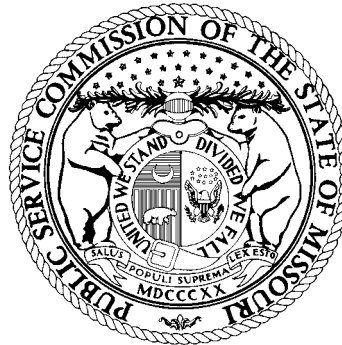


MISSOURI PUBLIC SERVICE COMMISSION

STAFF'S JUNE 21, 2010 RESPONSE TO **MISSOURI PUBLIC SERVICE COMMISSION'S** **JUNE 16, 2010** **ORDER REGARDING CLARIFICATION** **TO PLANT ADDITIONS**



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 21, 2010*

LAKE REGION WATER & SEWER COMPANY
SR-2010-0110 AND WR-2010-0111
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**STAFF'S JUNE 21, 2010 RESPONSE TO
MISSOURI PUBLIC SERVICE COMMISSION'S
JUNE 16, 2010 ORDER REGARDING CLARIFICATION
TO PLANT ADDITIONS**

I. LAKE REGION WATER & SEWER COMPANY'S PLANT IN SERVICE

1. The Missouri Public Service Commission (Commission) issued an Order June 16, 2010 (the June 16th Order) directing Staff to clarify its position on plant additions and rate base calculations for Lake Region Water and Sewer Company (Lake Region).
2. On April 16, 2010 prior to the start of the True-up hearing, John Summers, Lake Region's General Manager contacted Staff about a concern the Company had regarding the amount of plant additions included in the plant in service schedule filed with the True-up revenue requirement runs. Staff indicated to the Company it would address the matter subsequent the April 16th True-up hearings.
3. Prior to the April 16th True-up hearing, Mr. Summers and Staff member Karen Herrington discussed the amount of the plant addition completed in March 2010. Mr. Summers indicated the plant addition total should be \$242,603. Ms. Herrington confirmed \$242,603 as the correct amount for plant additions and included that amount in the Horseshoe Bend Sewer revenue requirement calculation.
4. What Lake Region thought was a problem with the plant addition amount, actually turned out to be a change in another plant account amount. The discrepancy Mr. Summers referenced at the April 16th True-up hearing actually related to a plant amount for the Shawnee Bend Sewer account 362 (Receiving Wells and Pump Pits). Staff originally had an incorrect amount of \$296,578 in its direct filing which it found during revisions for the True-up. The actual balance for account 362 should have been \$258,043. This amount corresponds with the Company's general ledger. In addition to adding the amount of new plant addition of \$242,603 which was the purpose of the True-up, Staff also corrected the right amount based on the Lake Region's general ledger for account 362 (the \$258,043 amount), and corrected the related accumulated reserve balances.
5. On May 18, 2010 Staff responded to the Commission's April 8, 2010 Order regarding the availability charges. The name of the report was "STAFF RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S APRIL 8, 2010 ORDER REGARDING AVAILABILITY CHARGES" (the May 18th Report). In this report Staff submitted three scenarios based on including availability charges as revenues and various levels of contributions in aid of construction (CIAC). The starting basis of each those revenue requirement calculations was the True-up through March 31, 2010, corrected for a minor item as of May 18, 2010. The starting revenue requirement before any of the scenario calculations was identified as "Staff True-up April 16, 2010-- No Availability Fees and CIAC Offset to Rate Base Corrected May 18, 2010--" [see pages 5, 13, 17, 18 and Schedules 1-3 and 1-4 of the June 7th report to identify the

that the amounts below were used as starting basis for the three scenarios presented to the Commission regarding availability fees].

6. The May 18th corrected amount for the True-up through March 31, 2010 without availability fees appears as follows:

| | Staff True-up April 16, 2010-- No Availability Fees and CIAC Offset to Rate Base Corrected May 18, 2010-- |
|----------------------|--|
| Shawnee Bend Water | \$22,252 |
| Shawnee Bend Sewer | 112,327 |
| Horseshoe Bend Sewer | <u>44,552</u> |
| Total | \$179,131 |

The April 16th date was the date of the True-up hearings

7. The above break down for the three Lake Region operating systems based on the True-up through March 31, 2010 corrected May 18, 2010 was also the starting basis for the filing made June 7th entitled "STAFF'S JUNE 7, 2010 RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S MAY 27, 2010 ORDER REGARDING AVAILABILITY CHARGES" (the June 7th Report) [see pages 9, 11, 13 and 14 of the June 7th report to identify the above amounts were used as starting basis for the three scenarios presented to the Commission regarding availability fees].

