

Exhibit No.:
Issue(s): *Capital Accounting/
Rate Case Expense*
Witness: *Matthew R. Young*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *SR-2016-0202*
Date Testimony Prepared: *October 13, 2016*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARMENT

REBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

RACCOON CREEK UTILITY OPERATING COMPANY, INC.

CASE NO. SR-2016-0202

Jefferson City, Missouri
October 2016

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**TABLE OF CONTENTS OF
REBUTTAL TESTIMONY
OF
MATTHEW R. YOUNG
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LAND AND LAND RIGHT COSTS	1
RATE CASE EXPENSE	3

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23

OF

MATTHEW R. YOUNG

RACCOON CREEK UTILITY OPERATING COMPANY, INC.

CASE NO. SR-2016-0202

Q. Please state your name and business address.

A. Matthew R. Young, Fletcher Daniels State Office Building, 615 East 13th Street, Room G-8, Kansas City, Missouri 64106.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (“Commission”).

Q. Have you previously filed testimony before the Commission?

A. Yes. Schedule MRY-r1 provides the detail of my education background and my work experience while at the Commission.

Q. What is the purpose of your rebuttal testimony?

A. I am responding to the direct testimony of The Office of Public Counsel (“Public Counsel”) witness Keri Roth on the issue of accounting for organizational costs and discussing an issue on rate case expense that was raised by Raccoon Creek Utility Operating Company, Inc.’s (“Raccoon Creek”) direct testimony.

LAND AND LAND RIGHT COSTS

Q. Can you please summarize Public Counsel's position on this issue?

A. On Schedule KNR-6 of her direct testimony, Ms. Roth identifies approximately \$94,000 of invoices that Public Counsel believes should be capitalized in

1 Account 301 – Organizational Costs - and amortized over ten (10) years. These invoices are
2 related to legal fees associated with the closing on the purchase of the Raccoon Creek
3 properties and work done obtaining the titles to the three sewer systems, formally known as
4 West 16th Street Sewer Company, WPC Sewer Company, and Village Water and Sewer
5 Company.

6 Q. Did Staff also capitalize any of these costs to Account 301?

7 A. Yes. Of the costs identified by Public Counsel, Staff categorized
8 approximately 24% of the expenditures as Organizational Costs that should be charged to
9 Account 301. These costs, related to the legal incorporation of Raccoon Creek, were
10 amortized over ten years in Staff's revenue requirement. Of the remaining costs, Staff booked
11 approximately 71% of the legal fees identified by Public Counsel to Account 370 – Land and
12 Land Rights. The remaining 5% is spread across Raccoon Creek's various plant accounts.

13 Q. Does the Uniform System of Accounts (USOA) give guidance for the type of
14 costs to book to Land and Land Rights?

15 A. Yes. The Class C & D USOA for sewer utilities, as adopted by the
16 Commission, provides a description of Land and Land Rights in Utility Plant Instruction
17 No. 6¹, attached as Schedule MRY-r2. Paragraph (I) of that instruction goes on to list "items
18 of cost to be included in the accounts for land and land rights." Of the list of items, Staff used
19 item numbers 13 and 22, quoted below, as guidance to classify the majority of the legal
20 expense in question as Land and Land Rights:

21 13. Title, examining, clearing, insuring and registering in
22 connection with the acquisition and defending against claims
23 relating to the period prior to the acquisition.

¹ Utility Plant Instruction No. 6 attached as Schedule MRY-r2.

1 22. Labor and expenses in connection with securing rights of way,
2 where performed by company employees and company agents.

3 Q. What services were performed that lead to Staff's recommended treatment of a
4 portion of these costs as pertaining to land and land rights?

5 A. The detail of work contained in the invoices describe duties related to the
6 review of title policy documents, correspondence to and from title companies, obtaining title
7 insurance, obtaining and reviewing plats for Raccoon Creek's service areas, requesting
8 easements in the service area, identifying possible encroachments, and ensuring Raccoon
9 Creek obtained all necessary rights to the existing sewer system upon purchase.

10 Q. What is the correct accounting treatment for these expenses?

11 A. Account 370 – Land and Land Rights is the correct account for these capital
12 costs. Staff found that overall, these expenditures were incurred to ensure that Raccoon Creek
13 obtained the legal rights to the property it was acquiring and limited Raccoon Creek's
14 possible liabilities associated with the geographical location of the sewer systems. The
15 guidance found in the USOA for land and land rights is the most descriptive of these costs.

