

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of Lake Region Water & Sewer	)	File No. SR-2010-0110
Company's Application to Implement a General	)	Tariff No. YS-2010-0250
Rate Increase in Water & Sewer Service	)	

In the Matter of Lake Region Water & Sewer	)	File No. WR-2010-0111
Company's Application to Implement a General	)	Tariff No. YW-2010-0251
Rate Increase in Water & Sewer Service	)	

**STAFF'S REPLY TO LAKE REGION'S MAY 19, 2010 FILING**

**COMES NOW** the Staff of the Missouri Public Service Commission (Staff) and for its reply to the Missouri Public Service Commission's (Commission) Order directing Staff to respond to Lake Region Water and Sewer Company's (Lake Region) May 19, 2010 Response, states as follows:

1. On May 27, 2010, the Commission issued an *Order Directing Filing* requesting that Staff reply to Lake Region's *Response to May 19, 2010 Order of the Commission*.

2. Attached hereto as Appendix 1, Staff submits a report replying to Lake Region's response.

**WHEREFORE**, Staff respectfully requests the Commission accept this Reply to Lake Region.

Respectfully submitted,

/s/ Jaime N. Ott  
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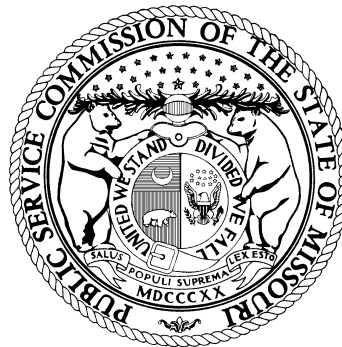
### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 7<sup>th</sup> day of June 2010.

/s/ Jaime N. Ott

# **MISSOURI PUBLIC SERVICE COMMISSION**

**STAFF'S JUNE 7, 2010 RESPONSE TO**  
**MISSOURI PUBLIC SERVICE COMMISSION'S**  
**MAY 27, 2010 ORDER**  
**REGARDING AVAILABILITY CHARGES**



**LAKE REGION WATER & SEWER COMPANY**

**CASE NO. SR-2010-0110**

**Horseshoe Bend Sewer  
Shawnee Bend Sewer**

**&**

**CASE NO. WR-2010-0111**

**Shawnee Bend Water**

*Jefferson City, Missouri  
June 7, 2010*

**LAKE REGION WATER AND SEWER COMPANY  
CASE NOS. SR-2010-0110 AND WR-2010-0111  
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## **STAFF'S JUNE 7, 2010 RESPONSE TO THE COMMISSION'S MAY 27, 2010 ORDER REGARDING AVAILABILITY CHARGES**

1. The Missouri Public Service Commission (Commission) issued an Order May 27, 2010 (the May 27<sup>th</sup> Order) requiring the Staff of the Missouri Public Service Commission (Staff) to respond by June 7, 2010 to Lake Region Water and Sewer Company's (Lake Region or Company) "Response to May 19, 2010 Order of the Commission." (Lake Region's May 26<sup>th</sup> Response).
2. The Commission's May 27<sup>th</sup> Order stated Staff "shall address, with particularity, paragraphs 8 through 12 of Lake Region's Water and Sewer Company's May 26, 2010 response, and shall explain the differences between the parties' revenue scenarios."
3. The Commission further ordered Staff to specifically "...explain whether its revenue scenarios used a different amount of debt from that to which the parties stipulated, and why there is a difference in the total weighted rate of return between the parties' scenarios as referenced in paragraph 8c of Lake Region's response."
4. Staff will address each of the points raised by the Commission in its May 27<sup>th</sup> Order and provide responses to Lake Region's May 26<sup>th</sup> Response specifically.
5. In response to paragraph 3 of the May 27<sup>th</sup> Order, Staff did not use an amount of debt different than what the parties stipulated to calculate the three scenarios presented in its May 18, 2010 filing. The capital structure and the resulting rate of return recommendation was the same one presented in Staff's direct filing made on January 14, 2010. The rate of return recommendation made by Staff in the direct filing is the exact same one used to develop all the different revenue requirement calculations identified in the surrebuttal and true-up direct filings and also the three scenarios provided to the Commission on May 18, 2010. In the April 8<sup>th</sup> Order

the Commission identified a series of questions it specifically wanted Staff to answer based on the original hearings in the case held March 29 through 31, 2010.

6. In response to paragraph 5 of Lake Region's May 26<sup>th</sup> filing the Company addresses what it believes are the approaches used for availability fees in two rate cases identified as Case No. WR-92-59 and Case No. WR-99-183. The first case was a rate case for Lake Region (previously called Four Seasons Lakesites Water & Sewer Company). The second case identified by the Company was an Ozark Shores Water Company (Ozark Shores) rate case designated as Case No. WR-99-183. Ozark Shores is an affiliated company of Lake Region with common ownership. The importance of the Ozark Shores case is noted in the Staff May 18<sup>th</sup> Report at pages 9 through 11. Staff noted in its May 18<sup>th</sup> Report Ozark Shores had no contributed plant donated to the utility which would have been either treated as contributions in aid of construction (CIAC) resulting in an offset to rate base-- its traditional treatment-- or as an add back to rate base. This is significant because the Company continues to represent to the Commission that while availability fees were included as revenues in Case No. WR-99-183 contributed plant was added back to rate base. There is simply no evidence in Staff's Exhibit Modeling System (EMS) run for Case No. WR-99-183 to support any add back of contributed plant to rate base as alleged by Lake Region in testimony, at the hearings and in numerous pleadings before the Commission. In fact, considering Lake Region's response to Staff Data Request 113 where it stated Ozark Shores had no contributed plant (donated property) it would have been completely improper to have added any non-existent plant-- contributed or otherwise-- to rate base. See Schedule 1 for Lake Region response to Staff Data Request 113.

