

Exhibit No.:

Issue(s):

Employee Wages/
Auditing and Income
Tax Preparation Fees/
Property Taxes/
OPC EMS Run Adjustments

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Public Counsel

WR-2016-0064

REBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

HILLCREST UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2016-0064

May 11, 2016

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REBUTTAL TESTIMONY

OF

KERI ROTH

HILLCREST UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2016-0064

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

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

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

5 A. Yes.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of this rebuttal testimony is to respond to the direct testimony from Hillcrest
8 Utility Operating Company, Inc. (“Hillcrest”) witness Mr. Josiah Cox and Missouri Public
9 Service Commission Staff (“Staff”) witness Mr. Paul Harrison regarding employee wages,
10 auditing and income tax preparation fees, and property tax expense. OPC will also provide
11 adjustments to the EMS runs from the *Company/Staff Partial Agreement Regarding*
12 *Disposition of Small Water Company Revenue Increase Request* (“Partial Disposition
13 Agreement”) OPC believes are necessary regarding time spent on Hillcrest activities derived
14 from Mr. Cox’s deposition testimony.

15 **II. Employee Wages**

16 **Q. Does Hillcrest have any employees?**

17 A. No. As shown in my direct testimony, First Round CSWR, LLC (“CSWR”) has three
18 employees, Mr. Cox, Mr. Jack Chalfant, and Ms. Brenda Eaves, who allocate a portion of
19 their time to regulated utilities other than Hillcrest. Staff witness, Mr. Paul Harrison,

1 describes Mr. Cox as the Chief Executive Officer (“CEO”), Mr. Chalfant as the Chief
2 Financial Officer (“CFO”), and Ms. Eaves as the office manager.

3 **Q. Has OPC’s recommendation changed as a result of the deposition of Hillcrest witness**
4 **Mr. Cox on April 28, 2016?**

5 A. Yes.

6 **Q. Please describe OPC’s changes.**

7 A. In direct testimony, OPC believed the 14% allocation factor was reasonable to allocate
8 corporate payroll costs to Hillcrest. However, after answers provided by Mr. Cox during his
9 deposition and a review of his timesheet, OPC believes 14% is too high. OPC has re-
10 evaluated Mr. Cox’s timesheet and believes an allocation factor of 10.49% is more
11 reasonable. This is the amount of time actually allocated to Hillcrest per Mr. Cox’s
12 timesheets. OPC’s payroll calculation utilizing an allocation factor of 10.49% can be seen
13 on Schedule KNR-1, marked “Highly Confidential”.

14 **Q. Does Mr. Jack Chalfant or Ms. Brenda Eaves have timesheets for Hillcrest?**

15 A. No. It is OPC’s understanding Mr. Chalfant and Ms. Eaves did not begin recording their
16 time until after the update period of October 31, 2015. Therefore, OPC can only rely on Mr.
17 Cox’s timesheets to calculate an allocation of their time for Hillcrest.

18 **Q. Has OPC utilized the same job titles as Mr. Harrison in his testimony?**

19 A. No. As shown in my direct testimony on Schedule KNR-4, marked “Highly Confidential”, I
20 have re-classified job titles to more appropriately fit job descriptions of Mr. Cox and Mr.
21 Chalfant.

22 **Q. Why does OPC disagree with Mr. Cox’s use of CEO when calculating employee**
23 **wages?**

1 A. As stated in my direct testimony, the top manager of small water and sewer companies in
2 Missouri are usually classified as “general managers” and not as CEO. There is no
3 explanation given as to why a distinction should be made in this case.

4 **Q. Why does OPC disagree with Mr. Cox’s use of CFO for Mr. Chalfant when**
5 **calculating employee wages?**

6 A. Mr. Cox explained Mr. Chalfant does not participate with acquisitions of small water and
7 sewer utilities nor does he participate in any activities relating to the financing of Hillcrest.
8 Mr. Chalfant stated that he is not responsible for providing input on corporate financing,
9 determining the overall financial well being of the company, or determining the overall
10 financial direction of the company. His job is limited to review of invoices, writing checks
11 for Mr. Cox to sign, and assistance with the set up of the Quickbooks financial system as
12 well as some minor accounting and auditing related tasks. These responsibilities are more in
13 line with an auditor/accounting position than the leadership role a CFO suggests and that’s
14 why our office classifies it as such.

15 **Q. How has Staff calculated employee wages?**

16 A. Staff has used the job titles as provided by Hillcrest and applied 2014 pay rates found on the
17 Missouri Economic Research and Information Center (“MERIC”) website as well as
18 utilizing the “mean” or average pay rates for those job titles.

