

Exhibit No.:

Issues: Rate Case Expense,  
Sewer Commodity  
Overcharge,  
Legal Fee, Late Fee  
Overcharge, Reconnect  
Fee Overcharges

Witness: Leslie Rose

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: SR-2013-0016

Date Testimony Prepared: April 29, 2013

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**LESLIE ROSE**

**EMERALD POINTE UTILITY COMPANY**

**CASE NO. SR-2013-0016**

*Jefferson City, Missouri  
April 2013*

Staff Exhibit No. 8  
Date 5.9.13 Reporter SB  
File No. SR 2013 00 16

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**OF**  
**LESLIE ROSE**  
**EMERALD POINTE UTILITY COMPANY**  
**CASE NO. SR-2013-0016**

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1 **LATE FEE AND RECONNECTION FEE OVERCHARGE REFUNDS**

2 Q. What is the issue regarding late fee and reconnection fee overcharge refunds?

3 A. While both Ms. Roth and Mr. Menke agree with Staff's calculation of the amount  
4 of overcharges associated with these items, there is not a consensus on how to address the  
5 interest for this item for purposes of refunding the overcharges to customers.

6 Q. What is Ms. Roth's recommendation regarding accruing the interest related to late  
7 fees and reconnection fees as stated in her rebuttal testimony on page 16, lines 17 and 18?

8 A. Ms. Roth recommends the interest accrue from the date of inception through the  
9 end of the payback period.

10 Q. Does Staff agree with this approach?

11 A. Yes. As stated in Staff's memorandum regarding the overcharges provided to  
12 OPC on March 7, 2013, the interest calculation amount was based upon an estimated repayment  
13 period. However, it was noted that the payback period estimate utilized by Staff may change  
14 based upon the Commission's decision in this case, specifically concerning whether refunds  
15 should be given in the first place, as well as the length of the payback period. It is Staff's intent  
16 to calculate interest throughout the entire period during which the Company was in possession of  
17 the customer's funds. Therefore, Staff is in agreement with Ms. Roth's recommendation but  
18 cannot make a final calculation of the appropriate amount until such time as a Commission Order  
19 is issued in this case.

20 Q. Does Ms. Roth recommend this treatment for the sewer commodity/usage  
21 overcharges?

22 A. Yes, Ms. Roth recommends the same treatment regarding the accrual of interest  
23 through the entire payback period on page 10, lines 4 through 6.

1 Q. Does Staff agree with Ms. Roth's recommendation on this item?

2 A. Yes, as discussed above, Staff recommends that interest should continue to accrue  
3 on any refund balances owed to customers, until such time as all refunds are completed.

4 Q. What has Mr. Menke recommended regarding the late fees and reconnection fee  
5 overcharges?

6 A. Mr. Menke has stated in his rebuttal testimony on page 4, lines 3 through 9, that  
7 while Emerald Pointe is in agreement with Staff and OPC regarding the calculation of the  
8 refunds of the late fees and reconnections fees, as well as the need to refund these amounts, he is  
9 opposed to including interest related to these items. The interest rate question is discussed more  
10 fully later in this testimony.

11 **SEWER COMMODITY OVERCHARGE REFUND**

12 Q. Does the Company agree with the sewer commodity/usage overcharge  
13 calculations made by Staff?

14 A. It is Staff's understanding from discussions with the Company that they agree  
15 with Staff's calculation of the total amount of sewer commodity/usage charged by the Company  
16 from April 9, 2007, to March 31, 2012, but that Emerald Pointe disagrees with whether interest  
17 should be added to these amounts and whether a refund of these amounts is appropriate.

18 Q. Does OPC agree with the sewer commodity/usage overcharge calculations made  
19 by Staff?

20 A. Similar to the Company, Ms. Roth states that she agrees with Staff's proposed  
21 total amount of sewer commodity/usage overcharges made by the Company from April 9, 2007,  
22 to March 31, 2012. However, Ms. Roth disagrees with the interest treatment, the period of time  
23 the calculation of overcharges should be based on, and the period of time over which the refunds

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1 should be paid back. In regards to the basic question, raised by both the Company and Ms. Roth,  
2 of whether the amounts should be refunded, Staff witness James Busch will address Staff's  
3 position on this matter. Staff's position on the interest calculations are addressed further later in  
4 this testimony.

5 Q. Over what time period does Ms. Roth believe the sewer commodity/usage  
6 overcharge refunds should be paid back?

7 A. Ms. Roth states in her rebuttal testimony on page 9, lines 22 through 23, and  
8 page 10, line 4, that:

9 ...Public Counsel recommends the Company be ordered to  
10 provide bills credits to those remaining customers over a  
11 24-month period after the effective date of the  
12 Commission's Order in this case.

13 Public Counsel recommends this shorter period because  
14 ratepayers are facing a 293.40% rate increase in sewer  
15 rates, while being owed a significant amount of money due  
16 to Company's improper billing of tariff rates.

