

Exhibit No.: 110
Issue: Auditing and Income Tax
Preparation Fees;
Corporate Allocation;
Corporate Payroll;
Bank Fees

Witness: Ashley Sarver
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WR-2017-0259
Date Testimony Prepared: October 27, 2017

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

ASHLEY SARVER

INDIAN HILLS UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2017-0259

Jefferson City, Missouri
October 2017

Staff Exhibit No. 110
Date 11-27-17 Reporter ~~AS~~
File No. WR-2017-0259

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ASHLEY SARVER
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REBUTTAL TESTIMONY
OF
ASHLEY SARVER
INDIAN HILLS UTILITY OPERATING COMPANY, INC.
CASE NO. WR-2017-0259

Q. Please state your name and business address.

A. Ashley Sarver, Governor Office Building, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Public Service Commission (“Commission”) as a Utility Regulatory Auditor IV in the Auditing Department, Commission Staff Division of the Commission Staff (“Staff”).

Q. Are you the same Ashley Sarver who has previously filed direct testimony in this proceeding?

A. Yes, I am. I previously provided testimony regarding corporate payroll, employee benefits, auditing expense/tax preparation, and customer numbers.

EXECUTIVE SUMMARY

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my testimony is to respond to the direct testimony of Indian Hill Utility Operating Company, Inc. (“Indian Hills” or “Company”) regarding auditing and income tax preparation fees, corporate payroll, and corporate allocations. I will also address The Office of Public Counsel (“OPC”) direct testimony concerning corporate payroll and bank fees.

1 AUDITING AND INCOME TAX PREPARATION FEES

2 Q. What is the Company's position concerning auditing and income tax
3 preparation fees for this case?

4 A. Company witness Josiah Cox states in his direct testimony on page 22,
5 lines 17-18, "The Staff has not included the direct audit and tax preparation fees for
6 Indian Hills, or Indian Hills' pro-rata share of tax and audit fees from Central States."

7 Q. Does Staff agree with this statement?

8 A. No. Staff included an allocated amount in its case for First Round CSWR,
9 LLC (First Round) audit costs and tax preparation fees. The allocated portion was determined
10 by applying Staff's corporate allocation factor of 16.61% to the actual amount of financial
11 auditing costs and tax preparation fees paid by First Round or \$2,242. Staff did not include
12 costs for Indian Hills because Staff did not receive the audited financial statement and
13 invoices for tax preparation.

14 Q. Has Staff received a copy of the audited financial statement ending December
15 31, 2016 for Indian Hills?

16 A. Yes. On October 17, 2017 Staff received the audited financial statements for
17 Indian Hills Utility Holding Company, Inc. and Subsidiary for calendar year December 31,
18 2016.

19 Q. Has Staff updated its auditing cost recommendation since Staff's direct
20 testimony to take this new information into account?

21 A. Yes. After reviewing the invoice and financial statements, Staff is now
22 including \$9,000 for the audit of Indian Hills' financial statements.

23 Q. Has Staff received a copy of the income tax return for 2016 and any invoices
24 for the preparation of such income tax returns for Indian Hills?

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Ashley Sarver

1 A. The Company provided Staff the 2016 tax returns for Indian Hills on October
2 24, 2017; however, Staff has not received any invoices for the tax preparation for Indian
3 Hills. Indian Hills did not have an income tax return filed for 2015 since the Commission
4 authorized the Company to purchase Indian Hills on March 31, 2016.

5 Q. Since Staff's direct testimony was filed, has Staff disallowed any costs related
6 to the auditing fees for First Round financial statements?

7 A. Yes. Staff has disallowed the retainer fees for maintenance of fixed assets and
8 related depreciation schedules and a retainer for assistance in recording of initial purchase
9 transactions of \$1,000.

10 Q. Why is Staff proposing to disallow these retainer fees?

11 A. Staff is unsure of what these fees are for and if they will be incurred again in
12 the future. Staff has submitted data requests to the Company on these matters.