16 Q. What is the revenue requirement treatment recommended by Staff for costs
17 charged to Account 370?

18 A. Staff's recommendation for Account 370 is to include these costs as an
19 addition to rate base and assign a 0% depreciation rate to this account. Because Account 370
20 is not incurring depreciation expense, costs included in this account do not affect the income
21 statement.

22 **RATE CASE EXPENSE**

23 Q. Can you describe the issue on rate case expense?

1 A. Yes. Staff became aware of three additional Company witnesses, Messrs.
2 Dylan W. D'Ascendis, Michael E. Thaman, Sr., and Phil Kain, at the time of Raccoon
3 Creek's direct testimony filing. The issue related to rate case expense raised by these new
4 witnesses is: what portion of the costs associated with filing the testimony of these witnesses
5 should be charged to Raccoon Creek's ratepayers?

6 Q. What subject matter did these witnesses provide testimony on?

7 A. Mr. D'Ascendis, whose office is headquartered in Massachusetts, provides
8 testimony on Raccoon Creek's capital structure and cost of equity. Messrs. Thaman
9 (headquartered in St. Louis, MO) and Kain (headquartered in Chicago, IL) provide testimony
10 on Raccoon Creek's cost of debt. All of these witnesses are outside consultants and are not
11 employees of Raccoon Creek or affiliated entities of Raccoon Creek.

12 Q. Are you aware at this time of the amount of fees charged to Raccoon Creek by
13 these three witnesses?

14 A. No. I was unaware of the participation of these witnesses in the case until the
15 Company's filing of direct testimony so I have not made any inquiries regarding their fees to
16 date. Furthermore, Staff has not received any related invoices in support of Raccoon Creek's
17 rate case expense, to date. Staff will review rate case expense invoices as they are provided
18 by Raccoon Creek.

19 Q. Does Staff take issue on the prudence of Raccoon Creek's decision to file
20 testimony from these witnesses?

21 A. Yes. The work products of Messrs. Thaman and Kain are nearly identical in
22 format and substance. The costs incurred to produce the work products of Mr. Thaman and
23 Mr. Kain are clearly duplicative in nature, and accordingly are an imprudent expenditure.

1 Q. What is Staff's recommended treatment of the costs incurred for the
2 testimonies of the three outside consultants?

3 A. Staff recommends that the cost of either Mr. Thaman or Mr. Kain be excluded
4 from rates due to their duplicative work product. The costs to be excluded from rates should
5 be the cost of the more expensive consultant of the two witnesses. Staff further recommends
6 that the remaining consultant, Mr. Thaman or Mr. Kain but not both, and the cost for
7 Mr. D'Ascendis be totaled and subject to rate case expense "sharing." The remaining costs
8 for the two witnesses should be shared between ratepayers and the Company based on the
9 relationship between the amount of the rate increase approved by the Commission to the
10 amount of the increase requested by the Company. This calculation of rate case expense to
11 include in base rates is mechanically identical to the rate case expense sharing mechanism
12 ordered by the Commission in the recent Kansas City Power & Light rate case, Case No.
13 ER-2014-0370.

14 Q. Why is rate case expense sharing appropriate?

15 A. Sharing rate case expense between customers and the Company recognizes the
16 benefits of a rate case received by both groups. Rate cases are sometimes necessary for
17 customers to enjoy utility services that are safe and adequate but, at the same time, rate cases
18 benefit utilities in the form of increased profit. In this rate case, the costs in question clearly
19 were incurred primarily for the Company's benefit as evidenced by the subject matter of the
20 consultants' testimony, Raccoon Creek's cost of capital and overall capital structure. These
21 two issues concern important components of the calculation of Raccoon Creek's authorized
22 rate of return on its investment in rate base. Since the cost of defending these issues does not

1 wholly benefit the ratepayers, it is appropriate to assign a portion of these costs to Raccoon
2 Creek.

3 Q. Has Raccoon Creek provided invoices for rate case expense in this case?

4 A. No. While Raccoon Creek has provided invoices for various legal expenses,
5 Staff has not received invoices from the Company containing sufficient information to
6 support costs incurred to process this rate case. During the most recent meeting between
7 Staff, Raccoon Creek, and Public Council, Staff requested that the Company provide all
8 invoices pertaining to the costs that the Company has incurred to process this rate case. To
9 date, the Company has not provided any invoices to Staff for rate case expense.

