

Exhibit No.:

Issue(s):

Outside Services – Management
Consulting Fees/
Commission Order in
Indian Hills Acquisition
Case Numbered WO-2016-0045/
Auditing and Income
Tax Preparation Fees/
Bank Fees/
Employee Salaries/
Rate Case Expense

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Roth/Surrebuttal
Public Counsel
WR-2017-0259

SURREBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

INDIAN HILLS UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2017-0259

**

**Denotes Confidential Information
that has been redacted**

**

November 13, 2017

Public

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


In the Matter of the Application)
Of a Rate Increase)
For Indian Hills Utility)
Operating Company, Inc.) Case No. WR-2017-0259

AFFIDAVIT OF KERI ROTH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Keri Roth, of lawful age and being first duly sworn, deposes and states:

1. My name is Keri Roth. I am a Public Utility Accountant III for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

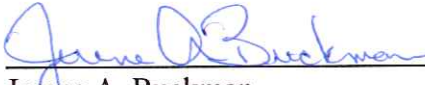


Keri Roth
Public Utility Accountant III

Subscribed and sworn to me this 13th day of November 2017.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

TABLE OF CONTENTS

Testimony	Page
Introduction	1
Outside Services – Management Consulting Fees	1
Commission Order in Indian Hills Acquisition Case Numbered WO-2016-0045	2
Auditing and Income Tax Preparation Fees	3
Bank Fees	6
Employee Salaries	6
Rate Case Expense	9

SURREBUTTAL TESTIMONY

OF

KERI ROTH

INDIAN HILLS UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2017-0259

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 and rebuttal testimony on behalf of the**
5 **OPC in this case?**

6 A. Yes.

7 **Q. What is the purpose of your surrebuttal testimony?**

8 A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony from Indian
9 Hills Utility Operating Company, Inc. (“Indian Hills” or “Company”) witnesses Mr. Josiah
10 Cox, Mr. Phil Macias, and Mr. Todd Thomas regarding outside services – management
11 consulting fees, compliance with Commission Orders, audit and income tax preparation fees,
12 bank fees, and employee salaries. I will also respond to the rebuttal testimony of Missouri
13 Public Service Commission Staff (“Staff”) witness Ms. Ashley Sarver regarding audit and
14 income tax preparation fees, bank fees, employee salaries. Also, as stated in my rebuttal
15 testimony, I will provide an update regarding OPC’s position for rate case expense.

16 **II. OUTSIDE SERVICES – MANAGEMENT CONSULTING FEES**

17 **Q. Indian Hills witness Mr. Cox states in his rebuttal testimony, “The Company plans to**
18 **continue to utilize Ms. Stanley as an aid in locating lines where work will be required.”**
19 **Is it OPC’s understanding that Indian Hills already has expense included in the cost of**
20 **service for line locate services provided by outside vendors?**

1 A. Yes. It is OPC's understanding that Indian Hills already uses an outside vendor for line
2 locates. Therefore, it is unnecessary for Indian Hills to compensate the previous owner for
3 time that cannot be justified by logs, timesheets, or detailed invoices when Indian Hills will
4 still have to request line locates from the outside vendor to verify the actual location.

5 **III. COMMISSION ORDER IN INDIAN HILLS ACQUISITION CASE**
6 **NUMBERED WO-2016-0045**

7 **Q. Indian Hills witness Mr. Macias states in his rebuttal testimony, "OPC's own valuation**
8 **as presented in the schedule shows the OPC was able to prove the financing funds were**
9 **used as ordered." Indian Hills witness Mr. Cox also indicates in rebuttal testimony that**
10 **all debt proceeds were invested in Indian Hills. Does OPC agree with either witness?**

11 A. No. As stated in my direct testimony, Paragraph 21 of the Commission Order in case
12 numbered WO-2016-0045 states, "The proceeds from the proposed financing shall be used
13 only for the acquisition of I.H. Utilities, Inc.'s water utility assets, and the proposed tangible
14 improvement to the water system that can be booked to plant in service for purposes of
15 ratemaking." (Emphasis added) OPC has determined a rate base amount through its audit.
16 However, as indicated in OPC witness Mr. Greg Meyer's direct testimony, it is very clear the
17 funds to be used only for the acquisition of the water system and the proposed tangible
18 improvements have been co-mingled with other affiliate accounts during the process.