8. The corrected plant amount for account 362 of \$258,043 and the plant addition of \$242,603 (discussed above) were both included in the revenue requirement results presented in the May 18th Report and the June 7th Report.

II. LAKE REGION WATER & SEWER COMPANY'S PLANT ADDITION FOR TRUE-UP

1. As directed in the Commission's June 16th order, the amount of the new plant addition included for the Horseshoe Bend Sewer system for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing is \$242,603. This amount did not change based on discussions with Lake Region after the April 16th True-up hearing.

Plant Additions for March 31, 2010 True-up

| Lake Region's Operating System | Plant Addition at the April 16th True-up | Plant Addition based on discussion with Company after April 16th True-up corrected May 18, 2010 and Revised June 21, 2010 |
|--------------------------------|--|---|
| Shawnee Bend Water | \$0 | \$0 |
| Shawnee Bend Sewer | 0 | 0 |
| Horseshoe Bend Sewer | <u>242,603</u> | <u>242,603</u> |
| Total Plant Additions | \$242,603 | \$242,603 |

III. COMPARISON OF PLANT IN SERVICE, RATE BASE AND REVENUE REQUIREMENT AT TIME OF APRIL 16, 2010 TRUE-UP HEARINGS AND MAY 18, 2010 CORRECTION

1. As directed in the Commission's June 16th order, the plant in service amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 are:

Plant in Service as of March 31, 2010 True-up

| Lake Region's Operating System | Plant in Service at the April 16th True-up Corrected May 18, 2010 | Plant in Service at the April 16th True-up-- Corrected May 18, 2010 Revised June 21, 2010 |
|--------------------------------|---|---|
| Shawnee Bend Water | Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874 | Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874 |
| Shawnee Bend Sewer | Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519 | Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519 |
| Horseshoe Bend Sewer | Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908 | Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908 |
| Total Plant in Service | Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301 | Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301 |

Source: Exhibit Model System Schedule 7, Lines 1, 2 and 3

As can be seen from the above table, there were no changes for the May 18, 2010 corrected revenue requirement calculations for plant in service.

2. As directed in the Commission's June 16th order, the rate base amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 are:

Rate Base for March 31, 2010 True-up compared to the June 21, 2010 revised

| Lake Region's Operating System | Rate Base Amounts at the April 16th True-up | Rate Base at the April 16th True-up Corrected May 18, 2010 |
|---------------------------------------|--|---|
| Shawnee Bend Water | \$888,182 | \$874,282 |
| Shawnee Bend Sewer | 1,372,065 | 1,486,680 |
| Horseshoe Bend Sewer | <u>526,217</u> | <u>584,138</u> |
| Total Rate Base | \$2,786,464 | \$2,945,100 |

Source: Exhibit Model System Schedule 7, Line 5

The above changes were based on corrections in the reserve and CIAC area. The rate base amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing are:

3. The revenue requirement amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing compared to the amount corrected May 18th are:

Revenue Requirement

| Lake Region's Operating System | Staff True-up April 16, 2010 - - No Availability Fees and CIAC offset to Rate Base | Staff True-up April 16, 2010 -- No Availability Fees and CIAC offset to Rate Base Corrected -- May 18, 2010 |
|---------------------------------------|---|--|
| Shawnee Bend Water | \$23,078 | \$22,252 |
| Shawnee Bend Sewer | 105,533 | 112,327 |
| Horseshoe Bend Sewer | <u>41,120</u> | <u>44,552</u> |
| Total | \$169,731 | \$179,131 |

IV. POST TRUE-UP CHANGES FOR CUSTOMER ADVANCES, CONTRIBUTIONS IN AID OF CONSTRUCTION AND RATE CASE EXPENSE

1. Staff has had numerous discussions with Lake Region subsequent to the April 16th True-up regarding changes believed to be necessary to the revenue requirement calculations for customer advances and a more proper reallocation of CIAC between the three operating systems. In addition, Lake Region provided additional support for expenses associated with processing the two water and sewer rate cases. Staff has updated its rate case expense amounts which are reflected as a normalized level based on a three year recovery period. Staff has recalculated the three operating systems' revenue requirement and is filing them as a separate exhibit to this June 21st Report.