13 Q. What is the total amount for audit services and tax preparation that Staff has
14 included in the cost of service?

15 A. Staff has included the following invoices listed in the table below:

16 **

17 **

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1 Q. What amount for these services is included in Indian Hill's cost of service?

2 A. \$11,076.

3 CORPORATE ALLOCATION

4 Q. What is the Company's position concerning corporate allocation factors to
5 apply for purposes of determining Indian Hills' cost of service?

6 A. Company witness Phil Macias states in his direct testimony on page 8, lines 8
7 through 10, "The Staff uses a corporate allocation factor of 16.5%, based on its interpretation
8 of time sheets instead of the 18% allocation proposed by the Company, based on customers."

9 Q. Does Staff agree with this statement?

10 A. No. Staff actually uses a 16.61% allocation factor. This allocation factor is
11 based on employee time allocated to Indian Hills during the test year.

12 Q. Why did Staff use Central States Water Resources ("CSWR") time sheet
13 hours for the corporate allocation instead of using customer numbers?

14 A. Staff has determined the actual percentage of hours spent working on Indian
15 Hills in the test year by each corporate employee represents a more accurate way to allocate
16 corporate costs than use of an approach that that is based on assumed future number of
17 customers.

18 Q. Mr. Macias goes on to state on page 9, line 21 though page 10, line 1 that:

19 The Staff's model relies on applying accurately recorded labor
20 hours in a 5 step process. While the correct hours are recorded
21 company wide, that information is not used consistently by Staff in
22 step 1 (IH direct hours). Staff uses actual hours for three of six
23 employees, while the remaining three are averaged together.

24 Is this accurate?

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1 A. No. Staff's method is consistent throughout the steps. Staff used the actual
2 hours for Brenda Eaves, Forrest "Todd" Thomas, and Josiah Cox for the 12-months ending
3 March 31, 2017. The hours for the other three positions were averaged together because,
4 during part of the test year, the work performed for Indian Hills was only done by one
5 person. Just because CSWR, the corporate entity, adds more employees doesn't mean that
6 the time needed to perform the required work for Indian Hills should also increase.

7 Q. Does averaging the number of hours for the three employees affect the
8 calculation of the overall corporate allocation factor?

9 A. No. Even though Staff allocates the hours between the three employees, Staff
10 uses the actual total hours worked during the test year in its corporate allocation computation.

11 Q. Mr. Macias then states on page 10, line 4 through 10:

12 Staff calculation Step 3 builds on the result of #2 and applies it
13 against a ratio of total non-regulated company hours over total
14 regulated company hours, by individual. However, the actual ratio
15 used for three of the six positions (a different mix of employees
16 than in steps one or two) is an unsupported value (not linked or
17 agreed to data table or other information supporting the value). The
18 ratios for the remaining employees agree to a supporting data table
19 prepared by Staff.

20 Is this accurate?

21 A. No. As discussed previously in my direct testimony, after interviewing the
22 individual employees, Staff has determined that it is appropriate to use the actual
23 administrative (not directly assigned or indirect) hours recorded for Brenda Eaves, Yolanda
24 Rousseau, and Daniel Janowiak to include in Indian Hills cost of service. However, Staff
25 determined per employee job descriptions and knowledge of the CWSR's acquisition
26 activities that Phil Macias and Todd Thomas should be assumed to work on regulated
27 companies approximately one-third of the time. Therefore, Staff allocated 66.67% of the

1 total indirect hours to regulated operations, with the remainder allocated to non-regulated
2 operations.

3 Q. How did Staff allocate Mr. Cox's indirect time between non-regulated and
4 regulated operations?

5 A. Since Josiah Cox is the President of CSWR, he is responsible for CSWR's
6 extensive acquisition activities related to new water and sewer companies. Staff determined it
7 is reasonable to assume that Mr. Cox spends approximately half of his time on regulated
8 utility operations; therefore, Staff allocated Mr. Cox's indirect hours on a 50/50 basis
9 between regulated and non-regulated.

10 Q. Phil Macias states on page 10 lines 10 through 12, "Staff Step 4 uses the
11 incorrect calculation from #3 and applies it against another ratio (IH hours over total
12 regulated company hours on a First Round – CSWR basis)." Does Staff agree?

13 A. No, as Staff's calculation in Step 3 is reasonable.

14 **CORPORATE PAYROLL**

15 Q. What is the Company's position concerning corporate payroll (salary levels)?

16 A. Company witness Todd Thomas states the following in his direct testimony on
17 page 9, lines 11 through 12, "The Commission should order salaries based on job
18 descriptions and an experienced level for salaries that have been proposed by Indian Hills."

19 Q. Do you agree with the Company that CSWR employees' MERIC level of pay
20 should be established at the "experienced" level instead of the "mean" level?

21 A. No. At the time Staff developed the cost of service for Indian Hills, Josiah
22 Cox and Brenda Eaves had less than three years' experience of operating and running a

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1 regulated utility. The other four employees each had less than a year. These facts alone
2 suggest Staff's proposed "mean" classification for CSWR employees is appropriate.

3 Q. Does Staff agree with Mr. Macias on page 12 lines 17 through 18 of his direct
4 testimony that "the Commission should use EPI (Employment Cost Index) inflation adjusted
5 salaries"?

6 A. No.

7 Q. Is this the same payroll issue that was decided by the Commission in
8 the previous Hillcrest Utility Operating Company, Inc. ("Hillcrest") rate case number
9 WR-2016-0064?

10 A. Yes. Hillcrest is under common management and ownership with Indian
11 Hills.

12 Q. What did the Commission decide in its Report and Order for Hillcrest rate
13 case on this issue?

14 A. The Commission stated on page 15 of its Report and Order for Hillcrest that:

15 The Employment Cost Index inflation rates should not be applied
16 in setting the labor costs in this case. The data that Staff used for
17 MERIC was taken from calendar year 2014, so at the end of the
18 update period in this case the data was less than one year old.
19 Adjusting salaries for inflation is not necessary, and granting this
20 unusual treatment would further increase rates, with little
21 justification, that are already increasing significantly.

22 Q. Has the Company offered any new evidence in this case that would cause
23 Staff to change its position on this issue?

24 A. No.

25 Q. Do the MERIC salaries fluctuate from year to year in the job categories
26 examined?

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1 A. Yes. The table below is an example of how salary fluctuates from year to year
2 using the same job title:

3

MERIC Salaries	Chief Executive (mean)	Financial Manager (mean)
2013	\$171,882	\$138,414
2014	\$158,620	\$134,497
2015	\$169,928	\$138,414
2016	\$179,026	\$148,704

4

5 Q. What is the Company's position regarding the appropriate MERIC job title to
6 apply to CSWR employees to determine payroll expense?

7 A. The following table presents this information:

8

Josiah Cox	Chief Executive
Phil Macias	Financial Manager
Todd Thomas	General and Operations Manager
Brenda Eaves	Customer Service Manager

9

10 Q. Does Staff agree with the Company that Josiah Cox and Phil Macias should
11 be classified as Chief Executive and Financial Manager?

12 A. Yes.

13 Q. Does Staff agree with the Company that Todd Thomas should be classified as
14 General and Operations Manager?

15 A. No. According to the response to Staff Data Request No. 0001,
16 Mr. Thomas' job description states that he is "responsible for utility acquisition;
17 construction and engineering management, third party contractor acquisition/contract
18 negotiation/management, contact for environmental regulatory compliance (MDNR,
19 Attorney General). Responsible for third party Operations and Maintenance Contractor
20 Acquisition and management." Staff has determined Construction Manager is the most

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1 appropriate job title for Mr. Thomas since he is responsible for construction activities for the
2 acquired utility after First Round purchases a system.