10 Q. Has Staff included any rate case expense in its revenue requirement
11 recommendation at this time?

12 A. No. Since Staff has not received any invoices from Raccoon Creek, it has been
13 unable to perform an audit of rate case expenditures. Staff did not exclude, or include, rate
14 case expense because no expense was ever supported by the Company. However, Staff has
15 included a normalized amount of legal expense in its revenue requirement. To the extent that
16 rate case costs are embedded in Raccoon Creek's legal expenses, Staff has embedded rate
17 case costs in its normalized amount of legal expense.

18 Q. Does Staff agree with the following statement on page 37, lines 8 - 12 in
19 Mr. Cox's Direct Testimony?

20 Raccoon Creek has expenses, such as those related to the
21 individual customer notices it provides. It also has incurred
22 attorney's fees associated with the processing of this case.
23 Raccoon Creek has provided Staff with copies of the invoices
24 associated with this case that have been received thus far. Raccoon
25 Creek will continue to provide those invoices as they are received
26 in the future.

1 A. Staff agrees that the Company has incurred expenses. However, Staff
2 disagrees that the Company has provided any invoices for rate case expense thus far.

3 Q. Page 37, line 15 through page 38, line 2 in Josiah Cox's direct testimony states
4 the following:

5 The Company is incurring rate case expense in order to bring the
6 matters in dispute before the Commission. These expenses are
7 reasonable. Accordingly, an allowance for rate case expense
8 (normalized over three years) should be included in the revenue
9 requirement in this proceeding that includes invoices of Raccoon
10 Creek's attorney and expenses related to the rate case (such as
11 those associated with customer notices). The Commission should
12 bring these expenses forward to a date that will allow the majority
13 of costs to be captured in the Commission's order, such as a cut-off
14 date of at least one week after the filing of post-hearing briefs.

15 Does Staff agree with this position?

16 A. No, not at this time. In the Auditing Unit Recommendation Memorandum that
17 was attached to Staff and the Company's *Partial Disposition Agreement* that was filed on
18 August 30, 2016, Staff did recommend a three-year normalization period for rate case
19 expense. However, Staff is now amending its recommendation for a normalization period
20 from a three-year period to a five-year period. Again, Staff was unaware of Raccoon Creek's
21 decision to obtain the services of outside consultants when it recommended a three-year
22 normalization period. The costs associated with these witnesses, even after considering
23 Staff's recommended exclusion of one witness and the sharing of costs for the other two
24 witnesses, likely will materially add to the already sizeable rate increase charged to
25 Raccoon Creek's customers due to the recent plant additions and system improvements made
26 to the utility systems. For this reason, a lengthened normalization period for rate case expense
27 is appropriate as a rate increase mitigation measure.

1 Regarding Mr. Cox's proposal on the cut-off date for rate case expenses, Staff is
2 concerned about the timely submission of rate case expense support. For the remainder of
3 this case, so long as the Company submits invoices supporting rate case expense to Staff as
4 soon as those invoices are received, Staff will support a cut-off date of one-week after the
5 filing of reply briefs.

6 Q. Does this conclude your rebuttal testimony?

7 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of a Rate)
Increase for Raccoon Creek Utility Operating)
Company Inc.) Case No. SR-2016-0202

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony and that the same is true and correct according to his best knowledge and belief.

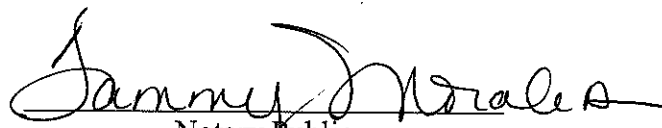
Further the Affiant sayeth not.



MATTHEW R. YOUNG

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 12th day of October, 2016.



Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

Matthew R. Young

Educational and Employment Background and Credentials

I am currently employed as a Utility Regulatory Auditor for the Missouri Public Service Commission ("Commission"). I earned a Bachelor of Liberal Arts from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Commission since July 2013.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

Case/Tracking Number	Company Name- Type of Case; Issues
SR-2016-0202	Raccoon Creek Utility Operating Company – Rate Case; Rate Base.
ER-2016-0156	KCP&L Greater Missouri Operations – Rate Case; Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Injuries and Damages, Insurance Expense, Property Tax Expense, Rate Case Expense.
SR-2016-0112	Cannon Home Association – Rate Case; Revenues and Expenses, Rate Base.
WR-2016-0109 SR-2016-0110	Roy-L Utilities – Rate Case; Revenues and Expenses, Rate Base.
WO-2016-0098	Missouri American Water Company – ISRS; ISRS Revenues.
WR-2015-0246	Raytown Water Company – Rate Case; Revenues and Expenses, Rate Base.
SC-2015-0152	Central Rivers Wastewater Utility – Complaint; Verification of amounts identified in Complaint.

Matthew R. Young

Case/Tracking Number	Company Name- Type of Case; Issues
WR-2015-0104	Spokane Highlands Water Company – Rate Case; Revenues and Expenses, Rate Base.
GR-2015-0026	Laclede Gas Company – ISRS; Plant Additions and Retirements, Contributions in Aid of Construction.
GR-2015-0025	Missouri Gas Energy – ISRS; Plant Additions and Retirements, Contributions in Aid of Construction.
WR-2015-0020	Gascony Water Company – Rate Case; Revenues and Expenses, Rate Base.
SM-2015-0014	Raccoon Creek Utility Operating Company – Sale Case; Rate Base, Acquisition Premium.
ER-2014-0370	Kansas City Power & Light – Rate Case; Injuries & Damages, Insurance, Payroll, Payroll Benefits, Payroll Taxes, Property Taxes, Rate Case Expense.
SR-2014-0247	Central Rivers Wastewater Utility – Rate Case; Revenues and Expenses, Rate Base, Affiliated Transactions.
HR-2014-0066	Veolia Energy Kansas City – Rate Case; Payroll, Payroll Benefits, Payroll Taxes, Bonus Compensation, Property Taxes, Insurance Expense, Injuries & Damages Expense, Outside Services, Rate Case Expense.
GO-2014-0179	Missouri Gas Energy – ISRS; Plant Additions, Contributions in Aid of Construction.
GR-2014-0007	Missouri Gas Energy – Rate Case; Advertising & Promotional Items, Dues and Donations, Lobbying Expense, Miscellaneous Expenses, PSC Assessment, Plant in Service, Depreciation Expense, Depreciation Reserve, Prepayments, Materials & Supplies, Customer Advances, Customer Deposits, Interest on Customer Deposits.
SA-2014-0005	Central Rivers Wastewater Utility – Certificate Case; Revenue and Expenses, Plant in Service, Depreciation Reserve. Other Rate Base Items.

UTILITY PLANT INSTRUCTIONS

E. In connection with the acquisition of utility plant constituting an operating unit or system, the utility shall procure, if possible, all existing records relating to the property acquired, or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own construction.

F. When utility plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in account 108, Utility Plant Acquisition Adjustments, and the amounts (estimated if not known) carried with respect thereto in the accounts for accumulated provision for depreciation and amortization and in account 252, Advances for Construction, and account 271, Contributions in Aid of Construction, shall be charged to such accounts and the contra entries made to account 106, Utility Plant Purchased or Sold. Unless otherwise ordered by the Commission, the difference, if any, between (a) the net amount of debits and credits and (b) the consideration received for the property (less commissions and other expenses of making the sale) shall be included in account 422, Gains (Losses) From Disposition of Property. (See account 106, Utility Plant Purchased or Sold.)

Note. - In cases where existing utilities merge or consolidate because of financial or operating reasons or statutory requirements rather than as a means of transferring title of purchased properties to a new owner, the accounts of the constituent utilities, with the approval of the Commission, may be combined. In the event original cost has not been determined, the resulting utility shall proceed to determine such cost as outlined herein.

5. Expenditures on Leased Property.

A. The cost of substantial initial improvements (including repairs, rearrangements, additions and betterments) made in the course of preparing for utility service property leased for a period of more than one year, and the cost of subsequent substantial additions, replacements, or betterments to such property, shall be charged to the utility plant account appropriate for the class of property leased. If the service life of the improvements is terminable by action of the lease, then the cost, less net salvage, of the improvements shall be spread over the life of the lease by charges to account 404, Amortization of Limited-Term Utility Plant. However, if the service life is not terminated by action of the lease, but by depreciation proper, then the cost of the improvements, less net salvage, shall be accounted for as depreciable plant.

