10.49% of the corporate allocation of cost to Hillcrest reflecting amounts known and measurable during the test year and update period of this case. The Commission has explained, in its *Report and Order* in Case No. ER-2014-0370, its position on the “known and measurable” standard:

256.....The term “known and measurable” relates to items or events affecting a utility’s cost of service that must have been realized (known) and must be calculable with a high degree of accuracy (measurable).

Hillcrest would ask the Commission include *estimated* costs for real and personal property taxes that would not become certain with a high degree of accuracy until at least September 1, 2016¹ ten months after the update period for this case. This request violates the known and measurable standard which could result in ratepayers having to pay more in rates than what is actually required for the operating expense of the utility. Therefore, the Commission should include only those amounts known and measurable with a high degree of accuracy in rates.

3. Auditing and Income Tax Preparation Fees

What is the appropriate amount of Hillcrest’s auditing and tax preparation (accounting) costs to include in Hillcrest’s cost of service? What is the appropriate allocated level of auditing and tax preparation (accounting) costs for Central States Water Resources to include in

¹ See Missouri State Assessor’s Association website for information on the timing of state real and property tax assessments. <http://www.moassessorsassn.org/taxsystem.htm>.

Hillcrest's cost of service? Should accounting costs incurred and paid in 2016 by Hillcrest be included in Hillcrest's cost of service?

Response:

The OPC has allowed for \$244.00 of audit and accounting fees for the water and sewer utilities at Hillcrest. This amount represents 10.49% of the corporate allocation of cost to Hillcrest of the known and measurable accounting fees provided during the test year and update period in this case. Similar to the real and personal property tax issue, Hillcrest is asking the Commission to approve expenses for auditing and accounting fees not known and measurable and yet been paid². This request violates the known and measurable standard and should not be included in rates.

4. Rate of Return

What is the appropriate capital structure for purpose of setting Hillcrest's allowed rate of return? What is the appropriate allowed ROE to apply to the equity in the ratemaking capital structure? What is the appropriate allowed debt rate to apply to the debt in the ratemaking capital structure?

Response:

OPC does not take a position on this issue at this time but reserves the right to respond to this issue in the hearing and in its post-hearing brief.

5. Rate Design

How many classes should Hillcrest's customers be divided into for the purpose of designing rates for both water and sewer? What are the proper allocation percentages to be used

² Hillcrest has provided a quote for tax preparation and auditing fees but has not provided an invoice for payment.

to allocate expenses between the customer charge and volumetric rate? Should a rate increase be implemented all at once or phased-in over time?

Response:

OPC's position is Hillcrest should be divided into three customer classifications consisting of a residential, apartment, and commercial class for both water and sewer service. OPC's position on the proper allocation percentages used to allocate expenses between the customer charge and volumetric rate are the ones used in James Russo's direct testimony and shown in schedule 2. OPC does not have a position at this time on the rates being implemented all at once or phased-in over time.

6. Corporate Allocation

What is the appropriate corporate allocation percentage to apply to corporate costs?

Response:

Mr. Cox's timesheet shows he spent 10.49% of his time on Hillcrest during the test year and update period in this case. Mr. Chalfant and Ms. Eaves did not start logging their hours spent on Hillcrest until after the update period in this case. Therefore, it is OPC's position that the appropriate corporate allocation percentage to apply to corporate costs should be based on Mr. Cox's actual time spent on Hillcrest.

WHEREFORE, Public Counsel submits its *Statement of Positions*.

Respectfully Submitted,
OFFICE OF THE PUBLIC COUNSEL

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by electronic mail, or First Class United States Postal Mail, postage prepaid, on this 13th day of May, 2016, to all counsel of record.

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