

**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,)
)
In the Matter of the Sewer Rate)
Increase Request of)
Hillcrest Utility Operating)
Company, Inc.)

Case No. WR-2016-0064

STAFF'S POSITION STATEMENTS

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and in this matter hereby submits *Staff's Position Statements*.

LIST OF ISSUES

1. Payroll

A. What level of experience should be used to set the labor expense associated with each employee?

Staff's position: Staff recommends using the mean level of experience in the Missouri Economic Research and Information Center (MERIC) to annualize CWSR payroll.

B. Should the Employment Cost Index inflation rates be applied in setting such amounts?

Staff's position: No.

C. What is the appropriate number of annual work hours to include in calculating salaries for each employee?

Staff's position: Staff recommends using 438.72 annual hours in calculating the salary of Josiah Cox. Since time sheets were not utilized by Company employees, Jack Chalfant and Brenda Eaves, Staff recommends using 14% of these two employees' annualized salary.

D. What is the appropriate hourly rate for each employee?

Staff's position: Staff recommends using the following hourly rates:

**	_____	**
**	_____	**
**	_____	**

E. 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?

Staff's position: Staff recommends using the job title of Chief Executive for Mr. Josiah Cox and Financial Manager for Mr. Jack Chalfant in MERIC.

2. Property Taxes

A. What is the appropriate amount of property taxes to include in the Hillcrest revenue requirements?

Staff's position: Staff's recommended level of property tax is \$164 for water and \$164 for sewer.

B. Should estimated property tax amounts be included in rates?

Staff's position: No, Staff used the actual property tax expense paid by Hillcrest and CSWR to determine the appropriate level of property tax expense to include in Hillcrest's cost of service.

3. Auditing and Income Tax Preparation Fees

A. What is the appropriate amount of Hillcrest's auditing and tax preparation (accounting) costs to include in Hillcrest's cost of service?

Staff's position: Staff's recommended level of auditing and tax preparation costs is \$168 for water and \$168 for sewer.

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

Staff's position: Staff's recommended level of auditing and tax preparation costs is \$168 for water and \$168 for sewer.

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

Staff's position: No.

4. Rate of Return

A. What is the appropriate capital structure for purpose of setting Hillcrest's allowed rate of return?

Staff's position: 25% Equity/75% Debt

B. What is the appropriate allowed ROE to apply to the equity in the ratemaking capital structure?

Staff's position: 12.88% to 14.13%

C. What is the appropriate allowed debt rate to apply to the debt in the ratemaking capital structure?

Staff's position: 8.88% to 10.13%

5. Rate Design

A. How many classes should Hillcrest's customers be divided into for the purposes of designing rates for both water and sewer?

Staff's position: Two classes, one of which would be an apartment class. However, Staff would not be opposed to creating a third class for commercial customers.

B. What are the proper allocation percentages to be used to allocate expenses between the customer charge and volumetric rate?

Staff's position: Staff considers the real issue being asked here to be, "what is the appropriate customer charge for each customer class?" Based on Staff's filed position of two classes, the customer charge should be \$34.72 and \$27.78 for the apartment class. Phased-in, those customer charges would be \$28.65 and \$22.92, respectively. For sewer customers, the monthly charge should be \$73.75 and for the apartment class, \$58.98. Phased-in, those monthly charges would be \$55.53 and \$44.41, respectively.

C. Should a rate increase be implemented all at once or phased-in over time?

Staff's position: Staff does not take a position on this issue. Staff has proposed two alternatives that include for the increase to be implemented all at once and another alternative for phase-in. If the Commission decides a phase-in method is appropriate, Staff's position is that to exclude depreciation expense, uncollectible expense and rate of return from the initial rate, to be included, with carrying costs, in a subsequent rate case is appropriate and would be amortized over a five year period.

6. Corporate Allocation

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

Staff's Position: Staff recommends using 14%.

WHEREFORE, Staff prays that the Commission will accept *Staff's Position Statements*; and grant such other and further relief as the Commission considers just in the circumstances.

Respectively submitted

/s/ Whitney Payne

Whitney Payne

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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.

/s/ Whitney Payne