The Commission specifically ordered Staff in its April 8, 2010 Order (the April 8<sup>th</sup> Order) to address the Ozark Shores rate case. The Commission stated "Staff will be directed to file a

scenario using the same methodology used for accounting for availability fees used in the rate case for Ozark Shores Water Company." Thus, that was the reason Staff presented in its May 18<sup>th</sup> Report the use of Ozark Shores.

7. As stated in its May 18<sup>th</sup> Report, Staff did not, and continues to not support Scenario 1 (adding availability fees to revenues and adding the contributed plant to rate base) as it is improper. Staff is opposed to Scenario 1 or any scenario (such as Scenario 2 identified in Schedule 1 to the May 18<sup>th</sup> Report) that adds any amount contributed plant to rate base. At the same time Staff continues to believe it is very appropriate to include availability fees in revenues to determine rates. Staff continues to believe, and Lake Region has provided no evidence to the contrary, availability fees were created by the original developer to help pay for costs to support the utility infrastructure such as repairs, maintenance, construction of new plant to replace old infrastructure and support the general operations of the utility to enable it to provide utility service to its customers.

8. At paragraph 8 of the Company's May 26<sup>th</sup> Response it states there are three primary differences between Lake Region's filing (the original April 30, 2010 filing). The three differences are:

- A. Staff used a 10% uncollectible factor as testified by Dr. Stump at the March 31, 2010 hearings while the Company used 100% revenues.
- B. Staff updated the revenue requirement calculation for a small error found in the CIAC calculation from the amount determined in the True-up direct case filed on April 16th. The Company did not reflect this correction in its calculations.
- C. Lake Region changed the agreed to capital structure to reflect additional equity amounts for the contributed plant add back to rate base. Staff did not change the agreed to capital structure for changes to either equity or debt for the add back to rate base of the contributed plant.

9. Paragraph 8.a. of Lake Region's May 26<sup>th</sup> Response addresses the uncollectible rate used by Staff to determine the proper level of availability fees which Lake Region should have collected as net amounts. Typically in any rate case, Staff determines revenues based on what would reasonably be expected to be collected by the Company. While Staff believes the 10% uncollectible level could be high, it was used based solely on the testimony of Dr. Vernon Stump at the March 31, 2010 evidentiary hearing. It is possible the uncollectable rate for availability fees is actually closer to the 5% level Dr. Stump used in his range instead of the 10% level used by Staff. While Lake Region provided no evidence to support what the actual collections of the availability fees were, Staff wanted to give the Company every benefit so took the lower end of the collections rate to compute the revenues. The effect of using the higher 10% uncollectible rate is to lower the net revenues for availability fees resulting in greater revenue requirement than what Lake Region would calculate using 100% availability fees, all other things being constant.

10. Paragraph 8.b. of Lake Region's May 26<sup>th</sup> response addresses the error Staff found in the CIAC calculation used for the direct filing that ultimately was used for the True-up revenue requirement filed on April 16<sup>th</sup>. Staff corrected this amount and identified the affects at page 12 of the May 18<sup>th</sup> Report. This correction related to a minor change for the contribution in aid of construction for the accumulated CIAC reserve offset to arrive at the net CIAC amount used as offset to rate base.

11. Paragraph 8.c. of Lake Region's May 26<sup>th</sup> response addresses the capital structure differences between the Company and Staff.

In response to the Company's May 26 Response to the Commission's order on May 19, 2010, Staff has provided its updated capital structures and rate of return calculations



based on Scenarios 1 and 2 on the attached schedule. Staff does not recommend the capital structure and rate of return calculation represented in the attached schedule be adopted and still recommends its original capital structure and rate of return filed in Staff's Cost of Service Report on January 14, 2010 and agreed to by the parties in this case. In the attached schedule, Staff used the approach consistent with its approach in Staff's Cost of Service Report, which is subtracting the Company's debt from the Company's rate base, which includes the total rate base of all three operating systems, to compute the amount of equity in the Company's capital structure. However, as Staff stated in its Cost of Service Report, Staff only used this approach due to the lack of information provided by the Company that may have shown the amount of equity truly invested in Lake Region. This lack of information was due to the objections to Staff Data Request Nos. 0062 and 0063 in which Staff was attempting to determine the value of Lake Region assets as determined by its two shareholders. Below is an example of how not receiving this information affects the capital structure in the hypothetical scenario of adding CIAC back to Rate Base (Scenario 1 and 2):

**Not Receiving Equity Information**

Rate Base = \$100,000  
 CIAC to be added = \$60,000  
 Debt = \$50,000

**Capital Structure**

Debt = \$50,000	31.25%
Equity = \$160,000-\$50,000=\$110,000	68.75%
Total Capital = \$160,000 (Rate Base + CIAC)	100.00%

**Receiving Equity Information**

Rate Base = \$100,000  
 CIAC to be added = \$60,000  
 Debt = \$50,000  
 Equity = \$40,000

**Capital Structure**

Debt = \$50,000	55.56%
+Equity = \$40,000	44.44%
Total Capital = \$90,000 (Debt + Equity)	100.00%

As shown in the above example, adding CIAC to the rate base does not affect the capital structure when there is equity information available to determine the capital structure. Because

Staff was not able to analyze information to determine the true amount of equity in the Company's capital structure. Staff believed the most appropriate approach was using rate base to determine its capital structure and therefore the addition of CIAC to rate base does affect the capital structure.