19 **Q. Does Mr. Harrison state in direct testimony that Hillcrest used the experienced level of**
20 **MERIC to annualize CSWR’s payroll?**

21 A. Yes.

22 **Q. Is Mr. Harrison correct?**

23 A. No. In response to questions presented during Mr. Cox’s deposition, Mr. Cox explained he
24 chose his salary for himself and the amount was determined by comparing to other

1 similarly-situated, regulated water and wastewater utilities. Mr. Chalfant and Ms. Eaves
2 salaries were also determined by Mr. Cox and negotiated with each employee. It does not
3 appear Mr. Cox based the salary amounts on MERIC data or any other recognized basis.

4 **Q. Did Mr. Cox provide a listing of other regulated water and sewer companies he**
5 **compared his salary with?**

6 A. Yes but only one: Utilities, Inc. Based on OPC's research of Utilities, Inc., a company that
7 services water and wastewater customers across fifteen different states but does not service
8 any customers in Missouri.

9 **Q. Does Mr. Cox agree with Staff's approach to calculate employee wages?**

10 A. No. Mr. Cox believes Staff's salary amounts should be adjusted for inflation and job titles
11 should reflect the experience level of MERIC pay rates.

12 **Q. Do any of CSWR's employees have experience with regulated water and sewer utilities**
13 **prior to working for CSWR?**

14 A. No. In response to questions presented during depositions, none of the employees of CSWR
15 have experience with regulated water and sewer utilities. Therefore, "mean" or average
16 MERIC rates are acceptable for each employee's job title. As of the update period of this
17 audit, each employee has had less than one year experience with regulated water and
18 wastewater utilities.

19 **III. Auditing and Income Tax Preparation Fees**

20 **Q. Did OPC originally accept Staff's calculation to include \$326 for Hillcrest's accounting**
21 **fees in direct testimony?**

22 A. Yes.

1 **Q. Has OPC's position since changed?**

2 A. Yes. Based on responses provided by Mr. Cox during his deposition, OPC believes
3 Hillcrest's and Staff's corporate allocation percent of 14% for Hillcrest is too high. OPC
4 has calculated the percentage of time Mr. Cox has actually spent on Hillcrest to be 10.49%.
5 Therefore, OPC believes Hillcrest's accounting fees should total \$244 and split equally
6 between water and sewer rates.

7 **Q. Does Hillcrest witness Mr. Cox agree with Staff's calculation of accounting fees?**

8 A. No. Mr. Cox explains that he has submitted requests for proposals and hired an accounting
9 firm to audit and prepare tax documentation for Hillcrest. The quote provided by Mr. Cox is
10 \$17,000 for tax preparation and audit services for Hillcrest only and \$14,850 for tax
11 preparation and audit services for CSWR. Mr. Cox recommends allocating 14% of CSWR
12 fees to Hillcrest.

13 **Q. What is OPC's issue with Mr. Cox's recommendation?**

14 A. Mr. Cox has not provided any invoices showing payment. It is OPC's understanding
15 Hillcrest will not receive any accounting services until mid-to-late 2016. Therefore, invoice
16 documentation will not be available until months after the update period of October 31,
17 2015. This amount is not yet known and measurable so OPC recommends Hillcrest's
18 accounting fees should total \$244.

19 **Q. Will Hillcrest have an opportunity to seek payment for these later expenditures?**

20 A. Yes. In the partial disposition agreement, either Staff will initiate a rate review or Hillcrest
21 will file a rate case within 12 – 18 months of the effective date of the order approving the
22 disposition agreement. Therefore, auditing and income tax preparation fees will be updated
23 during that time to account for any new invoices.

24 **IV. Property Taxes**

1 **Q. Did OPC accept Staff's calculation of property tax expense in direct testimony?**

2 A. Yes.

3 **Q. Has OPC's position since changed?**

4 A. No.

5 **Q. Does Mr. Cox agree with Staff's calculation?**

6 A. No. Mr. Cox believes Staff should include property tax expense associated with the 2016
7 assessment that includes new plant.

8 **Q. Is this amount known and measurable?**

9 A. No. Mr. Cox has stated an *estimate* of what he believes property tax expense will be in
10 2016. However, this amount has not yet been provided by the Cape Girardeau County
11 Assessor's office and Hillcrest will not pay these taxes until December 31, 2016, fourteen
12 months after this case's update period of October 31, 2015. Property tax expense will be
13 updated during that time to account for any new plant and can be decided in Hillcrest's next
14 rate case.

15 **V. OPC EMS RUN ADJUSTMENTS**

16 **Q. Is OPC recommending adjustments to the EMS runs filed as part of the partial
17 disposition agreement?**

18 A. Yes. OPC believes the allocation factor of 14% used by Hillcrest and Staff is over-stated.
19 Based on answers provided by Mr. Cox during his deposition and further review of his
20 timesheets, OPC believes an allocation factor of 10.49% is a more accurate reflection of
21 time spent on Hillcrest activities. OPC's adjustments using a 10.49% allocation factor can
22 be seen in Schedule KNR-2.

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

2 A. Yes.