19 **Q. Indian Hills witness Mr. Macias states in his rebuttal testimony, "As CFO, I can say**
20 **there are currently no debt covenant violations with the Indian Hills loan." Indian Hills**
21 **witness Mr. Cox also indicates the same in his rebuttal testimony. Does OPC agree with**
22 **either witnesses?**

23 A. Yes, currently there are no violations. However, a modification has been made to the loan
24 agreement in regards to the terms of repayment. As stated in my direct testimony, Paragraph
25 20 of the Commission Order in case numbered WO-2016-0045 states in part, "If such a

1 violation is waived, then Indian Hills Utility Operating Company, Inc. shall indicate why the
2 violation is waived and how long the waiver shall be effective.” Indian Hills failed to file the
3 loan modification in the docket, and arguably, the omission constitutes a violation. Indian
4 Hills did not provide this information to OPC until requested in the current rate case in
5 response to OPC data request 5 attached as Schedule KNR-1, which has been marked
6 Confidential. Indian Hills also states in its response that the Company is unaware of any
7 obligation to notify Staff or OPC if a notice of breach had been received, even though it is
8 clearly stated in the Commission Order to provide a plan of action to fix any violation.

9 **Q. Indian Hills witness Mr. Cox states in his rebuttal testimony, “We do not have the exact**
10 **date the financing documentation was provided to Staff and OPC. However, as to the**
11 **Hillcrest, Raccoon Creek, and Indian Hills matters, it has been in Staff’s and OPC’s**
12 **possession for over a year.” Does OPC agree with this statement?**

13 A. No. As stated in my direct testimony, Paragraph 18 of the Commission Order in case
14 numbered WO-2016-0045 states, “Within 10 days after the issuance of any financing
15 authorized by the order, Indian Hills Utility Operating Company, Inc. shall file a report
16 including the amount of financing issued, date of issuance, stated return required, maturity
17 date, redemption schedules or special terms, if any, use of proceeds, estimated expenses and
18 the final executed financing agreement.” Indian Hills did not provide a copy of the final loan
19 agreement in case numbered WO-2016-0045. OPC had to request the final copy of the loan
20 agreement in the current rate case. OPC received the agreement in response to OPC data
21 request 1107 on May 10, 2017. Mr. Cox is incorrect stating both OPC and Staff have had this
22 information for over a year. Regardless, the Commission Order clearly stated to provide the
23 information within 10 days. OPC could not find this information provided in EFIS.

24 **IV. AUDITING AND INCOME TAX PREPARATION FEES**

25 **Q. Indian Hills witness Mr. Macias states in his rebuttal testimony, “OPC Witness Roth**
26 **excluded both the audit and tax preparation fees for Indian Hills and the pro-rata share**

1 **of audit fees from First Round and allowed for a small portion of tax fees from First**
2 **Round in her Direct Testimony.” Do you agree with this statement?**

3 A. No. OPC did not exclude any audit and income tax preparation costs that were paid in the
4 test year. OPC included 16.61%, Staff’s corporate allocation factor, of \$11,000 for 2015
5 audited financial statements for First Round. OPC also included 16.61% of \$2,500 related to
6 2015 income tax preparation fees for First Round. As stated in my direct and rebuttal
7 testimony, the invoice provided for Indian Hills’ 2016 audited financials was paid outside of
8 the test year, and OPC was not provided copies of the audited financials until after direct
9 testimony was filed in the current case.

10 **Q. Has Mr. Macias provided copies of invoices for audit and income tax preparation fees**
11 **in his rebuttal testimony?**

12 A. Yes. Mr. Macias has provided copies of invoices for 2016 audited financial statements dated
13 March 28, 2017 and 2016 income tax preparation fees dated October 26, 2017 for First Round
14 and Indian Hills.

15 **Q. Does OPC believe these invoices should be included in the cost of service in the current**
16 **case?**

17 A. No. As stated in my direct and rebuttal testimony, the fees associated with the audited
18 financial statements were paid outside of the test year. This is also the case with the invoices
19 for income tax preparation fees dated October 26, 2017.

20 **Q. Has Staff included these invoices in its cost of service?**

21 A. Mr. Sarver states in her rebuttal testimony, “After reviewing the invoice and financial
22 statements, Staff is not including \$9,000 for the audit of Indian Hills’ financial statements.”

