

Missouri Public Service Commission

STATE OF MISSOURI

PUBLIC SERVICE COMMISSION

At a hearing of the Public Service
Commission, held at Jefferson City,
Missouri, on the 6th day of
June, 1980.

CASE NO. SA-80-192

In the matter of the application of
TRAILS WEST SEWER CO., for permission,
approval, and certificate of convenience
and necessity, authorizing it to construct,
install, own, operate, control, manage,
and maintain a sewer system for the public,
located in an unincorporated area in
Boone County, Missouri.

BEFORE:

THOMAS S. HYATT, Presiding,

HEARING EXAMINER.

REPORTED BY:

NANCY A. FOX, CCR

Missouri Public Service Commission

APPEARANCES:

STEPHEN C. SCOTT, Attorney at Law,
11 N. 7th Street,
Columbia, Missouri 65201,

FOR: TRAILS WEST SEWER COMPANY.

RORY ELLINGER, Assistant General Counsel,
P. O. Box 360,
Jefferson City, Missouri 65102,

FOR: STAFF OF THE MISSOURI PUBLIC
SERVICE COMMISSION.

P R O C E E D I N G S

(Written Entries of Appearance filed.)

EXAMINER HYATT: Let's go on the record.

This hearing of the Public Service Commission of the State of Missouri shall come to order.

The Commission has set for hearing at this time Case No. SA-80-192 in the matter of the application of Trails West Sewer Company for permission, approval, and certificate of convenience and necessity, authorizing it to construct, install, own, operate, control, manage, and maintain a sewer system for the public, located in an unincorporated area of Boone County, Missouri.

Each party may now make its entry of appearance for the record beginning with the Applicant.

MR. SCOTT: My name is Stephen C. Scott. I'm an attorney with Jones, Roper & Scott in Columbia, Missouri, 11 N. 7th Street, Columbia, Missouri 65201, representing the Applicant, Trails West Sewer Company.

EXAMINER HYATT: Thank you.

MR. ELLINGER: For the Staff of the Missouri Public Service Commission, Rory Ellinger, P. O. Box 360, Jefferson City, Missouri.

EXAMINER HYATT: Are there any other motions or formal matters to be handled at this time?

MR. ELLINGER: None for the Staff.

Missouri Public Service Commission

1 MR. SCOTT: No, your Honor.

2 EXAMINER HYATT: Does the Applicant wish to
3 make an opening statement?

4 MR. SCOTT: No, your Honor.

5 EXAMINER HYATT: Or the Staff?

6 MR. ELLINGER: Yes, your Honor.

7 We would just briefly state that in the
8 prehearing a number of issues were discussed that will come
9 out in direct and cross-examination, and it's our feeling
10 that the parties have, in fact, reached a stipulation as
11 to the pertinent issues in this case. Hopefully that
12 will become clear as the case proceeds.

13 EXAMINER HYATT: I'll now direct the Applicant
14 to call its first witness.

15 MR. SCOTT: Vernon Stump.

16 (Witness sworn.)

17
18 VERNON L. STUMP testified as follows:

19 DIRECT EXAMINATION BY MR. SCOTT:

20 Q Would you state your name for the record?

21 A Vernon L. Stump.

22 Q What is your business address?

23 A My business address is 506 Nichols, Columbia,
24 Missouri 65201.

25 Q Where do you reside?

Missouri Public Service Commission

1 A I reside at Route 1, Hartsburg, Missouri 63501.

2 Q What is your connection with the Trails West
3 Sewer Company, the Applicant in this case?

4 A I will be the sole stockholder of the company.

5 Q Are you also an officer of the company?

6 A I will be President of the company.

7 Q Who are the other officers?

8 A Gregory P. Mattli, M-a-t-t-l-i, Vice-President
9 and Sally Stump will be Secretary-Treasurer.

10 Q Mr. Stump, would you briefly give us your
11 post high school educational background?

12 A I have a BS in civil engineering, an MS in
13 civil engineering, and a PhD in sanitary engineering.

14 Q Are you a licensed professional engineer
15 in Missouri?

16 A Yes, I am.

17 Q How many years of experience have you had
18 in sanitary engineering?

19 A Approximately 11 years.

20 Q Now, directing your attention to the Trails
21 West Sewer Company, is that a Missouri corporation?

22 A Yes, it is.

23 Q And it's dormant at this time; is that
24 correct?

25 A Yes.

Missouri Public Service Commission

1 Q It has not yet been activated?

2 A Yes.

3 Q And at this point in time the stock has not
4 yet been issued?

5 A That's true.

6 Q Now, the charter and the Certificate of
7 Incorporation are attached as Exhibit 1 to your application
8 in this case, is that correct?

