

Exhibit No.:

*Issue: AFUDC, Rate Case Expense,
Electric Service Line Extension, and
Maintenance & Repair Expense*

Witness: Jennifer K. Grisham

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

JENNIFER K. GRISHAM

INDIAN HILLS UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2017-0259

*Jefferson City, Missouri
October 2017*

** Denotes Confidential Information **

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JENNIFER K. GRISHAM
INDIAN HILLS UTILITY OPERATING COMPANY, INC.
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JENNIFER K. GRISHAM**

4 **INDIAN HILLS UTILITY OPERATING COMPANY, INC.**

5 **CASE NO. WR-2017-0259**

6 Q. Please state your name and business address.

7 A. Jennifer K. Grisham, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

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

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

12 Q. Are you the same Jennifer K. Grisham who has previously filed direct
13 testimony in this proceeding?

14 A. Yes, I am. I previously provided testimony regarding initial service fee for
15 electric expense, major leak repairs, and outside services – management consultant fees.

16 **EXECUTIVE SUMMARY**

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

18 A. The purpose of my rebuttal testimony is to address The Office of Public
19 Counsel (“OPC”) witness Kerri Roth’s direct testimony concerning allowance for funds used
20 during construction (“AFUDC”) and OPC witness John A. Robinett’s testimony regarding
21 booking of leak repairs and extension of electric line service. In addition, I will address
22 Indian Hills Utility Operating Company, Inc. (“Indian Hills” or “Company”) witness Josiah
23 Cox’s direct testimony regarding rate case expense, Indian Hills witness Todd Thomas’s

1 testimony regarding maintenance expense, and Indian Hills witness Phil Macias's testimony
2 regarding leak repair amortization.

3 **AFUDC**

4 Q. What is AFUDC?

5 A. AFUDC represents the carrying cost of financed capital projects during the
6 period of construction.

7 Q. What is the Company's position regarding the AFUDC rate for this case?

8 A. Company witness, Josiah Cox, states in his direct testimony on page 28, lines
9 12 through 14, that:

10 AFUDC should be calculated based on the actual loan terms, amounts
11 borrowed, and corresponding capital structure associated with the
12 money borrowed by the Company.

13 Q. What rate does the Company propose using to calculate AFUDC?

14 A. Indian Hills proposes a rate of 14.0%.

15 Q. Does Staff agree that AFUDC should be calculated based on the actual loan
16 terms with the money borrowed by the Company?

17 A. No. The AFUDC carrying costs are based upon the sum of the dollars
18 invested in construction activity and booked to the construction work in progress account for
19 each month of the construction period, which are then multiplied by the appropriate monthly
20 carrying cost debt rate.

21 Q. What is OPC's position concerning the AFUDC rate for this case?

22 A. Ms. Roth states in her direct testimony that OPC is proposing a long-term debt
23 rate of 6.75%, the calculation of which is further discussed by OPC witness Michael P.
24 Gorman in his direct testimony.

1 Q. What rate has Staff proposed for AFUDC?

2 A. Staff is proposing to use its recommended cost of long-term debt rate of 14%
3 for the AFUDC rate in this case. This is consistent with Staff's position in the two recent
4 rate cases for Indian Hills affiliates, Hillcrest Utility Operating Company, Inc. and Raccoon
5 Creek Utility Operating Company, Inc.

6 Q. Is the AFUDC rate subject to change in this case?

7 A. Yes, the cost of debt is one of the issues that is being litigated. Should the
8 Commission order a different rate than the rate recommended by Staff in this proceeding,
9 the Commission ordered debt rate will be used to calculate the AFUDC carrying costs for
10 this case.

11 **RATE CASE EXPENSE**

12 Q. Please describe the issue regarding rate case expense.

13 A. Company witness Cox states in his direct testimony on pages 28 and 29 that
14 Indian Hills has incurred customer notice, attorney, and expert witness fees associated with
15 the rate case and Indian Hills will provide invoices associated thus far with those fees to
16 Staff and OPC.

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

19 A. No. At the time Staff filed its recommendation, it was believed the Company
20 had submitted no invoices for rate case expense. While preparing rebuttal testimony, it was
21 discovered a single invoice for attorney fees had been unintentionally excluded from its
22 analysis and subsequent recommendation. The Company has submitted no other invoices at
23 this time.

1 Q. Does Staff agree with Indian Hills' proposed three-year normalization period
2 for rate case expense?

3 A. At this time, Staff cannot state whether a three-year normalization period is
4 appropriate for rate case expense, as Indian Hills has submitted only one invoice. Prior to the
5 filing of direct testimony, Staff was unaware the Company had hired expert witnesses to
6 testify on its behalf. Staff will review rate case expense invoices as they are received and, if
7 possible, make a recommendation in surrebuttal testimony regarding a suitable normalization
8 period and dollar amount for rate case expense.