2. The revenue requirement results of the updates for customer advances, reallocation of CIAC and updated rate case expenses appear as follows compared to the corrected May 16th revenue requirements:

Revenue Requirement

| Lake Region Operating Systems | 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-- No Availability Fees and CIAC Offset to Rate Base Corrected May 18, 2010 Revised June 21, 2010 For Customer Advances, CIAC reallocation and Rate Case Expenses |
|--------------------------------------|--|--|
| Shawnee Bend Water | \$22,252 | \$16,789 |
| Shawnee Bend Sewer | 112,327 | 33,136 |
| Horseshoe Bend Sewer | <u>44,552</u> | <u>88,317</u> |
| Total | \$179,131 | \$138,242 |

3. The reasons for these changes to the revenue requirements are:

Customer Advances--

Staff received information regarding an amount of customer advances in response to Data Request 72.1 on May 13, 2010. Staff requested follow-up information regarding the customer advances contained on the Company's books in Data Request 72.2 (see June 21, 2010 Report Schedule 1). This information provided in these responses identified an amount of customer advances which had not been included as an offset to rate base in any of the original or update EMS runs. Through discussions with Lake Region, Staff and the Company agreed to a total amount of \$412,875 for customer advances which was specifically identified to the Shawnee

Bend Water and Sewer systems (see Schedule 7, line 4 for each of these revenue requirement calculations). None of the customer advances related to Horseshoe Bend Sewer system.

Customer advances are funds provided by the developer under tariff which are used to develop the infrastructure. The Company has use of these cost-free funds for a period of time before they have to be refunded to the developer or determined that the funds will not be returned in which case the Company permanently maintains and will treat as CIAC. Customer advances are treated as an offset to rate base having the same affect as CIAC and customer deposits.

The amounts for customer advances identified in the June 21, 2010 revenue requirement calculations are:

Customer Advances

| Lake Region's 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 -- No Availability Fees and CIAC offset to Rate Base Revised June 21, 2010 |
|---------------------------------------|--|--|
| Shawnee Bend Water | \$0 | \$247,725 |
| Shawnee Bend Sewer | 0 | 165,150 |
| Horseshoe Bend Sewer | <u>0</u> | <u>0</u> |
| Total | \$0 | \$412,875 |

Source: EMS Schedule 7, line 4

Reallocation of Contributions in Aid of Construction--

During discussions with Lake Region regarding customer advances, it indicated a belief the CIAC amounts allocated among the three operating systems were incorrect. Upon further review, both the Company and Staff agreed the way CIAC was allocated in the original and updated revenue requirement calculations needed to be revised. Lake Region was able to specifically identify the amounts of CIAC for each of the operating systems which removed the need to allocate the CIAC balances. The CIAC depreciation offset also was affected by this change and was revised.

The amounts for customer advances identified in the June 21, 2010 revenue requirement calculations are:

| Contributions in Aid of Construction Lake Region's 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 -- No Availability Fees and CIAC offset to Rate Base Revised June 21, 2010 |
|--|--|--|
| Shawnee Bend Water | CIAC \$2,934,677 CIAC Depr <u>402,950</u> Net CIAC \$2,531,727 | CIAC \$2,657,810 CIAC Depr <u>543,500</u> Net CIAC \$2,114,310 |
| Shawnee Bend Sewer | CIAC \$2,190,169 CIAC Depr <u>579,087</u> Net CIAC 1,611,082 | CIAC \$3,177,310 CIAC Depr <u>649,733</u> Net CIAC 2,527,577 |
| Horseshoe Bend Sewer | CIAC \$1,106,806 CIAC Depr <u>292,643</u> Net CIAC 814,163 | CIAC \$396,532 CIAC Depr <u>81,087</u> Net CIAC 315,445 |
| Total | CIAC \$6,231,652 CIAC Depr <u>1,274,680</u> Net CIAC \$4,956,972 | CIAC \$6,231,652 CIAC Depr <u>1,274,320</u> Net CIAC \$4,957,332 |

Source: EMS Schedule 7, line 4

Rate Case Expenses--

Lake Region provided an update for rate case expenses during the week of June 14, 2010 identifying additional costs for attorney fees and travel costs for true-hearings, briefs, conference calls relating to several topics including the customer advances and CIAC issues and discovery matters for the rate case. Staff has included the updated amounts in its revised June 21, 2010 revenue requirement calculations for a three year recovery of normalized level based on the three year recovery.