9 A That's true.

10 Q Are you awaiting a certificate of convenience
11 and necessity from the Public Service Commission prior to
12 activating this corporation?

13 A Yes, we are.

14 Q Now, what will be the office address of the
15 Trails West Sewer Company?

16 A It will be 506 Nichols, Columbia, Missouri
17 65201.

18 Q And just for clarification at this point,
19 will an enterprise named Mid-Missouri Engineers, Incorporated,
20 have any connection with the Trails West Sewer Company?

21 A Yes, it will. They will manage and operate
22 the company.

23 Q Do you also have a connection with Mid-
24 Missouri Engineers, Incorporated?

25 A Yes, I do. I'm President of Mid-Missouri

1 Engineers, Incorporated.

2 Q Are you also a stockholder in that?

3 A Yes, I am.

4 Q What is the address of Mid-Missouri
5 Engineers?

6 A It is 506 Nichols, Columbia, Missouri 65201.

7 Q Will all the accounts and records of the
8 Trails West Sewer Company be kept at this location in
9 Missouri?

10 A Yes, it will.

11 Q Would you just briefly tell us approximately
12 how far from the area that is the subject of this application
13 your office is located?

14 A It's approximately eight miles.

15 Q What is the approximate travel time?

16 A It is around 15 minutes.

17 Q Will you have regular business office hours
18 at that office location?

19 A Yes, we do. Eight-thirty to five.

20 Q Now, would you just briefly describe where
21 the proposed service area is located?

22 A The service area is off of old Route 40
23 located northwest of Columbia.

24 Q Is that in Boone County, Missouri?

25 A That's in Boone County, Missouri.

Missouri Public Service Commission

1 Q Is that in an incorporated area?

2 A No, it's not.

3 Q Now, you have attached to your application
4 as Exhibit 2 a map showing the location of the proposed
5 service area; is that correct?

6 A Yes, we have.

7 Q Now, I understand that when you drew that
8 map it was primarily for the purposes of location and that
9 it's been discovered that the area shown on the map is
10 actually somewhat too large according to the metes and
11 bounds descriptions; is that correct?

12 A That's correct.

13 Q And you have agreed, have you not, that
14 you will file a corrected location map with your tariff
15 in this case?

16 A Yes, we will.

17 Q Now, further, the metes and bounds descriptions
18 of the proposed service area, they were filed with your
19 application as Exhibit 3 to the application; is that right?

20 A That's correct.

21 Q Approximately how far from the City of
22 Columbia is this proposed area?

23 A It's approximately three to four miles from
24 the city limits.

25 Q Is this within the city's 201 area?

1 A No, it's not.

2 Q In this proposed service area, how many
3 units are being served at present?

4 A There are 67 residents.

5 Q 67. Are these all single-family?

6 A They're all single-family.

7 Q Now, how many additional platted lots are
8 there in this area that have not yet been built on?

9 A There are five additional lots.

10 Q What is the existing treatment facility
11 for sewage in this proposed service area?

12 A It's a two-cell stabilization lagoon.

13 Q Is the facility basically adequate for the
14 load on it at present?

15 A It's very near or at capacity and we will be
16 doing some evaluation to determine if additional upgrading
17 is necessary on the system.

18 Q Is there any other entity, either private or
19 public, regulated or unregulated, which provides sewer
20 service in this area that could provide sewer service to
21 this particular proposed service area?

22 A No, there is not.

23 Q Now, you know that in applications to provide
24 sewer service as a public utility, it requires a feasibility
25 study?

1 A Yes.

2 Q And in this particular case who performed
3 the feasibility study?

4 A This was performed by our staff.

5 Q Mid-Missouri Engineers?

6 A In particular, Mid-Missouri Engineers, yes.

7 Q And this feasibility study was attached to
8 your application as Exhibit 4; is that correct?

9 A Yes, it was.

10 Q To your knowledge, does the feasibility
11 study contain all the information required by the PSC
12 regulations?

13 A Yes, I believe it does.

14 Q Now, there are no other utilities in the
15 particular service area you wish to serve; is that correct?
16 Sewer utilities?