Scenario 1 increased the total capital to \$7,039,869, with a capital structure of 62.65% equity and 37.35% debt and increased the ROR to 7.20%. See Schedule 2 attached to this Response for the calculation of the Scenario 1 capital structure.

Scenario 2 increased the total capital to \$4,564,089, with a capital structure of 42.40% equity and 57.60% debt and increased the ROR to 6.49%. See Schedule 3 attached to this Response for the calculation of the Scenario 2 capital structure.

In Scenario 3 the total capital, capital structure and ROR remain unchanged from Staff's recommendation which is a total capital of \$3,143,496, with a capital structure of 16.36% equity and 83.64% debt and a ROR of 5.58%. See Schedule 4 attached to this Response for the calculation of the Scenario 3 capital structure.

Staff does not know the reason the revenue requirements are different for the capital structure it used compared to the capital structure Lake Region presented in the Company's May 26<sup>th</sup> filing. Staff's revenue requirement for the various scenarios presented in this June 7<sup>th</sup> Staff Report are based using the same methodology and the same Exhibit Modeling System in the January 14, 2010 direct filing.

*Staff Expert Witness: Shana Atkinson*

12. Regarding paragraph 11 of Lake Region's May 26<sup>th</sup> Response, the Company contends that it does not own nor has a right to collect or use the availability fees, further claiming this as an undisputed fact. This issue is hardly undisputed, as the Staff and other parties have pointed

out that the declaration of restrictive covenants, beginning with the “Third Amended and Restated” version which the Staff believes dates to 1991 or before, and continuing through the “Amendment to the Third Amended and Restated” and the currently effective “Fourth Amended and Restated” versions, provide that the water availability charge to be paid to the owner of the water system. That would be Lake Region. The Amendment to the “Third Amended and Restated” which the Staff believes to date to 1998 and the “Fourth Amended and Restated” versions similarly provide that the sewer availability charge to be paid to the owner of the sewer system, and again that would be Lake Region. Earlier versions of the declaration of restrictive covenants do not provide for a sewer availability charge. Also, a copy of a lot sales contract provided to the Staff provides for both water and sewer availability charges to be paid to the seller of the lot, who is Four Seasons Lakesites, Inc., the developer. Notably, the owners of this development company were also the original owners of Lake Region (using a different corporate name). This is in apparent conflict with the declaration of restrictive covenants for the water availability fee, and with later versions with respect to the sewer availability fee. However, with respect to water service, this document names Lake Region as the seller’s assignee. Further, the Staff has also presented evidence that Lake Region or the same company under a previous name at one time billed and collected the availability charges – however, the Staff has yet to understand how or why this practice ceased, other than to assume the specific purpose was to intentionally remove this portion of the utility’s revenue from utility use.

With regard to paragraph 12, Lake Region is correct that the Staff has not advocated including availability charges in the company’s tariff, but it is not correct to state that the Staff is not advocating exercising jurisdiction over the use of this revenue. The Staff is not recommending any “artificial” reduction of rates, rather that revenue derived from availability

charges, intended to be paid to the utility and to be used for utility purposes, be included as utility revenue. Further, the situation being as it is, the owners or family members of Lake Region are collecting the availability charges and presumably keeping a majority of the revenue. There is nothing artificial about this revenue with respect to its intended use to support the utility operation.

*Staff Expert Witness: James Merciel*

13. Lake Region states at paragraph 3 of its May 26<sup>th</sup> filing "the record is very clear that the Company does not own the rights to these fees, does not bill these fees and does not collect these fees." What is equally clear is that the predecessor company of Lake Region had rights to these fees at one time as noted by the fact the Company did "bill these fees" and did "collect these fees." As evidenced by Staff's filing made on May 28, 2010 where Staff presented its findings regarding the review of the Annual Reports submitted to the Commission. In those Annual Reports it was abundantly clear Lake Region's once controlled the availability fees and accounted for those fees as other revenues for the period of 1974 to 1998. Lake Region and its owner at the time made a deliberate decision to remove the availability fees from the utility operations of the Company.

14. Staff recalculated the three scenarios it presented in its May 18<sup>th</sup> Report using the rate of return based on the updated capital structure determined by Staff witness Shana Atkinson discussed above in paragraph 11. The only change to these three scenarios was the change for the rate of return.

## **COMMISSION ORDERED SCENARIO NUMBER 1**

**Staff Calculation of the Revenue Requirement Scenario No. 1 Using Availability Fees and Assumed No Recovery of Contributed Plant-- \$5.3 million CIAC added to rate base.**

A. The results of the revenue requirement using the updated rate of return for Scenario 1 using 90% of collected availability fees as revenues and adding \$5.3 million back to rate base are:

<b>Lake Region's Operating System</b>	<b>Staff True-up April 16, 2010 -- No Availability Fees and CIAC offset to Rate Base Corrected – May 18, 2010</b>	<b>Staff True-up April 16, 2010 -- With Availability Fees and \$5.3 million CIAC offset added to Rate Base May 18th Report</b>	<b>Staff True-up April 16, 2010 -- With Availability Fees and \$5.3 million CIAC offset added to Rate Base June 7th Updated for capital structure</b>	<b>Company April 30 &amp; May 26, 2010 -- With Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure</b>
<b>Shawnee Bend Water</b>	\$22,252	\$55,914	\$172,298	\$250,951
<b>Shawnee Bend Sewer</b>	112,327	61,349	183,060	219,507
<b>Horseshoe Bend Sewer</b>	44,552	117,033	156,945	147,936
<b>Total</b>	\$179,131	\$234,296	\$512,303	\$618,396

Staff does not recommend the implementation of rates for Scenario 1. See Schedule 5 attached to this Response for the comparison of the Scenario 1 revenue requirements.

The \$5.3 contributed plant has been fully recovered. Staff examined Lake Region's and its predecessor's Annual Reports where it was clear that the Company had more than sufficient revenues from availability fees collected in the past to fully recover the \$5.3 million of contributed plant (see Staff filing made May 28, 2010 concerning review of Lake Region's and

its predecessor's Annual Reports). However, Staff continues to believe that the purpose of availability fees was not to recover the investment in contributed plant but rather to provide the utility with funds to support the utility infrastructure for repairs, maintenance, construction of new plant and the overall operations to provide utility system. The actual recovery of the investment in contributed plant would be recovered through the sale price of the undeveloped lots.

Since the \$5.3 million amount for contributed plant has been fully recovered it is unnecessary to add any amount to rate base and therefore, update the capital structure. No change in capital is necessary. For the above reasons as well as the discussions in Staff's May 18th Report the Commission should reject Scenario 1 for consideration in determining rates in this case.

## **SCENARIO NUMBER 2**

### **Staff Calculation of the Revenue Requirement Scenario No. 2 Using Availability Fees and Partially Recovered Contributed Plant-- \$2 million CIAC added to rate base.**

B. Using the same availability fee amounts for the above revenue requirement scenario, Staff also calculated this revenue requirement scenario by determining the level of availability fees that have already been collected from undeveloped lot owners from the period of 2003 to 2010. The owners of undeveloped lots have paid almost \$3.2 million of availability fees from 2003 to 2010 based on information provided by the Four Season's Lakesites Property Owners Association (Property Owners) Exhibit 3 provided during the March hearings in this case.

Staff calculated this revenue requirement scenario deducing the \$3.2 million availability fees from the \$5.3 million contributed plant resulting in only \$2.1 million that is added back to

rate base [actual amounts are \$5,273,850 less 3,197,100 equals \$2,076,750 added back to rate base]. However, Staff believes this amount will also overstate the revenue requirement scenario because all the contributed plant has been fully recovered through the price of the lot sales as well as the collection of availability fees prior to 2003.

The results of the revenue requirement using the updated rate of return for Scenario 2 using 90% of collected availability fees as revenues and adding \$2.1 million back to rate base are:

<b>Lake Region's <u>Operating System</u></b>	<b>Staff True-up April 16, 2010 -- <u>No</u> Availability Fees and CIAC Offset to Rate Base  Corrected -- May 18, 2010</b>	<b>Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and \$2.1 million CIAC offset added to Rate Base May 18th Report</b>	<b>Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and \$2.1 million CIAC offset added to Rate Base June 7th Updated for capital structure</b>	<b>Company April 30 &amp; May 26, 2010 -- <u>With</u> Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure</b>
<b>Shawnee Bend Water</b>	\$22,252	(\$20,633)	\$8,046	\$250,951
<b>Shawnee Bend Sewer</b>	112,327	(10,634)	25,229	219,507
<b>Horseshoe Bend Sewer</b>	44,552	80,655	92,924	147,936
<b>Total</b>	\$179,131	\$49,388	\$126,199	\$618,396

Staff does not recommend the implementation of rates for Scenario 2 for the same reasons discussed above concerning Scenario 1 and in the May 18th Report. See Schedule 6 attached to this Response for the comparison of the Scenario 2 revenue requirements.

### **SCENARIO NUMBER 3**

#### **Staff Calculation of the Revenue Requirement Scenario No. 3 Using Availability Fees and Fully Recovered Contributed Plant-- no CIAC added to rate base.**

C. Staff believes the contributed plant has been fully recovered through the price of the lot sales. Even if the sales price did not provide complete recovery of the contributed plant, the collection of availability fees from 1973 to 2010 would more than allow full recovery of this \$5.3 million donated property. Staff examined the Annual Reports submitted by Lake Region and its predecessor company Four Seasons Water and Sewer Company. The result of the examination of the Annual Reports was submitted to the Commission in a filing made May 28, 2010. From 1974 to 1998 Lake Region collected \$2.4 million and from 2003 to 2010 Staff computed an amount using information from the Property Owners of \$3.2 million. These amounts total \$5.6 million. It should be noted that Staff did not have amounts for the years 1999 to 2002 so the \$5.6 million is not the full amount of availability fees that has been actually collected. In an Affidavit provided by Lake Region's Treasurer and Corporate Secretary Brian Schwermann on May 13 and 24, 2010 confirms the availability fees for the period 2006 to 2009. Mr. Schwermann confirms for those four years of \$1,571,749 and the amount provided by the Property Owners for 2006 to 2009 was \$1,557,600 (see Staff May 28th filing, Appendix 1).

Therefore, it is unnecessary and in violation of Lake Region's tariffs to add back any amount of contributions in aid of construction. As such, Staff has calculated the revenue requirement scenario consistent with the revenue requirement calculations for Lake Region's operating systems presented at the true-up hearing held April 26<sup>th</sup> which did not add any amount of the contributed plant back to rate base. Staff did compute Scenario 3 using availability fees.



The results of the revenue requirement using the updated rate of return for Scenario 3 using 90% of collected availability fees as revenues and adding no amount of CIAC back to rate base are:

<b>Lake Region's Operating System</b>	<b>Staff True-up April 16, 2010 --- <u>No</u> Availability Fees and CIAC Offset to Rate Base  Corrected May 18, 2010</b>	<b>Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base  May 18th Report</b>	<b>Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base  June 7th Updated -- no change for capital structure</b>	<b>Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base  Staff Recommendation June 7th Report</b>	<b>Company April 30 &amp; May 26, 2010 - - With Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure</b>
<b>Shawnee Bend Water</b>	<b>\$22,252</b>	<b>(\$107,348)</b>	<b>(\$107,348)</b>	<b>\$0</b>	<b>\$250,951</b>
<b>Shawnee Bend Sewer</b>	<b>112,327</b>	<b>(82,073)</b>	<b>(82,073)</b>	<b>0</b>	<b>219,507</b>
<b>Horseshoe Bend Sewer</b>	<b>44,552</b>	<b>44,552</b>	<b>44,552</b>	<b>44,552</b>	<b>147,936</b>
<b>Total</b>	<b>\$179,131</b>	<b>(\$144,869)</b>	<b>(\$144,869)</b>	<b>\$44,552</b>	<b>\$618,396</b>

See Schedule 7 attached to this Response for the comparison of the Scenario 3 revenue requirements.

15. Staff continues to recommend no rate increase be authorized for Shawnee Bend water and sewer operating systems because the availability fees more than offset the need for a rate increase.

The three scenarios can be summarized and compared to the true-up direct revenue requirement filed on April 16, 2010, corrected for small change on May 18<sup>th</sup> as follows:

<b>Utility System</b>	<b>Staff True-up April 16, 2010 -- <u>No Availability Fees and CIAC Offset to Rate Base</u>  Corrected May 18, 2010</b>	<b>Scenario 1-- Staff True-up April 16, 2010 -- <u>With Availability Fees and \$5.3 million CIAC offset added to Rate Base</u>  June 7th Updated for capital structure</b>	<b>Scenario 2-- Staff True-up April 16, 2010 -- <u>With Availability Fees and \$2.1 million CIAC offset added to Rate Base</u>  June 7th Updated for capital structure</b>	<b>Scenario 3-- Staff True-up April 16, 2010 -- <u>With Availability Fees and No CIAC Offset added to Rate Base</u>  June 7th Updated -- no change for capital structure</b>	<b>Staff True-up April 16, 2010 -- <u>With Availability Fees and No CIAC Offset added to Rate Base</u>  Staff Recommendation June 7th Report</b>
<b>Shawnee Bend Water</b>	\$22,252	\$172,298	\$8,046	(\$107,348)	\$0
<b>Shawnee Bend Sewer</b>	112,327	183,060	25,229	(82,073)	0
<b>Horseshoe Bend Sewer</b>	44,552	156,945	92,924	44,552	44,552
<b>TOTAL</b>	\$179,131	\$512,303	\$126,199	(\$144,869)	\$44,552

Staff recommends the Commission use the results of Scenario 3 revenue requirement to determine rates for the three operating systems of Lake Region -- Shawnee Bend Water, Shawnee Bend Sewer and Horseshoe Bend Sewer. This scenario uses the availability fees as revenues and treats the contributed plant donated by the developer to Lake Region as contributions in aid of construction with no corresponding add back to rate base, which is consistent with the treatment afforded Ozark Shores Water Company. It is not necessary to revise the capital structure as no contributed plant is added to rate base. Under Scenario 3 Staff

calculated the revenue requirement using the same rate of return presented in the January 14, 2010 direct filing. Staff's use of availability fees as revenues to determine rates results in over earnings for Shawnee Bend Water and Sewer operating systems. However, consistent with Staff's stated position in Mr. Featherstone's true-up direct testimony and again in the May 18th Report, Staff is not advocating a rate reduction for Shawnee Bend Water and Sewer operating systems, but is not proposing a rate increase for those systems either. Staff is proposing an increase on the Horseshoe Bend Sewer system of \$44,552.

*Staff Expert Witness: Cary Featherstone*

## **CONCLUSION**

16. Staff continues to support the use of availability fees revenue to determine rates for the Shawnee Bend water and sewer operating systems of Lake Region. As Horseshoe Bend does not have availability fees associated with its service area there are no additional revenues to consider for this operating system. Staff believes availability fees were originally collected from the undeveloped lot owners by the developer to support the water and sewer utility operations of Shawnee Bend. Staff does not support the revenue requirement scenario in which the Commission asked to Staff to conduct identified as Scenario 1 nor Scenario 2 discussed above.

Staff recommends Scenario 3 to the Commission to use in determining the proper rate increase for Lake Region in this case. Therefore, Staff is only supporting an increase of \$44,552 for the Horseshoe Bend sewer operating system.


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

In the Matter of Lake Region Water & Sewer     )  
Company's Application to Implement a            )  
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Service.   )  
  
WR-2010-0111

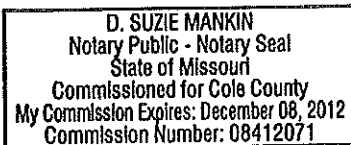
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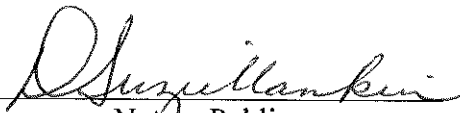
STATE OF MISSOURI     )  
                                      )     ss.  
COUNTY OF COLE     )

Shana Atkinson, of lawful age, on his oath states: that he has reviewed and analyzed The Staff Response to the Commission's May 27, 2010 Order regarding Lake Region's Response to the Revenue Scenario for Availability Charges for Lake Region Water and Sewer Company (formerly known as Four Seasons Lakesites Water and Sewer Company) filed with Missouri Public Service Commission. The information in the Staff Response was developed by him; that he has knowledge of the matters set forth in such Staff Response; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Shana Atkinson

Subscribed and sworn to before me this 7<sup>th</sup> day of June, 2010.



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


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

In the Matter of Lake Region Water & Sewer     )  
Company's Application to Implement a     )  
General Rate Increase in Water and Sewer     )     Case No.     AND  
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SR-2010-0110  
WR-2010-0111

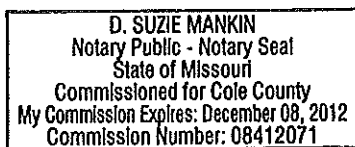
AFFIDAVIT OF CARY G. FEATHERSTONE

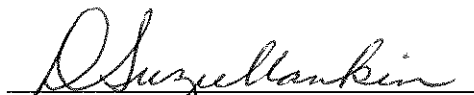
STATE OF MISSOURI     )  
                                      )     ss.  
COUNTY OF COLE     )

Cary G. Featherstone, of lawful age, on his oath states: that he has reviewed and analyzed The Staff Response to the Commission's May 27, 2010 Order regarding Lake Region's Response to the Revenue Scenario for Availability Charges for Lake Region Water and Sewer Company (formerly known as Four Seasons Lakesites Water and Sewer Company) filed with Missouri Public Service Commission. The information in the Staff Response was developed by him; that he has knowledge of the matters set forth in such Staff Response; and that such matters are true and correct to the best of his knowledge and belief.

  
Cary G. Featherstone

Subscribed and sworn to before me this 7<sup>th</sup> day of June, 2010.



  
Notary Public

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

In the Matter of Lake Region Water &  
Sewer Company's Application to Implement  
a General Rate Increase in Water and Sewer  
Service.

)  
) Case No. SR-2010-0110  
) and  
SR-2010-0111

AFFIDAVIT OF JAMES A. MERCIEL, JR., P.E.

STATE OF MISSOURI     )  
                                  ) ss  
COUNTY OF COLE     )

James A. Merciel, Jr., P.E., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing Staff Report in pages 6 - 8; (3) that he has knowledge of the matters set forth in the foregoing Staff Report; and, (4) that the matters set forth in the foregoing Staff Report are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
James A. Merciel, Jr., P.E.

Subscribed and sworn to before me this 4<sup>th</sup> day of June 2010.

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



SUSAN L. SUNDERMEYER  
My Commission Expires  
September 21, 2010  
Callaway County  
Commission #06942086

## Missouri Public Service Commission

### Respond Data Request

<b>Data Request No.</b>	0113
<b>Company Name</b>	Lake Region Water & Sewer Company-(Sewer)
<b>Case/Tracking No.</b>	SR-2010-0110
<b>Date Requested</b>	5/3/2010
<b>Issue</b>	Revenue - Other Revenue Issues
<b>Requested From</b>	John Summers
<b>Requested By</b>	Cary Featherstone
<b>Brief Description</b>	support for Dr. Vernon Stump's testimony
<b>Description</b>	<p>1. With respect to Lake Region's response to Staff Data Request 111 relating to the testimony given on March 31, 2010 at transcript pages 560 and 561, by Lake Region witness, Dr. Vernon Stump, president of the Company, 1. please provide all supporting follow-up information along with all supporting documentation relating to Missouri Commission cases cited by Dr. Stump relating to area of availability charges/ fees, ratemaking treatment of availability charges/ fees, contributed plant (contributions in aid of construction (CIAC)) at the hearings and identified in Lake Region response to Staff Data Request 111. 2. Dr. Stump, cited Case No. WR-92-59 (transcript page 560) and Case No. WR-98-990 (transcript page 561) which formed the basis of the questions relating Staff Data Request 111-- Lake Region response to Staff Data Request 111 states it finds "no reference to Case WR-99-183 in Dr. Stump's testimony. Staff has better access to the Commission's files for all other cases than does the Company. Staff finds no case on file in the Commission's records regarding Case No. WR-98-990. As such, please provide the following: 2a. please identify if Case No. WR-98-990 or WR-99-183 resulted in any tariff change for rate increase approved by the Missouri Commission in the amount of \$21,090. b). Supply the Commission Order authorizing any rate change in Case No. WR-98-990, which was initially identified by Dr. Stump at the March 31, 2010 hearings. Identify if Case No. WR-98-990 is actually Case No. WR-99-183. c). Was either Case No. WR-98-990 or Case No. WR-99-183 a contested rate case or was it settled case (stipulation and agreement)? 3a. In particular, please provide the original application made by Ozark Shores in Case No. WR-98-990 (Case No. WR-99-183) and any revisions to the original application-- the amount initially requested by the Company relating to this case, the kind of case it was (such as rate case, earnings review case, complaint case, etc.), the outcome of the case-- was there a stipulation and agreement or was it a contested case? b) did the decision in either Case No. WR-98-990 or WR-99-183 result in the increase or decrease in water rates. 4. Please supply Commission orders, stipulation and agreements, case numbers and any support for statements made at the hearing by Dr. Stump regarding the ratemaking treatment given Ozark Shores property such as not treating contribution in aid of construction (CIAC) as an offset to rate base for contributed or "donated" plant thereby increasing rate base. 5a). Identify the actual amount of contributed plant (developer donated plant property) on the Ozark Shores books and records relating to the Case No. WR-98-990 (Case No. WR-99-183) for the test year ending December 31, 1996 and identify the plant accounting number(s) where the contributed plant was booked and supply the accounting entries which establish the contributed plant amount on the Ozark Shores books. b). Identify the actual amount of contributed plant (developer donated plant property) on the Ozark Shores books and records for the period ending December 31, 2009 and identify the plant accounting number(s) where the contributed plant was booked and supply the accounting entries which establish the contributed plant</p>

**SCHEDULE 1-1**

amount on the Ozark Shores books. c). Provide all documentation such as written information which supports the actual amounts of contributed (developer donated plant property) for Ozark Shores the period 1. test year ending December 31, 1996 relating to the Case No. WR-98-990 (Case No. WR-99-183). 2. period ending December 31, 2009. This documentation would include but not be limited to correspondence, deeds, agreements, real estate contracts, etc. between the developer and Ozark Shores which transfers the ownership of this contributed plant property to Ozark Shores.