The total amount of rate case expense Lake Region has incurred through May 2010 is \$42,997 compared to \$22,498 through March 31, 2010 True-up. Staff included the May 2010 amount equally for the three operating systems over three year recovery period.

The three year annual amounts for rate case expenses identified in the June 21, 2010 revenue requirement calculations for each of the three operating systems are:

| Rate Case <u>Expense</u> Lake Region's 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 - - No Availability Fees and CIAC offset to Rate Base Revised June 21, 2010 |
|--|---|--|
| Shawnee Bend Water | \$2,500 | \$4,777 |
| Shawnee Bend Sewer | 2,500 | 4,777 |
| Horseshoe Bend Sewer | <u>2,500</u> | <u>4,777</u> |
| Total | \$7,500 | \$14,331 |

Source: EMS Schedule 7, line 4

4. The rate base amounts for the True-up through March 31, 2010 corrected for May 18, 2010 and revised June 21, 2010 are:

Rate Base for March 31, 2010 True-up compared to the June 21, 2010 revised

| Lake Region's Operating System | Rate Base Amounts at the April 16th True-up Corrected May 18, 2010 | Rate Base at the April 16th True-up-- Corrected May 18, 2010 Revised June 21, 2010 |
|---------------------------------------|---|---|
| Shawnee Bend Water | \$874,282 | \$1,043,974 |
| Shawnee Bend Sewer | 1,486,680 | 405,035 |
| Horseshoe Bend Sewer | <u>584,138</u> | <u>1,082,856</u> |
| Total Rate Base | \$2,945,100 | \$2,531,865 |

Source: Exhibit Model System Schedule 7, Line 5

As can be seen from the above table there were rate base changes from the levels identified for the True-up through March 31, 2010 corrected May 18th to the revised June 21, 2010 levels. The changes were primarily the result of the customer advances for the Shawnee Bend Water and Sewer systems and the reallocation of the CIAC to the levels specifically identified for each of the three operating systems.

5. The plant in service amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing corrected May 18, 2010 compared to the June 21, 2010 revised amounts are:

Plant in Service as of March 31, 2010 True-up and revised June 21, 2010

| Lake Region's Operating System | Plant in Service at the April 16th True-up – Corrected May 18, 2010 | Plant in Service at the April 16th True-up – Corrected May 18, 2010 Revised June 21, 2010 |
|---------------------------------------|--|--|
| Shawnee Bend Water | Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874 | Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874 |
| Shawnee Bend Sewer | Plant \$3,952,151 Reserve <u>836,632</u> Net Plant 3,115,519 | Plant \$3,952,151 Reserve <u>836,632</u> Net Plant 3,115,519 |
| Horseshoe Bend Sewer | Plant \$2,190,789 Reserve <u>759,882</u> Net Plant 1,430,908 | Plant \$2,190,789 Reserve <u>759,882</u> Net Plant 1,430,908 |
| Total Plant Additions | Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301 | Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301 |

Source: Exhibit Model System Schedule 7, Lines 1, 2 and 3

As can be seen from the above table, there were no changes for the June 21, 2010 revised plant in service amounts.

V. REVENUE REQUIREMENT SCENARIOS FOR JUNE 21, 2010 REVISED REVENUE REQUIREMENTS

1. Staff presented three scenarios for consideration to the Commission on May 18, 2010 regarding the response to the April 8, 2010 Order (the April 8th Order). The Commission ordered Staff to provide a revenue requirement based on adding contributed plant to rate base and including availability charges as revenues. This was identified as Commission Ordered Scenario 1. Staff did not recommend the implementation of rates for the Commission Ordered Scenario 1.

2. Staff provided two additional scenarios -- Scenarios 2 and 3-- which identified two different levels of add back of contributed plant to rate base. Scenario 2 considered amounts of contributed plant already collected from identified availability fees from the period 2003 to 2010 of \$3.2 million [see May 18th Report, Schedule 1-1].

Staff did not recommend the implementation of rates for Scenario 2.

3. Scenario 3 identified the revenue requirement based on Staff's position that the contributed plant had been fully recovered and there was no need to add any contributed plant back to rate base.

Staff recommended implementation of Scenario 3 as basis for determining water and sewer rates in these rate cases.