23 **Q. Does OPC agree with Staff’s update?**

1 A. No. OPC does not agree, because the invoice was not paid until outside of the test year. The
2 invoice does not appear until the April 2017 general ledger provided by Indian Hills, which
3 is outside of the test year determined to be used by Staff in the current case.

4 **Q. Has Staff included an update for income tax preparation fees for Indian Hills' portion?**

5 A. No. Ms. Sarver indicated in her rebuttal testimony that Staff has not received an invoice for
6 income tax preparation for Indian Hills.

7 **Q. Has Mr. Macias provided a copy of this invoice in his rebuttal testimony?**

8 A. Yes.

9 **Q. Will OPC's position be the same as its position regarding Indian Hills audited financial
10 statement fees discussed previously if Staff now decides to make an update based on this
11 new information?**

12 A. Yes. OPC will continue to disagree, because the invoice was not dated until October 26, 2017
13 which is approximately seven months outside of the test year. It is also unclear when this
14 invoice was actually paid.

15 **Q. Is Staff's position or the Company's position consistent with the Commission's *Report
16 and Order* in the Hillcrest rate case numbered WR-2016-0064?**

17 A. No. In the Hillcrest *Report and Order*, the Commission states, "Hillcrest requests that an
18 estimate of its auditing and tax preparations fees to be paid in 2016 be included in the revenue
19 requirement for this case. Those costs would occur outside of the test and update periods,
20 which would violate the matching principle." The Commission goes on to state, "The
21 Commission concludes that any accounting costs incurred and paid in 2016 by Hillcrest
22 should not be included in Hillcrest's cost of service for this case."

1 The Commission has clearly stated that any costs paid outside of the test year and included in
2 the cost of service would violate the matching principle, which requires all elements of the
3 revenue requirement to be included in the cost of service at the same general point in time.

4 **V. BANK FEES**

5 **Q. Staff witness Ms. Sarver states in her rebuttal testimony, “Staff recommends that in the**
6 **next CSWR affiliate rate case that CSWR present a cost study benefit analysis of having**
7 **the bank perform the work versus using existing personnel to perform the work.” Does**
8 **OPC agree with Staff’s recommendation?**

9 A. Yes. OPC believes a cost study benefit analysis will be beneficial. OPC also recommends
10 the Commission disallow the Company’s bank fees until the Company can meet its burden of
11 proof that these costs are prudently incurred.

12 **VI. EMPLOYEE SALARIES**

13 **Q. Indian Hills witness Mr. Thomas indicates that OPC is using hypothetical job categories,**
14 **rather than using actual job responsibilities. Does OPC agree with Mr. Thomas’**
15 **statement?**

16 A. No. OPC chose job categories in MERIC in which OPC believed to match the job
17 descriptions provided by Indian Hills.

18 **Q. Is OPC using the same job titles that Staff has recommended?**

19 A. Yes, with the exception of the job title for Mr. Cox. Staff is recommending to use the job title
20 of Chief Executive and OPC is recommending the job title of General and Operations
21 Manager.

22 **Q. Why does OPC disagree with Staff’s use of Chief Executive?**

1 A. As stated in my direct and rebuttal testimonies, the top manager of small water and sewer
2 companies in Missouri is usually classified as a general manager. Also, OPC believes it is
3 inappropriate to use the job title of Chief Executive, because OPC would consider this to be
4 a higher paying position with more responsibility than the title of President, which Mr. Cox
5 identifies himself as, in response to OPC data request 1120 attached as Schedule KNR-2.
6 MERIC does not have a job title classification of President; therefore, OPC believes General
7 and Operations Manager is more appropriate.

8 **Q. Indian Hills witness Mr. Thomas indicates in his rebuttal testimony that OPC has used**
9 **customer counts and status of financing to determine job titles to calculate payroll. Does**
10 **OPC agree with this statement?**

11 A. No. OPC did not state anywhere in direct testimony that job titles were selected in MERIC
12 based on Indian Hills' status of financing. OPC has taken into consideration the total size of
13 all First Round subsidiaries to determine the amount of salary appropriate to be recovered in
14 rates from ratepayers for the position of Mr. Cox.