**Response**

Without waiver of the objections filed May 10, 2010 the Company responds as follows: 1. Company is not sure what "follow-up information means". Company supplied the Staff work papers to which Dr. Stump referred in the response to DR 111. 2. a) The Company is unsure of the case number resulting in the rates tariffed December 11, 1998 as there is no case number in the Commission stamp on the tariff page. Company believes WR-99-183 may be the final case number for WR-98-990 (work papers attached to DR 111) and WR-98-991 (work papers attached) and be the basis for the tariffs dated December 11, 1998. b) Company does not have the order for WR-98-990, WR-98-991 or WR-99-183. c) Company believes whichever case set the rate was stipulated. 3. a) Company has attached the application for rate increase filed in 1997. Company believes the tariff effective December 11, 1998 is the outcome of this case and believes it was a stipulated case. b) The rates made effective December 11, 1998 were an increase over previous rates. 4. Case numbers were supplied in response to DR 112. The Orders and/or any stipulations or agreements should be in the Commissions files. 5. a) Company believes the amount is zero. b) Company does not believe there is any amount of contributed plant associated with availability fees recorded on Ozark Shores' books c) See response to b.

**Objections**

NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **SR-2010-0110** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Lake Region Water & Sewer Company-(Sewer)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Lake Region Water & Sewer Company-(Sewer)** and its employees, contractors, agents or others employed by or acting in its behalf.

**Security :** Public

**Rationale :** NA



**LAKE REGION WATER and SEWER COMPANY**  
**CASE NO. WR-2010-0111 and SR-2010-0110**

**Weighted Cost of Capital as of September 30, 2009**  
**for Lake Region Water & Sewer Company**

**Scenario 1**

Capital Component	Amount	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
				<b>8.00%</b>	<b>8.50%</b>	<b>9.00%</b>
Common Stock Equity	\$4,410,777.60	62.65%	-----	5.01%	5.33%	5.64%
Long-Term Debt	\$2,629,091.40	37.35%	5.01%	1.87%	1.87%	1.87%
Total Capital (Rate Base)	<u>\$7,039,869.00</u>	<u>100.00%</u>		<u>6.88%</u>	<u>7.20%</u>	<u>7.51%</u>

Sources:

Response to Staff DR Nos. 0052 and 0060  
Schedules 7 lines 5 of three operating systems of Staff Filing May 18, 2010

**LAKE REGION WATER and SEWER COMPANY  
CASE NO. WR-2010-0111 and SR-2010-0110**

**Weighted Cost of Capital as of September 30, 2009  
for Lake Region Water & Sewer Company**

**Scenario 2**

Capital Component	Amount	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
				<b>8.00%</b>	<b>8.50%</b>	<b>9.00%</b>
Common Stock Equity	\$1,934,997.60	42.40%	-----	3.39%	3.60%	3.82%
Long-Term Debt	\$2,629,091.40	57.60%	5.01%	2.89%	2.89%	2.89%
Total Capital (Rate Base)	<u>\$4,564,089.00</u>	<u>100.00%</u>		<u>6.28%</u>	<u>6.49%</u>	<u>6.70%</u>

Sources:

Response to Staff DR Nos. 0052 and 0060  
Schedules 7 lines 5 of three operating systems of Staff Filing May 18, 2010

**LAKE REGION WATER and SEWER COMPANY**  
**CASE NO. WR-2010-0111 and SR-2010-0110**

**Weighted Cost of Capital as of September 30, 2009**  
**for Lake Region Water & Sewer Company**

Scenario 3

Capital Component	Amount	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
				<b>8.00%</b>	<b>8.50%</b>	<b>9.00%</b>
Common Stock Equity	\$514,404.60	16.36%	-----	1.31%	1.39%	1.47%
Long-Term Debt	\$2,629,091.40	83.64%	5.01%	4.19%	4.19%	4.19%
Total Capital (Rate Base)	<u>\$3,143,496.00</u>	<u>100.00%</u>		<u>5.50%</u>	<u>5.58%</u>	<u>5.66%</u>

Sources:

Response to Staff DR Nos. 0052 and 0060

LAKE REGION WATER AND SEWER COMPANY  
Case Nos. SR-2010-0110 and WR-2010-0111

**Staff June 7, 2010 Response to Commission May 27th Order**

Lake Region Operating System	Staff True-up April 16, 2010-- No Availability Fees and CIAC offset to Rate Base	Staff True-up April 16, 2010-- With Availability Fees and \$5.3 million CIAC offset added to Rate Base	Staff True-up April 16, 2010-- With Availability Fees and \$5.3 million CIAC offset added to Rate Base	Company May 26, 2010-- With Availability Fees and \$5.3 million CIAC offset added to Rate Base
	Corrected May 18, 2010	Filed May 18, 2010	Revised June 7, 2010	LRWS Schedule 1 Page 1 of 9

**Commission Ordered Scenario 1**

Shawnee Bend Water	\$22,252	\$55,914	\$172,298	\$250,951
Shawnee Bend Sewer	112,327	61,349	183,060	219,507
Horseshoe Bend Sewer	44,552	117,033	156,945	147,936
<b>TOTAL Lake Region Revenue Requirement</b>	<b>\$179,131</b>	<b>\$234,296</b>	<b>\$512,303</b>	<b>\$618,394</b>

**Staff does not recommend the implementation of rates for Commission Ordered Scenario 1**

The \$5.3 million contributed plant has been fully recovered-- to add the CIAC to rate base and reflecting in rates would provide a wind fall to Lake Region and require its customers to be charged twice for this plant-- in rates and when lot was purchased.

