

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

In the Matter of the Application of Rate)
Increase Request for Liberty Utilities) **File No. WR-2018-0170**
Missouri Water) LLC d/b/a Liberty Utilities)

STAFF POSITION STATEMENT

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and for its *Staff Position Statement* hereby states:

Staff Positions

Cost of Service – What is the appropriate cost of service for Liberty Utilities?

Answer: It is Staff’s opinion that the appropriate cost of service for Liberty Utilities is the sum of two issues: the agreed-to Revenue Requirement provided in the Non-Unanimous Stipulation and Agreement between Staff and Liberty Utilities, and, Staff’s position on rate case expense of \$30,061, described below. (EFIS Item No. 72, *Non-Unanimous Stipulation and Agreement*, p. 1, paragraph 1.A., filed Aug. 3, 2018; and, Harrison Surrebuttal, 2:22-23).

Return on equity – What is the appropriate return on equity for Liberty Utilities?

Answer: Staff and the Company filed a Non-Unanimous Stipulation and Agreement that represents a joint position on revenue requirement, with ROE of 9.75% included in such agreement. (EFIS Item No. 72, *Non-Unanimous Stipulation and Agreement*, p. 2, paragraph 1.C). Staff’s filed position is that the appropriate allowed return on equity is in the range of 9.5 to 10%, with Staff making a point ROE recommendation of 10% contingent on Staff’s capital structure recommendation. (Schedule PRH-d2, p. 2; Murray Substitute Rebuttal, 3:1-3).

Capital structure – What is the appropriate capital structure for Liberty Utilities?

Answer: Staff and the Company filed a Non-Unanimous Stipulation and Agreement that represents a joint position on revenue requirement, with capital structure not specified. (EFIS Item No. 72, *Non-Unanimous Stipulation and Agreement*, p. 2, paragraph 1.C., filed Aug. 3, 2018). Staff’s filed position is that the capital structure should be set based on Liberty Utilities Company’s capital structure as of December 31, 2017, which

contains 42.83% common equity and 57.17% long-term debt. (Schedule PRH-d2, page 2; Murray Substitute Rebuttal, 3:1-3).

Rate case expense – What is the appropriate amount of rate case expense and amortization period?

Answer: The appropriate amount of rate case expense is \$30,061 (Harrison Surrebuttal, 2:22-23). Staff's filed position is that the rate case expense ought to be normalized over a period of five years. (Harrison Surrebuttal, 2:23 – 3:2). However, Liberty Utilities and Staff have signed a Non-Unanimous Stipulation and Agreement, wherein Liberty Utilities agrees to file a rate case no later than twenty-four months from the conclusion of this case. (EFIS Item No. 72, *Non-Unanimous Stipulation and Agreement*, p. 4, paragraph 4). Therefore, if the Commission orders that term, then for the purpose of effectuating that agreement, Staff recommends that the \$30,061 amount be amortized over a three year period, or \$10,020 annually. Any amount of rate case expense that the Company over or under collects in current customer rates as a result of this three-year amortization should be handled in Liberty Utilities' next rate case.

Customer Service Issues – Has Liberty Utilities adequately responded to customer service issues?

Answer: With regard to operations affecting condominium owners at the Ozark Mountain Resort in Kimberling City, Missouri: Yes. (Roos Rebuttal, 3:14-15). The incidents recounted in Mr. Allsbury's Direct Testimony have been resolved by replacement of both the pressure regulating valve and the contract operator, and Liberty's recent customer service changes have led to more reliable service. (Roos Rebuttal, 3:14-15; Roos Rebuttal, 4:4-6).

With regard to customer service issues identified in Staff's investigation and concerns described at the Branson Local Public Hearing: Yes. While Staff's investigation identified a number of issues with Liberty's customer service, and while Staff noted in testimony concerns addressed at the Branson Local Public Hearing, these issues have been responded to in Staff's Partial Disposition Agreement filed in this case on May 24, 2018, and the Non-Unanimous Stipulation and Agreement filed in this case on August 3, 2018. (Parish Surrebuttal, 3:14-4:19; see also EFIS Item No. 72, *Non-Unanimous Stipulation and Agreement*, p. 5-6, paragraphs 8 – 11, filed Aug. 3, 2018).

Rate Design – What is the proper rate design for the various liberty water and sewer systems?

Answer: The appropriate rate design for the various Liberty water and sewer systems is to maintain existing tariffed rate-structure for each service area except for KMB. KMB's service area will be combined into one tariffed rate as set out in Attachment A to the Stipulation and Agreement filed May 23, 2018.

Phase-In of Rates – Should rates for Holiday Hills, Ozark Mountain, and Timber Creek service areas be phased-in over a period of five years? Should carrying costs be allowed to be recovered if rates are phased-in?

Answer: No. Due to the relatively low current rate and the proposed percentage increase, a phase-in of rates for these systems is not appropriate at this time (Busch surrebuttal, p. 6 – 7). Further, allowing a phase-in for rates on certain systems sets up preferential treatment for those customers and could cause undue harm to other customers (Busch surrebuttal, page 7, lines 8-21). If the Commission does decide to order a phase-in, carrying costs should be included to compensate the Company for the loss of revenue in the early years of the phase-in (Busch Surrebuttal, 7:22-23).

Customer Charge – What is the appropriate customer charge?

Answer: The appropriate amount for the customer charge for 5/8" meter is \$23.88 for the Noel water service system, \$30.04 for 5/8" meter in the KMB water service system, and \$26.65 for the smallest meter of the Silverleaf water service system. The appropriate amount for the customer charge is \$45.67 for the Cape Rock Village sewer system and \$37.07 for the Timber Creek and Ozark Mountain sewer system. These amounts can be found in Attachment A to the Stipulation and Agreement filed May 23, 2018.

Commodity Charge – What is the appropriate commodity charge?

Answer: The appropriate amount for commodity charge, per thousand gallons, is \$3.04 for the Noel water service system, \$6.65 for the KMB water service system, and \$6.73 for the Silverleaf water service system. The appropriate amount for the commodity charge is \$26.97 for the Timber Creek and Ozark Mountain sewer system. These amounts can be found in Attachment A to the Stipulation and Agreement filed May 23, 2018.

Silver Leaf / Orange Lake Exemption – Should Silverleaf / Orange Lake be exempted from consideration in a subsequent rate case?

Answer: No. Any subsequent rate case must include all service areas (Busch Surrebuttal, 12:12-22). The purpose of the rate case is to evaluate all relevant factors of Liberty's operations and to ensure that all costs are appropriately assigned to all service territories (Busch Surrebuttal, 12:15-16). Exempting any

systems will distort the cost allocation structure and could lead to certain customers being allocated more than their fair share of costs and could allow the Company the opportunity to earn more than its Commission authorized revenues (Busch Surrebuttal, 12:19-22).

WHEREFORE, Staff respectfully submits this *Staff Position Statement* for review and consideration by the Commission.

Respectfully submitted,

/s/ Jacob T. Westen

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile, or electronically mailed to all parties and or counsel of record on this 13th day of August, 2018.

/s/ Jacob T. Westen