15 **Q. Indian Hills witness Mr. Thomas states in his rebuttal testimony, "For example, Ms.**
16 **Roth states that if Mr. Cox aggregates more systems or receives different financing, then**
17 **OPC would consider reviewing Mr. Cox's position title." Does OPC agree with this**
18 **statement?**

19 A. In part. Once again, OPC did not state anywhere in direct testimony that OPC would review
20 Mr. Cox's title again if different financing was received. However, OPC did state, "If the
21 acquisitions are approved in the future as to begins to 'aggregate more systems,' and if the
22 total customer count of all systems reaches 8,000 customers or more, OPC will consider
23 reviewing the position title of Mr. Cox." OPC believes that when First Round, as a whole, is
24 eligible to be defined as anything greater than a small utility, as defined under statute 4 CSR
25 240-3.050, then OPC would consider using the job title typically associated with an employee
26 of a larger utility.

1 **Q. Indian Hills witness Mr. Macias also states in his rebuttal testimony, “Ms. Roth**
2 **incorrectly tries to create job classifications based on her opinion of the company size**
3 **and her opinion of company performance. Ms. Roth then arbitrary assigns a mean**
4 **salary level which has no connection to actual salaries paid by the firm.” Please respond**
5 **to Mr. Macias’ statement.**

6 A. OPC has not “created” job classifications. OPC has accepted positions chosen by Staff for all
7 employees, except for Mr. Cox, which has been previously discussed. Also, OPC has applied
8 mean salary levels based on First Round employee experience in the regulated utility industry.
9 As indicated in my rebuttal testimony, each employee of First Round has approximately three
10 and a half years or less of experience in the regulated utility industry. First Round employees
11 can pay themselves any salary amount they choose; however, it is the Commission’s job to
12 select a salary ratepayer’s should be responsible for in rates. It is unheard of for a small utility
13 President/General and Operations Manager to pay himself an annual salary of ** **
14 per year.

15 **Q. Does OPC believe Indian Hills witnesses, Mr. Thomas and Mr. Macias, is considering**
16 **all relevant factors when taking into consideration the amount of employee salaries**
17 **ratepayers should be responsible for?**

18 A. No. Both witnesses indicate in rebuttal testimony that MERIC data is based on job
19 responsibilities, so this is the only factor for consideration when using a MERIC job title.
20 Neither witness takes into consideration the size of Indian Hills or all of First Round’s
21 subsidiaries as a whole or the experience of each employee in the regulated utility industry.
22 Both are also very important factors when determining the amount of payroll ratepayers
23 should be responsible for, and should be taken into consideration in addition to MERIC.
24 There is a reason there is a definition of a small utility, and there is a reason there is a small
25 utility rate case procedure, in which Indian Hills is proceeding under.

1 **Q. Staff witness Ms. Sarver indicates in her rebuttal testimony that Staff is opposed to using**
2 **the EPI (Employment Cost Index) inflation rate to adjust salaries any further than what**
3 **MERIC has indicated. Ms. Sarver goes on to say this same issue was ruled on by the**
4 **Commission in the Hillcrest rate case, and the Company has provided no new evidence**
5 **to support its recommendation to use the EPI inflation factor in the current case. Does**
6 **OPC recognize a flaw in Staff's recommendation?**

7 A. Yes. In Ms. Sarver's rebuttal testimony on page 7, lines 15 - 18, she cites the Commission's
8 *Report and Order* from the Hillcrest rate case:

9 The Employment Cost Index inflation rates should not be applied in
10 setting the labor costs in this case. The data that Staff used for MERIC
11 was taken from calendar year 2014, so at the end of the update period
12 in this case the data was less than one year old.

13 Staff is recommending in the current case to use data in MERIC from years 2013 through
14 2015 with no EPI inflation factor added. Staff has indicated fluctuation in MERIC salary
15 ranges during 2013 through 2016 and therefore believes it is appropriate to use averages. This
16 is the opposite of what Staff recommended in the Hillcrest rate case. If Staff's methodology
17 is utilized in the current case, it would make sense to add the inflation factor to data that is
18 anywhere from 1-3 years old. However, OPC believes it is appropriate to utilize the same
19 methodology as approved by the Commission in the Hillcrest *Report and Order*. OPC
20 recommends using the most recent available 2016 data in MERIC with no inflation factor,
21 since the 2016 data is less than one year old as of the end of the test year March 31, 2017 in
22 the current case.

23 **VII. RATE CASE EXPENSE**

24 **Q. How has Indian Hills proposed to treat rate case expense in this case?**

25 A. The Company proposes to normalize rate case expense over three years, as stated in Mr. Cox's
26 direct testimony.

1 **Q. Does OPC have concerns with the rate case expense incurred by Indian Hills?**

2 A. Yes, in particular, the hourly rate charged by one of Indian Hills' consultants. The hourly rate
3 charged is much higher than typically seen of hourly rates charged by other consultants in
4 utility rate case proceedings, even with large utility companies.

5 **Q. Has OPC received copies of invoices from all consultants hired by Indian Hills?**

6 A. No. At the time this testimony is written, OPC has outstanding data requests that have not
7 been answered and has not received an update of rate case expense incurred.

8 **Q. Is it possible other Indian Hills consultants are charging unusually high hourly rates?**

9 A. Yes. If that is determined to be true, OPC will take issue with those rates as well.

10 **Q. Is it typical for a small water or sewer company to hire capital structure and capital cost**
11 **consultants for assistance in a small general rate case?**

12 A. No, it is highly unusual.

13 **Q. How does OPC propose to treat rate case expense in this case?**

14 A. OPC proposes to normalize rate case expense associated with attorney fees and customer
15 notices over a three-year period.

16 **Q. Is OPC proposing a separate amortization for the rate case expenses related to the**
17 **Company's hired consultants?**

18 A. Yes. As stated previously, OPC has great concern relating to the high hourly rate charged by
19 one of Indian Hills' consultants. OPC does not believe this high rate should be recovered by
20 ratepayers. OPC recommends ratepayers should be responsible for an hourly rate charged by
21 consultants of no more than \$250 per hour. OPC has reviewed hourly rates of consultants
22 among other general rate cases and has provided an overview in Schedule KNR-3, which has

1 been marked Confidential. After review, OPC believes no more than \$250 per hour is
2 reasonable for a small utility. However, OPC reserves its right to change this recommendation
3 and its recommendation relating to rate case expense amortization once additional information
4 relating to outstanding data requests has been reviewed.

5 Additionally, because it is highly unusual for a small water or sewer company to hire capital
6 structure and capital cost components for a small general rate case, a different amortization
7 period for these highly unusual expenses is necessary. For these specific reasons, OPC
8 proposes a five-year amortization period.

9 **Q. Does this conclude your surrebuttal testimony?**

10 A. Yes.

WR-2017-0259

INDIAN HILLS UTILITY
OPERATING COMPANY, INC.

Schedule KNR-1

has been deemed

“Confidential”

in its Entirety

CSWR Organizational Chart

President

Josiah Cox—Lead and direct overall company strategy and direction, contact for financial regulatory compliance (PSC, OPC) and environmental regulatory compliance (MDNR, Attorney General), and director of all financing activities including debt and equity raises.

Vice-President

Todd Thomas – Responsible for utility acquisitions; construction and engineering management, third party contractor acquisition/contract negotiation/management, contact for financial regulatory compliance (PSC, OPC) and environmental regulatory compliance (MDNR, Attorney General).

Chief Financial Officer

Phil Macias – Establish and maintain a companywide financial accounting system, directly responsible for utility audits and annual accounting audits; interface directly with utility financial regulators to help CSWR manage customer rate increases.

Senior Accountant

Yolanda Rousseau – Maintain utility NARUC accounting system, help create and maintain a long-term companywide financial operations program both at the utility and corporate level.

Accountant

Daniel Janowiak – Maintain on-going AP/AR records. Assist Senior Accountant and CFO in ongoing financial accounting and reporting.

Manager Customer Service

Brenda Eaves – Establish and direct overall company office operations, direct final customer late pay and disconnect programs, interface with customer service contractors.

Operations Contractor

Midwest Water Operations, LLC - Ben Kuenzel

Billing Services Contractor

Nitor Billing Services, LLC - Nancy Peterman

WR-2017-0259

INDIAN HILLS UTILITY
OPERATING COMPANY, INC.

Schedule KNR-3

has been deemed

“Confidential”

in its Entirety