17 Q. What time period is Staff recommending as a payback period for the sewer  
18 commodity/usage overcharges?

19 A. Staff is recommending a 45-month refund payback period. This is based on  
20 several factors. First, the amount of refunds are quite significant, a total of \$257,250.03, which  
21 consists of \$187,683.11 in overcharges of the sewer commodity/usage charge and \$69,566.92 in  
22 interest. Due to the substantial amount to be refunded, Staff believes a 45-month payback period  
23 instead of a 24-month payback period is more appropriate. Staff has analyzed the amounts to be  
24 refunded on a per customer, per month basis to ensure that the Company will continue to have  
25 the funds necessary to provide safe and adequate service. If the payback period is shortened, it is  
26 possible that several, if not all, of the customers would be paid money each month rather than

1 remitting money to the Company to cover its expense levels. In addition, Staff has recommended  
2 that refunds for other items should be made immediately, which would further put a strain on  
3 Emerald Pointe's resources if sewer commodity/usage overcharges are refunded over the period  
4 recommended by OPC.

5 Q. Does Ms. Roth indicate whether any consideration was given in her recommended  
6 24-month repayment schedule to ensure that safe and adequate service could be maintained?

7 A. No. There is no discussion of what factors Ms. Roth considered in her  
8 recommendation, other than the amount of proposed increase in this case.

9 Q. Does the amount of proposed rate increase recommended by Staff take into  
10 account monies that would be refunded?

11 A. No. The amount of revenue requirement increase recommended in the current  
12 sewer case is to address the Company's prospective cost of providing service and does not give  
13 consideration to any amounts the Commission may order the Company to refund to the  
14 customers. This means the rates approved in this case would only cover the ongoing costs to  
15 provide safe and adequate service to the Company's customers.

16 Q. Has the Company addressed the impact of the refunds in its testimony?

17 A. Yes, Company witness Gary Snadon stated in his direct testimony what he  
18 believes will be the impact of the refund on the operations of the Company.

19 **INTEREST RATE TO BE APPLIED TO REFUNDS**

20 Q. Do Ms. Roth and Mr. Menke agree with Staff on the interest rate to utilize when  
21 calculating the refunds for late fees, customer deposits, reconnection fees, and commodity/usage  
22 overcharges?

1           A.     No. While Ms. Roth agrees with Staff as to the need for interest to be calculated  
2 on all of the above items and agrees with the methodology applied to the late fees, reconnection  
3 fees, and customer deposits, as previously discussed in this testimony, she is in disagreement  
4 with the interest methodology proposed by Staff for the commodity/usage overcharges.  
5 Ms. Roth disagrees with the time at which the compound interest should be applied.

6           Q.     What does Ms. Roth recommend regarding the interest to be applied to the  
7 commodity/usage overcharges?

8           A.     In Ms. Roth's rebuttal testimony, on page 9, lines 1 through 4, Ms. Roth states:

9                     Public Counsel's calculated portion of the monies that  
10                     should be refunded is based on simple interest. Public  
11                     Counsel believes once the overcharges to be refunded are  
12                     authorized by the Commission, the associated interest  
13                     should be calculated via compound interest methodology  
14                     and applied on all balances through the applicable refund  
15                     period.

16          Q.     Does Ms. Roth give reasoning for this approach?

17          A.     No, she does not. It is unclear to Staff why Ms. Roth would change from simple  
18 interest to compound interest at the time an Order is issued. It is unreasonable to assume there is  
19 a difference in the methodologies to use the day prior to a Commission order as opposed to the  
20 day after. Nothing changes in regards to the monies calculated to be refunded at that point in  
21 time, other than a certainty as to if they are to be refunded and over what period of time.  
22 Therefore, Staff maintains that no changed in methodology at that point in time is necessary, and  
23 Staff's calculation of interest consistently over the entire length of time from over collection to  
24 refund is appropriate and reasonable.

25          Q.     Does Mr. Menke discuss the interest rate utilized by Staff regarding late fees,  
26 reconnection fees, deposits and sewer commodity/usage overcharges?



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1           A.     Yes, on page 4, lines 12 through 19, Mr. Menke discusses the 6% interest rate  
2 proposed by Staff for these items as well as customer deposits and the commodity/usage  
3 overcharges. He points out that the company's tariffs only call for application of such an interest  
4 rate on the customer deposits and not the other items.

5           Q.     Does Mr. Menke agree with Staff's approach in regard to the interest on late fees,  
6 reconnection fees, deposits and sewer commodity/usage overcharges?

7           A.     No. Mr. Menke indicates on page 3, lines 15 through 17 of his rebuttal testimony  
8 that Emerald Pointe agrees with Staff's calculation of both the deposit and interest amounts to be  
9 refunded to the customers. However, on page 4, lines 8 through 9, in regards to the late fees and  
10 reconnection fees, he states:

11                                 Emerald Pointe does not, however, agree with Staff's  
12                                 attempt to add interest to these amounts.