B. If improvements made to property leased for a period of more than one year are of relatively minor cost, or if the lease is for a period of not more than one year, the cost of the improvements shall be charged to the account in which the rent is included.

6. Land and Land Rights.

A. The accounts for land and land rights include the cost of land owned in fee by the utility and rights, interests, and privileges held by the utility in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights of way, and other like interests in land. Do not include in the accounts for land and land rights and

UTILITY PLANT INSTRUCTIONS

17

rights of way costs incurred in connection with first clearing and grading of land and rights of way and the damage costs associated with the construction and installation of plant. Such costs shall be included in the appropriate plant accounts directly benefited.

B. Where special assessments for public improvements provide for deferred payments, the full amount of the assessments shall be charged to the appropriate land account and the unpaid balance shall be carried in an appropriate liability account. Interest on unpaid balances shall be charged to the appropriate interest account. If any part of the cost of public improvements is included in the general tax levy, the amount thereof shall be charged to the appropriate tax account.

C. The net profit from the sale of timber, cord wood, sand, gravel, other resources, or other property acquired with the rights of way or other lands shall be credited to the appropriate plant account to which related. Where land is held for a considerable period of time and timber and other natural resources on the land at the time of purchase increases in value, the net profit (after giving effect to the cost of the natural resources) from the sales of timber or its products or other natural resources shall be credited to the appropriate utility operating income account or account 421, Miscellaneous Non-operating Income, as appropriate.

D. Separate entries shall be made for the acquisition, transfer or retirement of each parcel of land, and each land right (except rights of way for distribution lines), or water right, having a life of more than one year. A record shall be maintained showing the nature of ownership, full legal description, area, map reference, purpose for which used, city, county, and tax district in which situated, from whom purchased or to whom sold, payment given or received, other costs, contract date and number, date of recording or deed, and book and page of record. Entries transferring or retiring land or land rights shall refer to the original entry recording its acquisition.

E. Any difference between the amount received from the sale of land or land rights, less agents' commissions and other costs incident to the sale, and the book cost of such land or rights, shall be included in account 422, Gains (Losses) from Disposition of Property, unless a reserve therefor has been authorized and provided or, unless otherwise authorized or required by the Commission. Appropriate adjustments of the accounts shall be made with respect to any structures or improvements located on land sold.

F. The cost of buildings and other improvements (other than public improvements) shall not be included in the land accounts. If at the time of acquisition of an interest in land, such interest extends to buildings or other improvements (other than public improvements), which are then devoted to utility operations, the land and improvements shall be separately appraised and the cost allocated to land and buildings or improvements on the basis of the appraisals. If the improvements are removed or wrecked without being used in operations, the cost of removing or wrecking shall be charged and the salvage credited to the account in which the cost of the land is recorded.

G. When the purchase of land for utility operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in account 105, Property Held for Future Use,

18

UTILITY PLANT INSTRUCTIONS

or account 121, Nonutility Property, as appropriate.

H. Provision shall be made for amortizing amounts carried in the accounts for limited-term interests in land so as to apportion equitably the cost of each interest over the life thereof. (See account 404, Amortization of Limited-Term Utility Plant.)

I. The items of cost to be included in the accounts for land and land rights are as follows:

1. Bulkheads, buried, not requiring maintenance or replacement.
2. Cost, first, of acquisition including mortgages and other liens assumed (but not subsequent interest thereon).
3. Condemnation proceedings, including court and counsel costs.
4. Consents and abutting damages, payment for.
5. Conveyancers' and notaries' fees.
6. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land or land rights.
7. Leases, cost of voiding upon purchase to secure possession of land.
8. Removing, relocating, or reconstructing property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession.
9. Retaining walls unless identified with structures.
10. Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements, and other public improvements, but not taxes levied to provide for the maintenance of such improvements.
11. Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.
12. Taxes assumed, accrued to date of transfer of title.
13. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition.
14. Appraisals prior to closing title.
15. Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax.
16. Filing satisfaction of mortgage.
17. Documentary stamps.
18. Photographs of property at acquisition.
19. Fees and expenses incurred in the acquisition of water rights and grants.
20. Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure.
21. Sidewalks and curbs constructed by the utility on public property.
22. Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

7. Structures and Improvements.

A. The accounts for structures and improvements include the cost of all