9 **ELECTRIC SERVICE LINE EXTENSION**

10 Q. What is the issue regarding the extension of the electric service line?

11 A. OPC witness John A. Robinett recommends amortizing the initial fee for the
12 electric service line extension over five years. Staff's recommendation is to capitalize the
13 cost into plant, as it is part of the cost of building the new well and well house.

14 Q. Does Staff disagree with OPC's treatment of this fee?

15 A. Not necessarily; however, Staff prefers to treat this cost as plant in service.
16 Staff's primary concern is that the fee should not be treated as a recurring expense. Should
17 the Commission order the fee to be treated as an expense, Staff agrees it should be amortized
18 over five years.

19 **MAINTENANCE AND REPAIR EXPENSE**

20 Q. What does the issue of maintenance and repair expense encompass?

21 A. OPC, Indian Hills, and Staff have differing opinions on the appropriate
22 treatment of major leak repair expense, which falls into the maintenance and repair expense
23 category.

Rebuttal Testimony of
Jennifer K. Grisham

1 Q. How does OPC propose to treat this expense?

2 A. Mr. Robinett recommends capitalizing the leak repairs and placing the total
3 amount into plant in service. He also states a leak repair expense amount should be built into
4 rates as an ongoing expense, but does not offer an annual amount.

5 Q. Does Staff agree with this methodology?

6 A. No. Please see Staff witness Stephen B. Moilanen's rebuttal testimony for a
7 discussion regarding proper USOA guidance for treating the repairs as expenses, and not
8 plant in service.

9 Q. What is the Company's recommendation for treatment of these expenses?

10 A. Company witnesses Thomas and Macias state in their respective testimonies
11 the expense should not be amortized, but should be included in rates in an amount equal to
12 the test year level.

13 Q. Why does the Company disagree with Staff's proposed amortization of the
14 major leak repair expense?

15 A. Both witnesses state that due to the condition of the water system, repair
16 expense is an ongoing, rising cost for Indian Hills. Mr. Macias states in his testimony that
17 the Company's actual cost of maintenance and repair expense for the year ended
18 September 30, 2017, is \$189,300. Staff cannot verify this amount at this time, as it has
19 received information regarding this cost only through July 2017. Staff has requested
20 supporting documentation for August and September 2017.

21 A review of the documentation provided to dates regarding repair invoices shows that
22 not all entries in the expense accounts in the general ledger are truly repair expense. On
23 some invoices, line replacement is classified as and charged to expense when it should be
24 recorded as plant in service. Other items included in repair expense invoices are not

1 recoverable through rates, including an instance where the contractor agreed to repair a
2 water leak on the customer owned portion of the line, but then billed the Company for it.
3 See Confidential Schedule JKG-r1, for examples of booking anomalies in repair invoices.

4 Q. Does Staff disagree with the Company's assessment of the condition of the water
5 system?

6 A. No. Please see the Direct Testimony of Staff witness David A. Spratt for a
7 discussion of the water system.

8 Q. Why has Staff not chosen to treat Indian Hills' repair costs as an expense item
9 assumed to increase in the future?

10 A. Staff, as part of the partial disposition agreement in this proceeding, Item (7),
11 required the Company to submit a "Distribution System Improvement Plan" ("Plan"). The
12 plan is intended to provide a path forward for system improvements to reduce water loss by
13 creating a plant **replacement** schedule. Staff is recommending that defective service
14 connections be replaced, to the extent possible, as opposed to being subject to temporary
15 "fixes" or repairs, as outlined in Staff witness Spratt's Direct Testimony. Plant replacement
16 costs, including costs to replace service connections, cannot be booked as repair expense as
17 replacements are considered to be plant in service and booked to the appropriate USOA rate
18 base account(s). As plant in service, replacements should not be placed into rates until used
19 and useful, and therefore, it is inappropriate to include a projected level of replacement costs
20 as an expense in the cost of service. Necessarily, to include an appropriate amount of plant
21 replacement costs in rates, the Company has the responsibility to file timely rate cases to
22 capture those capital costs.

23 Q. Does this conclude your rebuttal testimony?

24 A. Yes, it does.

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

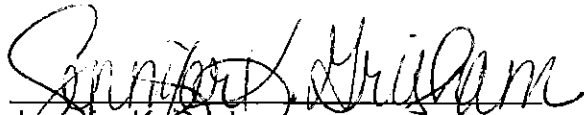
In The Matter of The Rate Increase Request Of)
Indian Hills Utility Operating Company, Inc.) Case No. WR-2017-0259

AFFIDAVIT OF JENNIFER K. GRISHAM

State of Missouri)
) ss
County of Cole)

COMES NOW Jennifer K. Grisham, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony*, and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



Jennifer K. Grisham

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 26th day of October, 2017.



NOTARY PUBLIC

DIANNA L. VAUGHT Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 28, 2019 Commission Number: 15207377

SCHEDULE JKG-r1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY