

FILED
September 1, 2023
Data Center
Missouri Public
Service Commission

Exhibit No. 134

Staff – Exhibit 134
Hillcrest Disposition Agreement from WR-2016-0064
File No. WR-2023-0006

**COMPANY/STAFF PARTIAL AGREEMENT REGARDING DISPOSITION
OF SMALL WATER COMPANY REVENUE INCREASE REQUEST**

**HILLCREST UTILITY OPERATING COMPANY, INC.
WATER OPERATIONS**

MO PSC FILE NO. WR-2016-0064

BACKGROUND

Hillcrest Utility Operating Company, Inc. ("Company") initiated a small company revenue increase request ("Request") for water service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") File Number by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.050, Small Utility Rate Case Procedure ("Small Company Procedure"). In its request letter, which was received at the Commission's offices on October 19, 2015, the Company set forth its request for an increase of \$236,016 in its total annual water service operating revenues. The Company also acknowledged that it understood that the design of its customer rates, service charges, customer service practices, general business practices and general tariff provisions would be reviewed during the Commission Staff's ("Staff") review of the revenue increase request, and could thus be the subject of Staff recommendations. The Company provides service to approximately 218 residential customers, 20 apartment customers, and four commercial customers located in Cape Girardeau County, Missouri.

Pursuant to the provisions of the Small Company Procedure and related internal operating procedures, Staff initiated an audit of the Company's books and records, an inspection of the Company's facilities, as well as a review of the Company's customer service and general business practices, existing tariff, and the operation of the Company's facilities. (These activities are collectively referred to hereinafter as "Staff's investigation of the Company's Request" or "Staff's investigation.")

Upon completion of Staff's investigation of the Company's Request, Staff provided the Company and the Office of the Public Counsel ("Public Counsel") with information regarding Staff's investigation and the results of its investigation, including Staff's initial recommendations for the resolution of the Company's Request.

RESOLUTION OF THE COMPANY'S RATE INCREASE REQUEST

Pursuant to negotiations held subsequent to the Company's and Public Counsel's receipt of the above-referenced information regarding Staff's investigation of the Company's Request, Staff and the Company hereby state the following agreements:

- (1) Absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement, and based upon the Staff's current position regarding those issues, the agreed-upon overall cost of service for the Company is \$177,008. This total is comprised of current annualized revenues of \$32,378 and an increase in operating revenues of \$144,630. The foregoing amounts are shown on the ratemaking income statement found in Attachment A, incorporated by reference herein;
- (2) The Staff's Auditing Department conducted a full and complete audit of the Company's books and records using the 7-month period ending October 31, 2015, and that audit is the basis for the overall cost of service noted in paragraph (1) above. The Auditing Department's findings can be found in Staff's Accounting Schedules, Attachment B, incorporated by reference herein;
- (3) Absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement, and based upon the Staff's current position regarding those issues, the agreed-upon rate base for the Company is \$538,197. The development of this amount is shown on the rate base worksheet that is found in Attachment C, incorporated by reference herein, and was used in calculating the overall cost of service noted in paragraph (1) above;
- (4) Included in Attachment B, is the Staff's proposed hypothetical capital structure that includes: 25% equity and a 12.88% return on equity; 75% debt and an 8.88% cost of debt; and a weighted cost of capital of 9.88% for the Company;
- (5) The schedule of depreciation rates in Attachment D, incorporated by reference herein, includes the depreciation rates used by Staff in its revenue requirement analysis and shall be the prescribed schedule of water plant depreciation rates for the Company;
- (6) To allow the Company the opportunity to collect the overall cost of service noted in paragraph (1) above, the rates as shown on Attachment E, incorporated by reference herein, are the rates the Company should be allowed to charge its customers (absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement). The impact of these rates will be as shown on Attachment F, also incorporated by reference herein;
- (7) For the purposes of implementing the agreements set out in this partial disposition agreement, the Company will file with the Commission proposed tariff revisions containing charges and language as set out in the example tariff attached as

Attachment E; Tariff revisions containing the actual, final rates will be developed and submitted after the Commission issues its report and order subsequent to the evidentiary hearing.

(8) The current PSC MO Number 2 tariff will be cancelled and replaced by PSC MO Number 3 tariff, as is shown in the example tariff described above;

(9) Within thirty (30) days of the effective date of an order approving this partial disposition agreement, the Company shall implement the following recommendation contained in the Consumer and Management Analysis Unit (CMAU) Report attached hereto as **Attachment H**, and incorporated by reference herein, and will provide proof of implementation to the Manager of the Commission's CMAU:

(a) The Company will develop and require a signed customer application prior to providing service as provided in its tariff. The Company's customer application shall include the date and the customer's signature indicating that the customer agrees to abide by the Company's rates, rules and regulations, and applicable state statutes.

(10) Within ninety (90) days of the effective date of an order approving this partial disposition agreement, the Company shall implement the following recommendation contained in the CMAU Report attached hereto as **Attachment H** and incorporated by reference herein, and will provide proof of implementation to the Manager of the Commission's CMAU:

(a) The Company will develop and utilize time sheets for all employees to record the time associated with Company work activity.

(11) Within 12-18 months of the effective date of an order approving this Company/Staff Disposition Agreement, Staff shall initiate a rate review or the Company shall file a rate case in order to develop a cost of service based on additional actual revenue and expense information beyond the applicable period of time available to Staff in this proceeding.

(12) In accordance with the Auditing Department Report that is attached as **Attachment I**, and incorporated by reference herein, the Company will take the following actions:

(a) The Company will maintain its books and records in accordance with the National Association of Regulated Utility Commissioners (NARUC) Uniform System of Accounts (USOA).

(b) The Company will develop continuing property records (CPRs) for all assets for its water and sewer systems.\

(c) The Company will ensure its employees' time sheets are used to record the time associated with each work assignment for each system and are kept in a way such that the time spent on operation/maintenance activities and construction activities can be captured separately. The Company will also

ensure that time spent by its employees on non-regulated or merger/acquisition related activities are recorded on the time sheets.

(13) The Company shall mail its customers a written notice of the final rates and charges to be included in its tariff prior to or in conjunction with the first billing cycle after the final rates and charges are approved by the Commission. The notice shall include a summary of the impact of the proposed rates on an average residential customer's bill. When the Company mails the notice to its customers, it shall also send a copy to Staff's Case Coordinator who will submit a copy to the case file;

(14) Staff may conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this partial disposition agreement;

(15) Staff may file a formal complaint against the Company, if the Company does not comply with the provisions of this partial disposition agreement;

(16) The undersigned representatives of the Company and Staff acknowledge that: they have read this partial disposition agreement; the facts stated herein are true and accurate to the best of their knowledge and belief; the conditions set out herein accurately reflect the agreements reached between the Company and Staff. The Company's representative further acknowledges that he has freely and voluntarily entered into this partial disposition agreement for the Company; and

(17) The above agreements satisfactorily resolve all issues identified by Staff and the Company regarding the Company's Request, except as otherwise specifically stated herein.

ISSUES FOR EVIDENTIARY HEARING

The Staff and Company could not find a resolution for the following issues, and thus intend to present these issues at an evidentiary hearing for the Commission's determination: payroll; property taxes; auditing and income tax preparation fees; capital structure; cost of capital (equity and debt); and AFUDC.

ADDITIONAL MATTERS


Other than the specific conditions agreed upon and expressly set out herein, the terms of this partial Disposition Agreement reflect compromises between Staff and the Company and neither party has agreed to any particular ratemaking principle.

The Company acknowledges that Staff will be filing this partial Disposition Agreement and the attachments hereto. The Company also acknowledges that Staff may make other filings in this case.

Additionally, the Company agrees that subject to the rules governing practice before the Commission, Staff shall have the right to provide whatever oral explanation the Commission may request regarding this partial Disposition Agreement at any agenda meeting at which this case is scheduled to be considered by the Commission. Subject to the rules governing practice before the Commission, Staff will be available to answer Commission questions regarding this partial Disposition Agreement. To the extent reasonably practicable, Staff shall provide the Company with advance notice of any such agenda meeting so that it may have the opportunity to be present and/or represented at the meeting.


SIGNATURES

Agreement Signed and Dated:



Josiah Cox
President
Hillcrest Utility Operating Company, Inc.

25 MAR 2016
Date



James Busch
Manager
Water & Sewer Department
Missouri Public Service Commission Staff

3/25/16
Date

List of Attachments

- Attachment A – Ratemaking Income Statement
- Attachment B – Staff's Accounting Schedules
- Attachment C – Rate Base Worksheet
- Attachment D – Schedule of Depreciation Rates
- Attachment E – Example Tariff Sheets
- Attachment F – Billing Comparison Worksheet
- Attachment G – Water & Sewer Department Memorandum
- Attachment H – CMAU Report
- Attachment I – Auditing Department Recommendation Memorandum
- Attachment J – Summary of Events