

Exhibit No. \_\_\_\_\_  
Issue: Property Tax, Cost of Capital, Account  
301, Corporate Allocation Facto, Payroll, Rate  
Design, Bad Debt, Rate Case Expense  
Witness: Josiah Cox  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Raccoon Creek  
Case No.: SR-2016-0202  
Date: October 13, 2016

**Missouri Public Service Commission**

**Rebuttal Testimony**

**of**

**Josiah Cox**

**On Behalf of**

**Raccoon Creek Utility Operating Company, Inc.**

**October 13, 2016**

**AFFIDAVIT**

STATE OF MISSOURI     )  
                                      )  
COUNTY OF St Louis    )     ss

I, Josiah Cox, state that I am the President of Raccoon Creek Utility Operating Company, Inc. and, that the answers to the questions posed in the attached Rebuttal Testimony are true to the best of my knowledge, information and belief.

  
\_\_\_\_\_

Subscribed and sworn to before me this 13 day of October, 2016.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: may 20, 2019



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**REBUTTAL TESTIMONY OF  
JOSIAH COX  
RACCOON CREEK UTILITY OPERATING COMPANY, INC.**

**WITNESS INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Josiah Cox. My business address is 500 Northwest Plaza Drive  
Suite 500. St. Ann MO, 63074

**Q. ARE YOU THE SAME JOSIAH COX THAT PREVIOUSLY PROVIDED DIRECT  
TESTIMONY IN THIS CASE ON BEHALF OF RACCOON CREEK UTILITY  
OPERATING COMPANY, INC. (RACCOON CREEK OR COMPANY)?**

A. Yes, I am.

**PURPOSE**

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

A. I will respond to certain aspects of the direct testimony of the Staff of the Public  
Service Commission (Staff) and the Office of the Public Counsel (OPC) as to the  
following issues: (1) Property Taxes; (2) Cost of Capital (Debt); (3) Account 301 –  
Organization Costs; (4) Payroll; (5) Rate Design; (6) Bad Debt; (7) Rate Case  
Expense; and, (8) Local Public Hearing.

**PROPERTY TAXES**

**Q. HOW DID THE STAFF AND OPC TREAT PROPERTY TAXES FOR RACCOON CREEK?**

A. Both Staff Witness Harrison (Dir., p. 15-16) and OPC Witness Roth (Supp. Dir., p. 10-11) included approximately \$870 for property taxes.

**Q. WHAT DO THESE TAX AMOUNTS RELATE TO?**

A. These tax amounts relate to property as it existed on January 1, 2015.

**Q. HAD THE CHARACTER OF THE COMPANY'S PROPERTY CHANGED BY JANUARY 1, 2016?**

A. Yes. By January 1, 2016, Raccoon Creek had invested approximately \$1.406 million dollars in plant improvements.

**Q. WILL THE TAXES PAID THIS FALL BY RACCOON CREEK BE DIFFERENT THAN WHAT WAS PAID IN 2015?**

A. Yes, significantly so. In my Direct Testimony, I provided documents from Pettis County identifying the taxes that Raccoon Creek will be required to pay in that county for the former WPC and WSS systems.

**Q. AT THAT TIME YOU DID NOT HAVE SIMILAR DOCUMENTS FOR JOHNSON COUNTY. HAVE YOU SINCE RECEIVED SOMETHING CONCERNING JOHNSON COUNTY?**

A. Yes. Attached as **Rebuttal Schedule JC-1** is a notice from the Johnson County Assessor reflecting that Raccoon Creek's Johnson County property tax liability will be \$3,153.

1 **Q. WHAT AMOUNT SHOULD THE COMMISSION INCLUDE IN RACCOON**  
2 **CREEK'S REVENUE REQUIREMENT FOR PROPERTY TAXES?**

3 A. \$8,357.21 (\$2,730.38 for WSS and \$2,473.83 for WPC in Pettis County; and,  
4 \$3,153 for the Villages in Johnson County).