13           Q.     Does Mr. Menke indicate his recommendation as to whether interest should be  
14 applied to the sewer commodity/usage overcharges?

15           A.     No, not directly. However, on page 4, lines 17 through 19 of his rebuttal  
16 testimony, he states that the Company's tariffs are silent on interest for the late fees,  
17 reconnection fees and sewer commodity/usage overcharges.

18           Q.     Is it reasonable to assume that because the Company's tariffs do not address the  
19 issue of over collection in general or any possible interest to apply, that no interest should be  
20 considered?

21           A.     No. Staff contends that interest should be calculated on all monies over collected  
22 by the Company.

23           Q.     What is Staff's policy regarding the calculation of interest on amounts  
24 overcharged to utility customers?

1           A.     Generally, it is Staff's practice to include an interest calculation when determining  
2 the amount to be refunded to customers. This has been done in other such cases including Case  
3 Nos. SR-2008-0303 and WR-2008-0304, Roy-L Utilities.

4           Q.     Are there other circumstances when interest is calculated on amounts to be  
5 refunded to customers?

6           A.     Yes, a common example of this would be customer deposits. Most companies'  
7 tariffs include a provision to collect, hold and refund deposits related to customer service as a  
8 way to protect the company from incurring bad debt. When these deposits are refunded, an  
9 interest calculation is performed based on the provisions set forth in the company's tariff.  
10 Emerald Pointe's tariffs include this provision.

11          Q.     Why is interest calculated on customer deposits?

12          A.     Simply put, the company is holding the customer's money and therefore the  
13 customer does not have use of that money until it is returned to them. By including interest, the  
14 customer is receiving the time value of money. The time value of money concept holds that the  
15 value of receiving a certain amount of money today is different than receiving the same amount  
16 of money in the future. This concept is widely accepted given there is an opportunity for the  
17 customer to have earned interest on the money had it been in his possession, thus changing the  
18 "value" of his original deposit amount in the case of customer deposits.

19          Q.     Does the time value of money concept apply to money overcharged to customers  
20 as well?

21          A.     Yes, given the fact that the customer does not have the opportunity to use the  
22 funds while they are in the company's possession. Therefore, it is Staff's position that interest be  
23 applied to the customer deposits (per the tariff) as well as any overcharged monies.

1 Q. Is it reasonable to utilize the 6% rate as described in the Company's tariffs related  
2 to customer deposits for other items Staff proposes to refund to customers?

3 A. Yes. The 6% interest rate criteria related to customer deposits was agreed upon in  
4 the last case and ordered by the Commission through the approved tariffs. Given that this was an  
5 acceptable method to account for the customer's time value of money for customer deposits, it is  
6 reasonable to apply this calculation to all of the ratepayer funds that were held by the company  
7 for a period of time.

8 **RATE CASE EXPENSE**

9 Q. Has Staff updated the amount of rate case expense included in Staff's cost of  
10 service calculation?

11 A. Yes. Additional information was provided by the Company subsequent to  
12 the direct testimony filing in this case, regarding services provided by Mr. Dale Johansen  
13 through March 2013. Staff has reviewed these documents and has updated its recommendation  
14 for rate case expense to include additional amounts incurred by Emerald Pointe related to its  
15 current rate case.

16 Q. What amount of rate case expense has Staff included in its updated cost of  
17 service?

18 A. Based on information provided to Staff, a normalized amount of \$1,571 for each  
19 of the water and sewer systems, a total amount of \$3,141, has been included for an ongoing  
20 annual expense level related to rate case expense.

1 **LEGAL FEES**

2 Q. Has Staff updated the amount of legal fee expense included in Staff's cost of  
3 service calculation?

4 A. No, Staff has not updated its accounting schedules based upon information  
5 provided by the Company. The updated information given to Staff consisted of copies of  
6 statements instead of invoices. Upon tracing the amounts listed on the statements, with the  
7 Company's assistance, it was discovered that the invoices for which the statements were issued  
8 were already included in the Staff's case. The legal invoices related to the Hollister pipeline  
9 project were previously included in Staff's determination of rate case expense as they related to  
10 cases before the Commission. These legal expenses were normalized in the same manner as rate  
11 case expense.

12 Q. Does this conclude your surrebuttal testimony?

13 A. Yes, it does.

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

In the Matter of the Request for an )  
Increase in Sewer Operating Revenues of ) Case No. SR-2013-0016  
Emerald Pointe Utility Company )

AFFIDAVIT OF LESLIE ROSE

STATE OF MISSOURI        )  
                                  )  
COUNTY OF ST. LOUIS    )        ss.

Leslie Rose, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Leslie Rose

Subscribed and sworn to before me this 29<sup>th</sup> day of April 2013.

**LISA K. HANNEKEN**  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Franklin County  
My Commission Expires: April 27, 2014  
Commission Number: 10987138

Lisa K. Hanneken  
Notary Public