The results of the three scenarios presented revised June 21, 2010 appear as follows:

| Lake Region Operating System | Staff True-up April 16, 2010 -- <u>No Availability Fees and CIAC Offset to Rate Base</u> Revised June 21, 2010-- | Scenario 1-- Staff True-up April 16, 2010 -- <u>With Availability Fees and \$5.3 million CIAC offset added to Rate Base</u> June 21st Updated for capital structure | Scenario 2-- Staff True-up April 16, 2010 -- <u>With Availability Fees and \$2.1 million CIAC offset added to Rate Base</u> June 21st Updated for capital structure | Scenario 3-- Staff True-up April 16, 2010 -- <u>With Availability Fees and No CIAC Offset added to Rate Base</u> June 21st Updated -- no change for capital structure | Staff True-up April 16, 2010 -- <u>With Availability Fees and No CIAC Offset added to Rate Base</u> Staff Recommendation- - June 21st Report |
|-------------------------------------|---|--|--|--|---|
| Shawnee Bend Water | \$26,366 | \$167,354 | \$1,257 | (\$112,811) | \$0 |
| Shawnee Bend Sewer | 36,852 | 130,019 | (44,477) | (161,244) | 0 |
| Horseshoe Bend Sewer | <u>98,252</u> | <u>161,219</u> | <u>124,118</u> | <u>88,317</u> | <u>88,317</u> |
| TOTAL | \$161,470 | \$458, <u>592</u> | \$ <u>80</u> ,898 | (\$ <u>185</u> ,738) | \$88,317 |

The results of each of three scenarios capital structure are attached as June 21st Report Schedule 2 along with the results of each scenario's three revenues requirements are attached as June 21st Report Schedule 3.

4. On June 7, 2010, Staff submitted a report to the Commission (the June 7th Report) that revised the three scenarios regarding a change in capital structure for the add back to rate base for contributed plant in response to Commission's Order dated May 27, 2010 (the May 27th Order).

The results of the three scenarios for the updates to the capital structure presented June 7th appear as follows:

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

VI. COMMISSION APRIL 8th ORDERED SCENARIO NUMBER 1 REVISED JUNE 21, 2010

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

1. 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 adjusting the capital structure are:

| <u>Scenario 1</u> Lake Region's Operating System | 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 | Staff True-up April 16, 2010 -- With Availability Fees and \$5.3 million CIAC offset added to Rate Base June 21st Updated for capital structure | Company April 30 & May 26, 2010 -- With Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure |
|---|---|--|---|
| Shawnee Bend Water | \$172,298 | \$167,354 | \$250,951 |
| Shawnee Bend Sewer | 183,060 | 130,019 | 219,507 |
| Horseshoe Bend Sewer | <u>156,945</u> | 161,219 | <u>147,936</u> |
| Total | \$512,303 | \$458,592 | \$618,396 |

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

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.

VII. SCENARIO NUMBER 2 REVISED JUNE 21, 2010

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

1. 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 deducting 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:

| <u>Scenario 2</u> Lake Region's Operating System | Staff True-up April 16, 2010 -- With Availability Fees and \$2.1 million CIAC offset added to Rate Base June 7th Updated for capital structure | Staff True-up April 16, 2010 -- With Availability Fees and \$2.1 million CIAC offset added to Rate Base June 21st Updated for capital structure | Company April 30 & May 26, 2010 -- With Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure |
|---|---|--|---|
| Shawnee Bend Water | \$8,046 | \$1,257 | \$250,951 |
| Shawnee Bend Sewer | 25,229 | (44,477) | 219,507 |
| Horseshoe Bend Sewer | <u>92,924</u> | <u>124,118</u> | <u>147,936</u> |
| Total | \$126,199 | \$80,898 | \$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.

VIII. SCENARIO NUMBER 3 REVISED JUNE 21, 2010

Staff Calculation of the Revenue Requirement Scenario No. 3 Using Availability Fees and Fully Recovered Contributed Plant-- no CIAC added to rate base and no need for change in capital structure.

1. 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).

2. 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 26th which did not add any amount of the contributed plant back to rate base. Staff did compute Scenario 3 using availability fees.

3. 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 or adjusting the capital structure are:

| <u>Scenario 3</u> | Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base | Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base | Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base | Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base | Company April 30 & May 26, 2010 -- With Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure |
|---|--|--|--|--|---|
| Lake Region's Operating System | June 7th Updated -- no change for capital structure | Staff Recommendation- - June 7th Report | Staff Recommendation- - June 21st Report | Staff Recommendation- - June 21st Report | |
| Shawnee Bend Water | (\$107,348) | \$0 | (\$112,811) | \$0 | \$250,951 |
| Shawnee Bend Sewer | (82,073) | 0 | (161,244) | 0 | 219,507 |
| Horseshoe Bend Sewer | <u>44,552</u> | <u>44,552</u> | <u>88,317</u> | <u>88,317</u> | <u>147,936</u> |
| Total | (\$144,869) | \$44,552 | (\$185,738) | \$88,317 | \$618,396 |

4. 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.

5. 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, the May 18th Report and again in the June 7th 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 \$88,317.

Staff Expert/Witness: Cary Featherstone

IX. CONCLUSION

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 \$88,317 for the Horseshoe Bend sewer operating system.

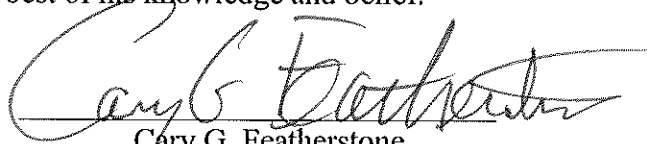
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

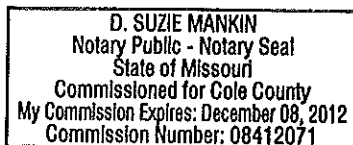
AFFIDAVIT OF CARY FEATHERSTONE

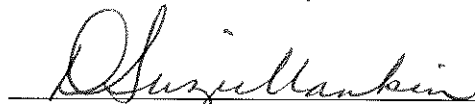
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary Featherstone, of lawful age, on his oath states: that he has reviewed and analyzed the Staff Response to the Commission's June 16, 2010 Order regarding 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 21st day of June, 2010.




Notary Public

Missouri Public Service Commission

Respond Data Request

| | |
|--------------------------|---|
| Data Request No. | 0072.2 |
| Company Name | Lake Region Water & Sewer Company-(Sewer) |
| Case/Tracking No. | SR-2010-0110 |
| Date Requested | 5/14/2010 |
| Issue | Revenue - Other Revenue Issues |
| Requested From | John Summers |
| Requested By | Cary Featherstone |
| Brief Description | follow-up to DR 72.1 concerning customer advance |
| Description | Lake Region's response to Staff Data Request 72.1 states "after further review Company notes that the actual amount invested by developer per the 2002 entry was \$5,871,225. \$597,375 was recorded as an advance." 1. What account(s) in the general ledger is the \$597,375 customer advance recorded. 2. Is Lake Region now saying there is approximately \$6.8 million in contributions in aid of construction and customer advances-- \$5.3 million original CIAC donated by developer plus \$597,375 customer advance equal \$5.8 million plus approximately \$1 million other CIAC equal \$6.8 million? 3. Is the \$597,375 customer advance included in the approximate overall \$6.2 million contributions in aid of construction amount included in Lake Region's and Staff revenue requirement calculations in this case or does this amount need to be deducted from rate base in the true-up revenue requirements in addition to the \$6.2 million amount? |
| Response | 1. Account 252 beginning on line 2716 of the general ledger file supplied in response to DR 2 on November 12, 2009. The general ledger file for the period 1998 through 2008 was supplied in response to DR 45 on November 13, 2009. 2. The current advance balance from Four Seasons as of March 31, 2010 is \$464,700. 3. Company does not believe Staff's CIAC number of \$6,231,652 includes the advance total. The advances should continue to be treated as advances until February 1, 2013 at which time the unpaid balance shall be transferred to CIAC in accordance with the Uniform System of Accounts. Company does not believe making an adjustment for any amount which has been on Company's books since 2002 and stipulated to by all parties to the case is a proper use of the true up process. |
| 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 |