5  
6 **COST OF CAPITAL (DEBT)**

7 **Q. IN REGARD TO THE COST OF DEBT, OPC WITNESS ROTH (SUPP. DIR., P.**  
8 **11-12) SUGGESTS THAT IT IS INAPPROPRIATE TO UTILIZE THE 14% DEBT**  
9 **COST BECAUSE "THIS RATE WAS NOT NEGOTIATED AT ARM'S LENGTH"**  
10 **IN THAT THE GLARNERS HAVE OWNERSHIP INTERESTS IN BOTH THE**  
11 **EQUITY HOLDER AND THE CREDITOR. WHEN WAS THE 14% RATE**  
12 **NEGOTIATED?**

13 A. We initially negotiated this rate in 2014 with CSWR's original investor group that  
14 was based in California. Raccoon Creek received the Commission authorization  
15 to enter into the financing agreement by the Commission's Order Regarding  
16 Stipulation and Agreement and Certificate of Convenience and Necessity in File  
17 No. SM-2015-0014, issued November 24, 2014. These original investors were  
18 replaced by the Glarners' entities in March of 2015. Due to the factors previously  
19 discussed - Raccoon Creek has been unable to obtain lower financing.

20 **Q. HAVE YOU CONTINUED TO SEARCH FOR LOWER RATES?**

21 A. Yes. As indicated in my Direct Testimony, I have continued to meet with banks,  
22 mezzanine debt groups, private equity groups, and other financial services

1 companies in an attempt to lower rates. We have met with 57 capital groups to  
2 date, including 19 capital groups and seven banks since March of 2015.

3 **Q. IS THERE OTHER EVIDENCE THAT THE 14% RATE IS REASONABLE,**  
4 **GIVEN THE SPECIFIC CIRCUMSTANCES?**

5 A. Yes. Raccoon Creek has provided Direct Testimony from Phil Kain and Michael  
6 E. Thaman, Sr. explaining why those witnesses believe that 14% is a reasonable  
7 rate, given the circumstances surrounding Raccoon Creek.

8  
9 **ACCOUNT 301 – ORGANIZATION COSTS**

10 **Q. OPC WITNESS ROTH (SUPP. DIR., P. 14) ALLEGES THAT THERE ARE**  
11 **CERTAIN INVOICES “RELATED TO ORGANIZATION COSTS THAT STAFF**  
12 **HAS ALLOCATED TO SEVERAL OTHER ACCOUNTS.” SHE RECOMMENDS**  
13 **THAT THESE INVOICES (LISTED ON SCHED. KNR-6) BE INSTEAD**  
14 **INCLUDED IN ACCOUNT 301 AND AMORTIZED OVER A TEN YEAR**  
15 **PERIOD. HOW DO YOU RESPOND TO THIS RECOMMENDATION?**

16 A. Each invoice mentioned is directly attached to the development of infrastructure  
17 improvements. Both the Staff and the Company correctly allocate these invoices  
18 across the various improvements made by Raccoon Creek. Staff did not include  
19 every invoice surrounding improvements, so the Company believes Staff’s  
20 numbers are a net benefit to the customer.

**CORPORATE ALLOCATION FACTOR**

**Q. WHAT IS THE PURPOSE OF THE CORPORATE ALLOCATION FACTOR IN THIS CASE?**

A. This factor used to allocate costs from Raccoon Creek's ultimate parent, First Round CSWR, LLC, to Raccoon Creek. Because Raccoon Creek has no employees of its own, this includes payroll associated with First Round's employees that provide services for Raccoon Creek as well as a variety of other expenses.

**Q. HOW HAVE STAFF AND OPC TREATED THIS ISSUE?**

A. Staff Witness Harrison (Dir., p. 9) explains that Staff calculated an allocation factor for Raccoon Creek of 17.01% based on a combination of each subsidiaries' construction improvement costs and the number of customers served by each subsidiary. OPC Witness Roth, on the other hand, recommended use of a 13.46% allocation factor (Supp. Dir., p. 3-4).

**Q. WHAT DOES MS. ROTH CLAIM TO USE AS THE BASIS OF HER ALLOCATION FACTOR?**

A. Ms. Roth states that this factor "was calculated by determining the actual percentage of hours spent working on Raccoon Creek by each employee and averaging the percentages." (Supp. Dir., p. 4)

**Q. DID MS. ROTH UTILIZE ALL THE TIME SPENT ON RACCOON CREEK IN HER CALCULATION?**



1 A. No. A review of her Schedule KNR-3 HC reveals that she differentiated between  
2 general Raccoon Creek time and time spent on the Raccoon Creek rate case.

3 **Q. HOW DID MS. ROTH TREAT THE RACCOON CREEK RATE CASE TIME?**

4 A. She ignored it for purposes of her calculation.

5 **Q. IS THAT TIME DIRECT BILLED TO RACCOON CREEK AS RATE CASE**  
6 **EXPENSE?**

7 A. No.

8 **Q. IS IT CAPTURED IN ANY OTHER WAY THAT WOULD LEAD TO**  
9 **THEORETICAL REIMBURSEMENT?**

10 A. No.

11 **Q. IF YOU UTILIZE MS. ROTH'S METHOD, BUT INCLUDE THE RACCOON**  
12 **CREEK RATE CASE TIME, WHAT WOULD BE THE ALLOCATION FACTOR?**

13 A. 24.22%. If more recent timesheets were used this percentage would go up even  
14 further.

15 **Q. RACCOON CREEK IN ITS INITIAL FILINGS UTILIZED AN ALLOCATION**  
16 **FACTOR OF 14%. WHAT WAS THE SOURCE OF THAT FACTOR?**

17 A. It was an estimate based on what the company believed final allocations would  
18 be in the future.

19 **Q. NOW THAT YOU HAVE REVIEWED THE METHODOLOGIES OF STAFF AND**  
20 **OPC, WHAT IS RACCOON CREEK'S POSITION AS TO THE APPROPRIATE**  
21 **ALLOCATION FACTOR?**

22 A. We agree with the Staff' allocation as it more accurately calculated the  
23 organizations' costs across the various systems. Staff's position is similar to

1 other water and sewer utilities, and very conservative considering the amount of  
2 investment CSWR has made and is making in failing water and sewer systems.  
3 With the growth, the organization has already increased staff and thus future  
4 allocation costs will be higher on a dollar basis then OPC suggests in their  
5 estimate of future allocation costs.

6  
7 **PAYROLL**

8 **Q. WHAT IS BEING DONE BY THE PARTIES TO ESTABLISH PAYROLL FOR**  
9 **RACCOON CREEK?**

10 A. Generally, all parties are establishing a level of salaries for the First Round  
11 CSWR, LLC employees and then using the corporate allocation factor described  
12 above to allocate those costs to Raccoon Creek.

13 **Q. HOW HAS STAFF GONE ABOUT ESTABLISHING THE LEVEL OF**  
14 **SALARIES?**

15 A. Staff Witness Harrison (Dir., p. 10-13) has utilized MERIC data and a “mean  
16 experience” level to determine an appropriate salary level for rate making  
17 purposes.

18 **Q. HOW HAS OPC GONE ABOUT ESTABLISHING ITS LEVEL OF SALARIES?**

19 A. OPC Witness Roth (Supp. Dir., p. 4-9) reclassified the titles of Raccoon Creek’s  
20 President and Chief Financial Officer to “General and Operations Manager” and  
21 “Accountants” or Auditors”, respectively, before assigning wages based on the  
22 MERIC data.

23 **Q. WHAT IS MS. ROTH’S REASON FOR THIS CHANGE?**

1 A. She believes that Raccoon Creek, and its affiliates, are basically small utilities  
2 and should therefore only have a general manager and accountant.

3 **Q. IS RACCOON CREEK AND THE FIRST ROUND CSWR, LLC ORGANIZATION**  
4 **A TYPICAL SMALL UTILITY?**

5 A. No. The organization currently has 7 utility systems spread between 3 regulated  
6 utilities in three counties across the state, among which it has deployed over  
7 \$4.406 million toward system improvements. As Ms. Roth mentions, First Round  
8 has contracts for several additional systems around Missouri to which it  
9 estimates it will provide approximately an additional \$5.239 million in acquisitions  
10 and improvements in the next 12 months with additional investment on an  
11 ongoing basis.

12 **Q. WHAT TYPES OF ACTIVITIES IS FIRST ROUND CONDUCTING ON A**  
13 **REGULAR BASIS?**

14 A. I am responsible for utility acquisition work including evaluation of the existing  
15 utility assets for acquisition, determination of existing net book value of  
16 acquisition targets, engineering design/technology selection for new  
17 improvements, property/easement ownership due diligence, meeting with  
18 community stakeholders, construction contractor selection, construction  
19 management, ongoing O&M management including monitoring all plant remote  
20 operations and emergency responses, new utility rate design/pro-forma financial  
21 models, and overall companywide management. CSWR's staff has created  
22 Missouri Department of Natural Resources consumer reporting, such as  
23 consumer water confidence reports, for each system from scratch. CSWR

1 believes this may be the first time some of these systems have ever complied  
2 with basic customer rights in their history. In addition, our staff has built from  
3 scratch what we believe to be the first NARUC to GAAP accounting conversion  
4 for small water and sewer in MO based on current NARUC schedules. Also,  
5 CSWR personnel have built from scratch PSC complaint customer inquiry and  
6 complaint pathways, and for a number of our systems complied, for the first time  
7 according to Missouri One Call Records, with basic One Call utility location laws.  
8 I would say that First Round's constant participation in these types of activities is  
9 far different from what goes on at the small water and sewer companies Ms. Roth  
10 has in mind.

11 **Q. WHAT IS RACCOON CREEK'S POSITION AS TO PAYROLL?**

12 A. Raccoon Creek has agreed, in this rate case for rate making purposes, to accept  
13 the Staff's position.  
14

15 **RATE DESIGN**

16 **Q. OPC WITNESS RUSSO (DIR., P. 5) RECOMMENDS THE USE OF A**  
17 **RESIDENTIAL CLASS AND AN APARTMENT CLASS FOR THE SEWER**  
18 **CUSTOMERS RESIDING IN THE FORMER VILLAGES SERVICE AREA.**  
19 **WHAT IS RACCOON CREEK'S POSITION IN REGARD TO THE**  
20 **ESTABLISHMENT OF AN APARTMENT RATE?**

21 A. Raccoon Creek does not object to Mr. Russo's recommendation to create an  
22 apartment rate.

1 **Q. OPC WITNESS RUSSO FURTHER PROPOSES THAT THE FORMER WPC,**  
2 **WSS, AND VILLAGES SERVICE AREAS BE MAINTAINED AND RECEIVE**  
3 **SEPARATE DISTRICT-SPECIFIC RATES OR, AS ALTERNATIVE, THAT WPC**  
4 **AND WSS BE COMBINED FOR RATE PURPOSES AND VILLAGES BE**  
5 **TREATED SEPARATELY. HOW DO YOU RESPOND TO THIS**  
6 **RECOMMENDATION?**

7 A. I do not think this would be good policy. Both sewer and water service benefit  
8 over the long term from economies of scale. Here, we have three systems  
9 located in a fairly similar geographic area (within 12 miles of one another),  
10 serviced by the same personnel, and utilizing similar treatment processes of a  
11 similar vintage. Rather than essentially treating these operations as 3 separate,  
12 extremely small systems, it seems like better policy to create one rate areas with  
13 the opportunity to spread costs over a broader base and thereby mitigate the  
14 impacts of individual investments.

15 **Q. WOULD A SINGLE RATE BE SIMILAR TO ANY KNOWN RATES IN THE**  
16 **AREA?**

17 A. Yes. Staff calculates that its single rate (without any apartment rates) would be  
18 \$88.50. Public Water Supply District No. 3 of Johnson County, which among  
19 other areas provides sewer service next to the Villages system (and in fact  
20 provides water service to the Villages residents), recently raised its sewer rate to  
21 \$47.00, plus \$8 for each thousand gallons beyond 1,000. In other words, a  
22 person using 6,000 gallons would pay \$87 per month. This rate is associated  
23 with a plant that the Water District only began to construct in the summer of 2016

1 and that will take 18 months to construct. This was also after the Water District  
2 was “very fortunate to receive grants from 3 funding agencies totaling  
3 \$2,616,000” and received a “low interest loan from United State Department of  
4 Agriculture (USDA) Rural Development for \$1,123,000.”  
5 ([http://www.pwsd3.com/Wastewater Treatment Plant Update.pdf](http://www.pwsd3.com/Wastewater_Treatment_Plant_Update.pdf)) .