17 A Not sewer utilities.

18 Q Does this area lie within the Boone County
19 Regional Sewer District?

20 A Yes, it does.

21 Q Does the Boone County Regional Sewer District
22 provide any sewer service at this time?

23 A No, they do not.

24 Q In general, what is the role and function
25 of the Boone County Regional Sewer District at this time?

1 A At this time they serve to evaluate new
2 plans for subdivisions and they are also considering or
3 beginning to get into inspection of new sewer systems.

4 Q They do not operate any systems themselves?

5 A They do not operate any systems.

6 Q Is it your understanding that the Boone
7 County Regional Sewer District has no objection to your
8 company obtaining a certificate for this proposed service
9 area?

10 A That's correct. And we have a letter to
11 that effect.

12 Q All right. And that letter is attached to
13 your application as Exhibit 5; is that correct?

14 A That's correct.

15 Q Now, does the Boone County Court, the
16 Administrative County Court, issue any franchises for sewer
17 service in Boone County?

18 A No, they do not.

19 Q Do you have attached to your application a
20 letter as Exhibit 6 from the County Court indicating that
21 no franchises are necessary; is that correct?

22 A That's correct.

23 Q Now, also attached to your application there
24 is the NPDES Permit which was issued to the regional owner-
25 operator by the Missouri Department of Natural Resources

Missouri Public Service Commission

1 that's Exhibit 7; is that correct?

2 A That's correct.

3 Q Will Trails West Sewer Company apply to the
4 Department of Natural Resources for transfer of the NPDES
5 Permit?

6 A Yes, they will.

7 Q When will that be done?

8 A That will be applied for within ten days after
9 receiving a certificate of convenience from the Public Service
10 Commission.

11 Q Now, you included in your application the
12 names and addresses of not fewer than ten persons residing
13 within the proposed service area; is that correct?

14 A That's correct.

15 Q Has there been any adverse reaction from any
16 of the owners in the Trails West area which is the proposed
17 sewer service area?

18 A There has been none to my knowledge.

19 Q You're requesting that the Public Service
20 Commission grant you or grant Trails West Sewer Company a
21 certificate of convenience and necessity granting permission,
22 approval, to install, own, acquire, construct, operate,
23 control, manage, and maintain a sewer system in this proposed
24 service area?

25 A Yes, we are.

1 Q Is there any possibility that the lots
2 in this particular proposed sewer service area could use
3 individual treatment systems?

4 A No.

5 Q Are the lots too small for that?

6 A Yes, the lots are too small for that.

7 Q Are all the existing single-family houses
8 in the proposed service area currently connected to the
9 existing sewer system?

10 A To my knowledge, they are.

11 Q Now, would you briefly state how it came
12 about that Trails West Sewer Company was organized and
13 plans to acquire the sewer system in this proposed service
14 area?

15 A Yes. At the time Trails West Subdivision
16 was built, it was built by a contracting firm. They were
17 at completion of the subdivision, going to turn the sewer
18 system over to the Trails West Homeowners Association.
19 At the time the contractors attempted to turn the sewer
20 system to the homeowners, the Department of Natural Resources
21 reported there was several defects in the sanitary system
22 that needed upgrading. At that time the homeowners did
23 not wish to take the system until it was upgraded. The
24 contracting firm felt that they had put the effort into
25 it that they wanted to put into it, and so there was an

Missouri Public Service Commission

1 essential standoff for several years with no action or no
2 operation on the system.

3 We were contacted--speaking of we, myself
4 and Mid-Missouri Engineers--were contacted to evaluate
5 and determine if we could operate and would be willing to
6 take over the system. This contact was through the
7 contracting firm. We also were contacted by the attorney
8 for the Homeowners Association. And there was an agreement
9 reached for us to take over the system at that point.

10 Q Now, who owns the existing sewage facilities?

11 A As a result of this type of agreement, the
12 contractor turned it over to the Trails West Homeowners
13 Association and they own it at this time.

14 Q The contractor has deeded these facilities
15 to the Homeowners Association?

16 A That's correct.

17 Q Does Trails West Sewer Company have a
18 contract whereby these facilities will be transferred to
19 the company by the Homeowners Association?