3 Q. Does Staff agree with the Company that Brenda Eaves should be classified as
4 Customer Service Manager?

5 A. No. Ms. Eaves does more than just customer service. According to Staff's
6 Data Request No. 0001, Ms. Eaves' job description states she "establishes and directs overall
7 company office operations. Writes customer brochures and newsletters for four operating
8 companies with 5 system specific tariff rates (including MDNR mandated drinking water
9 CCR's). Directs financial customer late pay and disconnect programs, amounting to
10 approximately 200 notices per month; takes an average of 70 final customer resolution calls
11 per month and sets up customer payment plans. Manages customer collections process and
12 manages customer service contractors." Staff has determined it is most appropriate use an
13 average of four different job titles to determine an appropriate wage for Ms. Eaves: Bill and
14 Account Collectors, Customer Service Representative, Bookkeeping, Accounting and
15 Auditing Clerk, and Office & Administrative Support Workers, All Other.

16 Q. What is OPC's position on CSWRs employee job titles?

17 A. OPC uses the title of General and Operations Manager for Josiah Cox.

18 Q. Is this the same job title issue that was decided by the Commission in the
19 previous Hillcrest rate case number WR-2016-0064?

20 A. Yes.

21 Q. What did the Commission decided in its Report and Order for the Hillcrest
22 rate case on this issue?

23 A. The Commission stated on page 16 in the Report and Order for the Hillcrest
24 rate case that "Staff's comparison of their job duties to MERIC found that these titles should

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1 continue to be used for ratemaking purposes". Staff used the Chief Executive job title for
2 Mr. Cox in that case.

3 Q. Has OPC offered any new evidence in this case that would cause Staff to
4 change its position on the job title issue?

5 A. No.

6 Q. What is OPC's recommended level of salaries based on?

7 A. OPC has used MERIC mean payroll rates updated with 2016 information for
8 the St. Louis Region for each employee.

9 Q. Why did Staff not use 2016 payroll rates for all employees in its payroll
10 calculation?

11 A. Staff chose to use MERIC 2013 employment wage level information for
12 two of CSWR's employees, Mr. Cox and Ms. Eaves. Both of these employees were
13 with CSWR during two recent rate cases for affiliated CSWR utilities; Hillcrest, Case
14 No. WR-2016-0064, and Raccoon Creek Utility Operating Company, Inc. Case No.
15 SR-2016-0202. Staff also recommended use of 2013 MERIC salary levels in those rate
16 cases. Use of the 2013 MERIC information for Josiah Cox and Brenda Eaves avoids taking
17 into account significant year-to-year fluctuation in the MERIC wage levels shown in
18 subsequent years for these employees' job categories. Staff determined that the MERIC
19 wage levels for 2015 were closer to the three-year average of the wage levels for
20 Todd Thomas, Phil Macias, Yolanda Rousseau job categories, and more appropriate to use
21 in setting rates.

22 **BANK FEES**

23 Q. What is OPC's position concerning recovery of bank fees?

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1 A. OPC recommends that the Commission not include recovery of these bank
2 fees because of the affiliate relationship between one of the banks and First Round and
3 because it is more economical to use existing personnel at First Round for these services.

4 Q. Did Staff review the bank fees in detail?

5 A. Staff has reviewed the bank's Consolidated Analysis Statement ("CAS") for
6 the test year.

7 Q. What information does the CAS include?

8 A. It is an invoice that provides a description of each account service fee
9 including volume, unit price, unit charge, and balance required.

10 Q. Did the Company provide Staff with all of the monthly CAS invoices for the
11 test year?

12 A. No. The Company only provided invoices for eight months.

13 Q. How did Staff calculate bank fees?

14 A. Staff reviewed the eight invoices and disallowed credit transfers, deposited
15 items returned unpaid, and ACH debit filter monthly fee because these cost are not
16 reoccurring.

17 Q. What amount did Staff include in the cost of service?

18 A. Staff included eight months of bank fees in its cost of service totaling \$4,714.

19 Q. Does Staff share OPC's concern in that it may be more economical to
20 use existing CSWR personnel than to have Enterprise Bank perform the account
21 analysis service?

22 A. Yes. Staff recommends that in the next CSWR affiliate rate case that CSWR
23 present a cost study benefit analysis of having the bank perform the work versus using
24 existing personnel to perform the work.

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1 Q. Does this conclude your rebuttal testimony?

2 A. Yes, it does.