Differences between Company and Staff relate to:

- Assumptions:
- 1 Commission Ordered Scenario 1 was in reponse to the Commission's April 8, 2010 Order based on using availability fees as revenues and adding \$5.3 million CIAC to rate base.
  - 2 Staff used an uncollectible rate 10% for availability fee revenue. Company did not reflect uncollectible 10% rate.
  - 3 Staff made a minor correction in May 18th filing found in the CIAC amortization offset calculation.
  - 4 Staff revised the capital structure used in the January 14, 2010 direct filing for the \$5.3 million CIAC offset added to Rate Base. Staff's revised calculation used the same Exhibit Model System used in the original January 14, 2010 direct filing.

LAKE REGION WATER AND SEWER COMPANY  
Case Nos. SR-2010-0110 and WR-2010-0111

**Staff June 7, 2010 Response to Commission May 27th Order**

Lake Region  
Operating  
System

Staff True-up  
April 16, 2010--  
No Availability  
Fees and CIAC  
offset to  
Rate Base

Corrected  
May 18, 2010

**Staff Scenario 2**

Staff True-up  
April 16, 2010--  
With Availability  
Fees and \$2.0  
million CIAC  
offset added to  
Rate Base

Filed  
May 18, 2010

**Staff Scenario 2**

Staff True-up  
April 16, 2010--  
With Availability  
Fees and \$2.0  
million CIAC  
offset added to  
Rate Base

Revised  
June 7, 2010

Company  
May 26, 2010--  
With Availability  
Fees and \$5.3  
million CIAC  
offset added to  
Rate Base

LRWS Schedule 1  
Page 1 of 9

**Staff Scenario 2**

Shawnee Bend Water	\$22,252	(\$20,633)	\$8,046	\$250,951
Shawnee Bend Sewer	112,327	(10,634)	25,229	219,507
Horseshoe Bend Sewer	44,552	80,655	92,924	147,936
<b>TOTAL Lake Region Revenue Requirement</b>	<b>\$179,131</b>	<b>\$49,388</b>	<b>\$126,199</b>	<b>\$618,394</b>

**Staff does not recommend the implementation of rates for Staff Scenario 2**

The \$2.0 million contributed plant has been fully recovered-- to add the CIAC to rate base and reflecting in rates would provide a wind fall to Lake Region and require its customers to be charged twice for this plant-- in rates and when lot was purchased.

Differences between Company and Staff relate to:

- Assumptions:
- 1 Staff Scenario 2 was in reponse to the Commission's April 8, 2010 Order based on using availability fees as revenues and adding \$2.0 million CIAC to rate base.
  - 2 Staff used an uncollectible rate 10% for availability fee revenue. Company did not reflect uncollectible 10% rate.
  - 3 Staff made a minor correction in May 18th filing found in the CIAC amortization offset calculation.
  - 4 Staff revised the capital structure used in the January 14, 2010 direct filing for the \$2.0 million CIAC offset added to Rate Base. Staff's revised calculation used the same Exhibit Model System used in the original January 14, 2010 direct filing.

LAKE REGION WATER AND SEWER COMPANY  
Case Nos. SR-2010-0110 and WR-2010-0111

**Staff June 7, 2010 Response to Commission May 27th Order**

**Staff Scenario 3**

**Staff Scenario 3**

**Company  
May 26, 2010--  
With Availability  
Fees and \$5.3  
million CIAC  
offset added to  
Rate Base**

**Lake Region  
Operating  
System**

**Staff True-up  
April 16, 2010--  
No Availability  
Fees and CIAC  
offset to  
Rate Base**

**Corrected  
May 18, 2010**

**Staff True-up  
April 16, 2010--  
With Availability  
Fees and no  
CIAC  
offset added to  
Rate Base**

**Filed  
May 18, 2010**

**Staff True-up  
April 16, 2010--  
With Availability  
Fees and no  
CIAC  
offset added to  
Rate Base**

**Revised  
June 7, 2010**

LRWS Schedule 1  
Page 1 of 9

**Staff Scenario 3**

Shawnee Bend Water	\$22,252	(\$107,348)	(\$107,348)	\$250,951
Shawnee Bend Sewer	112,327	(82,073)	(82,073)	219,507
Horseshoe Bend Sewer	44,552	44,552	44,552	147,936
<b>TOTAL Lake Region Revenue Requirement</b>	<b>\$179,131</b>	<b>(\$144,869)</b>	<b>(\$144,869)</b>	<b>\$618,394</b>

**Staff recommends the implementation of rates for Staff Scenario 3**

All contributed plant has been fully recovered-- no amount needs to be added to rate for contributed plant--to add any amount for CIAC to rate base and reflecting in rates would provide a wind fall to Lake Region and require its customers to be charged twice for this plant-- in rates and when lot was purchased.

**Differences between Company and Staff relate to:**

- Assumptions:
- 1 Staff Scenario 3 was in reponse to the Commission's April 8, 2010 Order based on using availability fees as revenues and adding no CIAC back to rate base.
  - 2 Staff used an uncollectible rate 10% for availability fee revenue. Company did not reflect uncollectible 10% rate.
  - 3 Staff made a minor correction in May 18th filing found in the CIAC amortization offset calculation. Company did not make this correction in its May 26th filing
  - 4 Staff did not have to revise the capital structure used in the January 14, 2010 direct filing since no CIAC offset added to Rate Base. Staff's revised calculation used the same Exhibit Model System used in the original January 14, 2010 direct filing.