20 A Yes, it does.

21 Q When is that contract to be closed?

22 A It will be closed ten days after the
23 certificate of convenience is provided.

24 Q Are you willing to provide a certified copy
25 of the deed making this conveyance to the Public Service

Missouri Public Service Commission

1 Commission after the closing?

2 A Yes, I am.

3 Q Are you willing that an order to provide this
4 deed be included in the PSC's ruling?

5 A Yes.

6 Q Now, has there been any maintenance or
7 operational work done on this sewage system in the past few
8 years?

9 A There had been none for several years. In
10 the last two weeks our firm, Mid-Missouri Engineers, has
11 started some of the maintenance work on it.

12 Q Have you inspected the existing facilities
13 yourself?

14 A Yes, I have.

15 Q Could you briefly state what problems you've
16 found that resulted from neglect of the system?

17 A There were three basic problems. One was
18 not cutting of vegetation around the edge of the lagoons.
19 Two, there was a great deal of erosion around the outer
20 banks. Three, lines were allowed to stop up between the
21 two lagoons resulting in washout situations between the two
22 cells of the lagoon. I guess a fourth item has been the
23 manhole directly before the lagoon is built at a very low
24 elevation and stops up frequently and there has been frequent
25 discharges of raw sewage from it.

1 Q You may have said previously, this is a
2 two-cell lagoon, right?

3 A That's correct.

4 Q It's designed for how many units?

5 A It's designed for 61 units, I believe.

6 Q All right. Now, are all of the collection
7 lines in place in this subdivision?

8 A Yes, they are.

9 Q Are the adequate manholes provided?

10 A Yes, there are.

11 Q What material are the sewer mains made of?

12 A They are made out of clay pipe.

13 Q Does Trails West Sewer Company have any plans
14 for upgrading the facilities?

15 A Yes, we do.

16 Q Could you briefly state what those proposed
17 plans are?

18 A Yes. We have eight items that we're planning
19 on working on. The first would be cutting vegetation and
20 moving the cattails. The second would be repairing lagoon
21 dikes, both inside and outside. Three would be building
22 an access road to the lagoon. There is no access road at
23 this time. The next item would be shoring up again outside
24 the lagoon due to some extensive erosion. The next item
25 is we have some miscellaneous repairs which include manholes

1 that need cleaning out that has improperly built inverts.
2 There are not a large number of those, but there are a
3 few. And then a final item is we have one manhole that
4 we need to raise and do some grading in the area to backfill
5 around it.

6 Q Now, how has the money been raised to finance
7 these improvements?

8 A The money for these improvements was raised
9 by the contracting firm that donated \$6,000, and the
10 Homeowners Association has donated \$6,000 to make these
11 repairs.

12 Q How did the Homeowners Association raise the
13 \$6,000?

14 A This was through an assessment voted for
15 the entire subdivision of \$95 a household.

16 Q Do you know by what kind of margin the
17 Homeowners Association approved the assessment?

18 A It's my understanding it was by a vote of
19 55 for and 11 against.

20 Q By a substantial margin in any event?

21 A Yes.

22 Q Is this money presently in an escrow fund?

23 A This money is presently in an escrow fund.

24 Q Who is the escrow agent?

25 A The agent is Cullen Cline.

Missouri Public Service Commission

1 Q Who is actually holding the money?

2 A Okay. The First National Bank in Columbia
3 is holding the money.
4

5 Q How are draws made on this escrow fund?

6 A Draws are made by a request for draw made to
7 Cullen Cline who forwards it to the First National Bank.

8 Q Now, suppose some money is left over after
9 necessary repairs are made, what provision has been made
10 for any leftover money?

11 A Any money that hasn't been spent at the end
12 of 18 months will be returned to the Homeowners Association
13 for their dispersal, however they want to handle it.

14 Q And that 18 months' period begins at the time
15 of the closing of the transfer of facilities to Trails West
16 Sewer Company; is that correct?

17 A That's correct.

18 Q And that closing, again, will be ten days
19 after you get the PSC certificate; is that right?

20 A That's right.

21 Q Now, once again, it's your plans, I understand,
22 for Mid-Missouri Engineers, Incorporated, to actually
23 operate and maintain this system under contract with Trails
24 West Sewer Company; is that correct?

25 A Yes.

Q And your proposed contract between Trails

Missouri Public Service Commission

1 West Sewer Company and Mid-Missouri Engineers, Incorporated,
2 is an exhibit to the feasibility study which was attached
3 to your application as Exhibit 4; is that correct?