Missouri Public Service Commission

Respond Data Request

| | |
|--------------------------|--|
| Data Request No. | 0072.1 |
| Company Name | Lake Region Water & Sewer Company-(Sewer) |
| Case/Tracking No. | SR-2010-0110 |
| Date Requested | 5/3/2010 |
| Issue | Revenue - Other Revenue Issues |
| Requested From | John Summers |
| Requested By | Cary Featherstone |
| Brief Description | supporting documentation for the contibuted plant amounts for Lake Region |
| Description | DR 72.1 1. With respect to Lake Region's response to Staff Data Request 72, please provide all support for the amounts shown as contributed property. a). Provide all documentation such as written information which supports the actual amounts of contributed (developer donated plant property) for Lake Region for the 2002 time period when this property was donated by the developer identified as \$5,273,850. This documentation would include but not be limited to correspondence, deeds, agreements, real estate contracts, etc. between the developer and Lake Region which transfers the ownership of this contributed plant property to Lake Region's operating systems. b). Identify the actual amounts of contributed plant (developer donated plant property) on each of the Lake Region operating system's books and records 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 Lake Region books. |
| Response | a) Company has not located all of the actual transfer documents and believes some are in storage boxes which Company will make available in our office. Attached is the documentation for 2007 and 2008. b) Attached is an Excel file which contains the journal entries establishing the CIAC on the Company's books. After further review Company notes that the actual amount invested by developer per the 2002 entry was \$5,871,225. \$597,375 was recorded as an advance. Company does not expect to pay back the entire \$597,375 because Company does not expect all lots to connect to the water/sewer system based on the Horseshoe Bend history. The items labeled Four Seasons, Magnolia Point and Country Club Cove were all donated by the developer Four Seasons. The allocation to each system is contained in the attached Excel spreadsheet which was provided earlier at Staff's request in connection with the alternate rate base scenario. |
| 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 |

Missouri Public Service Commission

Respond Data Request

| | |
|--------------------------|---|
| Data Request No. | 0072 |
| Company Name | Lake Region Water & Sewer Company-(Sewer) |
| Case/Tracking No. | SR-2010-0110 |
| Date Requested | 2/9/2010 |
| Issue | Revenue - Other Revenue Issues |
| Requested From | John Summers |
| Requested By | Cary Featherstone |
| Brief Description | plant, reserve and CIAC relating to availability fees |
| Description | 1a. Please identify the amount of plant in service, accumulated depreciation reserve and contribution in aid of construction (CIAC) related to each Lake Region utility operating entity-- Shawnee Bend water, Shawnee Bend sewer and Horseshoe Bend sewer that is associated with the water and sewer infrastructure that was donated to the utility relating to undeveloped lots that is the basis for the availability fees in the Lake Region service territory. b). Identify when this plant was donated to Lake Region entity c). Please identify the amount of plant in service, accumulated depreciation reserve and contribution in aid of construction (CIAC) related to each Ozark Shores operating entity-- that is associated with the water infrastructure that was donated to the utility relating to undeveloped lots that is the basis for the availability fees in the Ozark Shores service territory. d). Identify when this plant was donated to Ozark Shores operating entity. |
| Response | Objection: This request is irrelevant and not calculated to lead to the discovery of relevant evidence. It seeks matter beyond the scope of discovery. LRWS does not charge a fee to or assess a fee against owners of undeveloped lots in subdivisions where its facilities are located. Ozark Shores Water Company is not a party to this case. Without waiver of the above objection, the company provides the following responses; 1a. Company does not track plant in service, accumulated depreciation reserve and CIAC in the manner requested. Company has identified \$5,273,850.00 recorded as CIAC from Four Seasons Lakesites in 2002 as well as \$597,375.00 as a payable to developer for reimbursement of road crossings as new customers connected. The plant in service amounts were recorded to the following accounts:360.20 \$2,695,612.50, 331.20 \$2,695,612.50, 371.10 \$240,000.00 and 370.00 \$240,000.00 in the General Ledgers supplied in response to DR 45. b) Company recorded the amounts in 2002. c) Ozark Shores does not track CIAC, plant in service or depreciation in the manner requested. d) see response to c). |
| 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: | | |
|---------------------------|-----------------------|--------------------------|------------------|--|--------------|--------------|
| | | | | 8.00% | 8.50% | 9.00% |
| Common Stock Equity | \$3,997,902.60 | 60.33% | ----- | 4.83% | 5.13% | 5.43% |
| Long-Term Debt | \$2,629,091.40 | 39.67% | 5.01% | 1.99% | 1.99% | 1.99% |
| Total Capital (Rate Base) | <u>\$6,626,994.00</u> | <u>100.00%</u> | | <u>6.81%</u> | <u>7.12%</u> | <u>7.42%</u> |

Sources:

Response to Staff DR Nos. 0052 and 0060

**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: | | |
|---------------------------|-----------------------|--------------------------|------------------|--|--------------|--------------|
| | | | | 8.00% | 8.50% | 9.00% |
| Common Stock Equity | \$1,522,121.60 | 36.67% | ----- | 2.93% | 3.12% | 3.30% |
| Long-Term Debt | \$2,629,091.40 | 63.33% | 5.01% | 3.17% | 3.17% | 3.17% |
| Total Capital (Rate Base) | <u>\$4,151,213.00</u> | <u>100.00%</u> | | <u>6.11%</u> | <u>6.29%</u> | <u>6.47%</u> |

Sources:

Response to Staff DR Nos. 0052 and 0060

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: | | |
|---------------------------|------------------------------|--------------------------|------------------|--|---------------------|---------------------|
| | | | | 8.00% | 8.50% | 9.00% |
| Common Stock Equity | \$0.00 | 0.00% | ----- | 0.00% | 0.00% | 0.00% |
| Long-Term Debt | <u>\$2,629,091.40</u> | <u>100.00%</u> | 5.01% | <u>5.01%</u> | <u>5.01%</u> | <u>5.01%</u> |
| Total Capital (Rate Base) | <u><u>\$2,629,091.40</u></u> | <u><u>100.00%</u></u> | | <u><u>5.01%</u></u> | <u><u>5.01%</u></u> | <u><u>5.01%</u></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
Staff June 21, 2010 Report

| Lake Region Operating System | Staff True-up April 16, 2010-- No Availability Fees and CIAC offset to Rate Base | Ordered Scenario 1 Staff True-up April 16, 2010-- With Availability Fees and \$5.3 million CIAC offset added to Rate Base | Ordered Scenario 1 Staff True-up April 16, 2010-- With Availability Fees and \$5.3 million CIAC offset added to Rate Base | Ordered Scenario 1 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 | Revised June 21, 2010 Customer Advances & CIAC reallocation | LRWS Schedule 1 Page 1 of 9 |
| <u>Commission Ordered Scenario 1</u> | | | | | |
| Shawnee Bend Water | \$22,252 | \$55,914 | \$172,298 | \$167,354 | \$250,951 |
| Shawnee Bend Sewer | 112,327 | 61,349 | 183,060 | 130,019 | 219,507 |
| Horseshoe Bend Sewer | 44,552 | 117,033 | 156,945 | 161,219 | 147,936 |
| TOTAL Lake Region Revenue Requirement | \$179,131 | \$234,296 | \$512,303 | \$458,592 | \$618,394 |

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
Staff June 21, 2010 Report

| 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 \$2.0 million CIAC offset added to Rate Base | Staff True-up April 16, 2010-- With Availability Fees and \$2.0 million CIAC offset added to Rate Base | Staff True-up April 16, 2010-- With Availability Fees and \$2.0 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 | Revised June 21, 2010 Customer Advances & CIAC reallocation | LRWS Schedule 1 Page 1 of 9 |
| Shawnee Bend Water | \$22,252 | (\$20,633) | \$8,046 | \$1,257 | \$250,951 |
| Shawnee Bend Sewer | 112,327 | (10,634) | 25,229 | (44,477) | 219,507 |
| Horseshoe Bend Sewer | 44,552 | 80,655 | 92,924 | 124,118 | 147,936 |
| TOTAL Lake Region Revenue Requirement | \$179,131 | \$49,388 | \$126,199 | \$80,898 | \$618,394 |

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 June 21, 2010 Report

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 3

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

Filed
May 18, 2010

Staff Scenario 3

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

Revised
June 7, 2010

Staff Scenario 3

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

Revised
June 21, 2010

Customer Advances &
CIAC reallocation

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 3

| | | | | | |
|--|------------------|--------------------|--------------------|--------------------|------------------|
| Shawnee Bend Water | \$22,252 | (\$107,348) | (\$107,348) | (\$112,811) | \$250,951 |
| Shawnee Bend Sewer | 112,327 | (82,073) | (82,073) | (161,244) | 219,507 |
| Horseshoe Bend Sewer | 44,552 | 44,552 | 44,552 | 88,317 | 147,936 |
| TOTAL Lake Region Revenue Requirement | \$179,131 | (\$144,869) | (\$144,869) | (\$185,738) | \$618,394 |

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.