6 **Q. WHAT RATE DESIGN SHOULD BE USED IN ESTABLISHING RATES FOR**  
7 **RACCOON CREEK?**

8 A. The Commission should utilize one flat monthly rate for all of Racoon Creek’s  
9 customers.

10  
11 **BAD DEBT**

12 **Q. BOTH STAFF WITNESS HARRISON (DIR., P. 14-15) AND OPC WITNESS**  
13 **RUSO (DIR., P. 9-12) SUGGEST THAT THE BAD DEBTS ASSOCIATED**  
14 **WITH THE VILLAGE SYSTEM ARE HIGHER THAN THOSE EXPERIENCED IN**  
15 **THE OTHER TWO SYSTEMS. DO AGREE WITH THAT ANALYSIS?**

16 A. Yes.

17 **Q. HAS RACCOON CREEK DONE ANYTHING TO ADDRESS THIS ISSUE?**

18 A. Yes. On October 1<sup>st</sup> of this year, Racoon Creek entered into a Contact  
19 Agreement with Public Water Supply District No. 3 of Johnson County (PWSD  
20 #3) pursuant to Section 393.015, RSMo. Under that Agreement, PWSD #3  
21 contacts, using their automated phone system, customers in addtion to CSWR  
22 regular contact and PWSD #3 will shut off a customer’s water service, if Racoon  
23 Creek informs it that a sewer bill has not been paid.

1 **Q. WHY IS THAT AN ADVANTAGE FOR COLLECTIONS?**

2 A. Shutting off water service is much less costly and time consuming than a shut off  
3 of sewer service. It also avoids the potential environmental and property  
4 concerns that would be present if a customer's sewer line were disconnected  
5 while that customer was still attempting to flow water to the Racoon Creek plant.  
6 Perhaps of even greater importance has been the more recent utilization of the  
7 water district's contact system, in addition to CSWR regular contact, in  
8 conjunction with water shut offs.

9 **Q. STAFF WITNESS HARRISON (DIR., P. 14) HAS RECOMMENDED THAT**  
10 **RACCOON CREEK'S ACCUMULATED TOTAL OF BAD DEBT (\$3,172) BE**  
11 **REDUCED BY 50% (\$1,586) BECAUSE IT CURRENTLY REFLECTS 2.01**  
12 **PERCENT OF RACCOON CREEK'S CURRENT ANNUALIZED REVENUE**  
13 **LEVEL." IS THE COMPANY'S ACTUAL BAD DEBT COST STILL**  
14 **APPROPRIATE FOR RACCOON CREEK?**

15 A. Yes, as Staff Witness Harrison points out, 1% of total even using OPC's overall  
16 revenue requirement in this rate case, a 1% bad debt cost would be \$4,854.  
17 Therefore, the Company's request for \$3,172 of bad debt is reasonable.

18 **Q. STAFF WITNESS HARRISON SUGGESTS (AND OPC WITNESS RUSSO**  
19 **SUPPORTS) THAT "ON A GOING FORWARD BASIS, RACCOON CREEK**  
20 **CHANGE ITS TARIFFS TO INCLUDE AUTHORITY TO COLLECT CUSTOMER**  
21 **DEPOSITS CONSISTENT WITH WHAT IS PERMITTED BY 4 CSR 240-13.030**  
22 **AND EVALUATE THE BENEFITS OF CHARGING CUSTOMERS DEPOSITS."**  
23 **HOW DO YOU RESPOND TO THAT SUGGESTION?**

1 A. Raccoon Creek is willing to take that step. In fact, Raccoon Creek agreed to  
2 evaluate that step in the Partial Disposition Agreement that was filed with the  
3 Commission.

4 **Q. STAFF WITNESS HARRISON FURTHER SUGGESTS (AND OPC WITNESS**  
5 **RUSO SUPPORTS) THAT IN THE CASE OF AIR FORCE MEMBERS**  
6 **RACCOON CREEK CONTACT WHITEMAN AIR FORCE BASE TO SEE WHAT**  
7 **KIND OF ASSISTANCE MAY BE AVAILABLE THROUGH AIR FORCE**  
8 **CHANNELS. HAVE YOU PURSUED THAT AVENUE?**

9 A. Yes. We have started discussions with Whiteman Air Force Base to explore  
10 what lawful remedies may be available through the Air Force. However, it is  
11 Raccoon Creek's experience that the majority of bad debt expense associated  
12 with the Villages is not necessarily attributable to active duty military personnel,  
13 so this may or may not be helpful.

14  
15 **RATE CASE EXPENSE**

16 **Q. WILL RACCOON CREEK PROVIDE UPDATED COPIES OF ITS RATE CASE**  
17 **EXPENSE INVOICES TO STAFF AND OPC?**

18 A. Yes.  
19

20 **LOCAL PUBLIC HEARING**

21 **Q. DID YOU ATTEND THE LOCAL PUBLIC HEARING THAT WAS HELD IN**  
22 **SEDALIA, MISSOURI, ON OCTOBER 5, 2016?**



1 A. Yes. I answered questions from customers prior to the on-the-record portion of  
2 that hearing and then listened to the comments of the customers that were  
3 provided to the commissioners.

4 **Q. DO YOU HAVE A GENERAL REACTION TO THOSE COMMENTS?**

5 A. We hear and understand the gravity of large rate increases on individual  
6 customers. CSWR has gone to great lengths in preliminary and final engineering  
7 in order to select the most cost effective treatment solutions that will bring these  
8 systems into MDNR regulatory compliance. Further, CSWR completely bid  
9 construction contracts and CSWR bid the contract for qualified contractors to  
10 operate the utilities in an effort to keep costs as low as possible.

11 **Q. AMONG OTHER THINGS, THERE WAS THE MENTION THAT CERTAIN**  
12 **RACCOON CREEK CUSTOMERS HAVE THEIR OWN STEP FORCE MAIN**  
13 **SEPTIC SYSTEM. COULD YOU DESCRIBE WHICH CUSTOMERS THOSE**  
14 **ARE AND WHY?**

15 A. Yes. There are two groups of customers that fall into this category - 1) The  
16 Woodland Lake Estates Subdivision; and, 2) the newer development south of the  
17 Villages at Whiteman. Each of those subdivisions are built at grades that will not  
18 allow for traditional gravity conveyance sewer collection systems.

19 **Q. DOES RACCOON CREEK STILL PROVIDE TREATMENT SERVICES FOR**  
20 **THESE CUSTOMERS?**

21 A. Yes. Even though Racoon Creek receives only the "gray water" form these  
22 customers, Racoon Creek still has a collection system for these customers and

1 treatment is performed by the same treatment plant as is utilized by the other  
2 Villages system customers.

3 **Q. IS THE TREATMENT OF THIS GRAY WATER LESS ONEROUS THAT**  
4 **TREATMENT OF THE WASTE THAT ALSO CONTAINS SOLIDS?**

5 A. No. The majority of treatment costs associated with the most recent set of  
6 MDNR WWTP regulatory compliance standards at Racoon Creek's individual  
7 WWTPs are associated with nutrient removal. Solids removal takes place in old  
8 lagoon via settlement (i.e. gravity) and older mechanical treatment plants via  
9 influent tanks. "Gray water" contains nutrients such as ammonia that are soluble.  
10 The soluble ammonia nutrient removal required to meet MDNR's current  
11 standards requires advanced microbiological treatment as afforded by Racoon  
12 Creek's activated sludge mechanical plant processes or moving bed bioreactors  
13 in association with aerated lagoon systems. As a result, "gray water" comprises  
14 some of the most difficult influent waste that needs treatment by modern WWTPs  
15 to meet current MDNR nutrient removal standards.

16  
17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 A. Yes, it does.