4 A Yes.

5 Q How many sewer plant operators does Mid-
6 Missouri Engineers employ?

7 A We have four people rated as operators and
8 we have four certified operators.

9 Q How long has Mid-Missouri Engineers been in
10 this business?

11 A We were incorporated in 1976.

12 Q So you have approximately four years of
13 experience in operating systems?

14 A That's correct.

15 Q How many other systems does Mid-Missouri
16 Engineers operate and maintain?

17 A At the present time nine.

18 Q Now, is it your understanding that an interim
19 rate will be set in this case in the amount of, according
20 to an agreement with the Staff, \$6.84?

21 A That's correct.

22 Q And your feasibility study had indicated
23 a rate of \$7 per month; is that right?

24 A Yes.

25 Q Based on the discussions, prehearing discussions

1 with the Staff, is the \$6.84 rate agreeable to you?

2 A That is agreeable.

3 Q Now, is it your understanding that referring
4 to the next to the last page of your feasibility study that
5 the changes that were made in your requested rate resulted
6 from the deletion in years one and two of management
7 expense in the amount of \$600 in the first year; \$650 in
8 the second year? That's one change?

9 A Yes, that's one change.

10 Q All right. Then referring to the projected
11 financial analysis in the feasibility study which is
12 Exhibit 3 within the feasibility study, that results in--
13 another change is that you had asked for a return of 9.3
14 percent on a \$500 investment; is that correct?

15 A Yes.

16 Q And that \$500 investment, what is that money?

17 A That is money that I will provide personally
18 to begin the company and to start the company in operation.

19 Q This is money that you will pay from the
20 stock?

21 A Correct.

22 Q Is that correct?

23 A Yes, that's correct.

24 Q Now, is it your understanding that the Staff
25 recommendation is that you be allowed to recover this \$500

1 over a five-year period?

2 A That is correct.

3 Q And that amount is included in the \$6.84?

4 A That's correct.

5 Q And is it your understanding that those are
6 the basic changes that were made to arrive at the rate of
7 \$6.84 as opposed to the \$7 you had requested?

8 A Yes. I believe there is one other change.

9 Q What was that?

10 A That change was there was a general management
11 expense dropped that we discussed of \$600 and \$660.

12 Q You're right.

13 A But there was also a cost added for company
14 management by Trails West of 10 percent of the gross.

15 Q 10 percent of the gross. So that added back
16 in an amount?

17 A Right. And that added an amount that resulted
18 in a \$6.84 rate.

19 Q Once again, this \$6.84 rate that's been
20 discussed in the prehearing conference is acceptable to you?

21 A That is acceptable.

22 Q Do you plan to bill monthly or quarterly?

23 A We plan to bill quarterly.

24 Q Do you plan to charge a connection fee if
25 there are any new houses built in the service area?

Missouri Public Service Commission

1 A No, we do not.

2 Q Are you willing to prepare and file a tariff
3 within 30 days after receiving the certificate?

4 A Yes, we are.

5 Q And will the preparation of the tariff be done
6 by your own staff?

7 A Yes, it will.

8 Q Will there be a 24-hour live answering service
9 to answer emergency calls concerning the sewer system?

10 A Yes, there will.

11 Q Do you know what that phone number is?

12 A Yes. It's 442-0237.

13 Q That is a live answering service?

14 A Yes, it is.

15 Q Now, are people on duty at all times to take
16 calls from the answering service?

17 A Yes, we have operators on duty to take these
18 calls.

19 Q Will the emergency phone number be printed
20 on the bills provided to the homeowners?

21 A Yes, it will.

22 Q Do you have any plans to extend at some future
23 time the certificated service area?

24 A At the present time we do not.

25 Q Do you understand that the Public Service

Missouri Public Service Commission

1 Commission requires continuing property records to be kept?

2 A Yes, we do.

3 Q And you're agreeable to maintaining these
4 records in accordance with the PSC rules and regulations?

5 A Yes.

6 Q You also understand that there is a Uniform
7 System of Accounts for sewer utilities as prescribed by
8 PSC rules?

9 A Yes, I do.

10 Q And you're prepared to follow these regulations?

11 A Yes, we are.

12 Q Do you plan to do the accounting for this
13 system in your own office?

14 A We will be doing the accounting in-house.
15 We may use some outside help the first year in establishing
16 the property records, but we plan to keep the accounting
17 internal.

18 MR. SCOTT: That's all the questions I have.

19 EXAMINER HYATT: Does the Staff wish to
20 cross-examine this witness?

21 MR. SCOTT: I would like to request the
22 Hearing Officer to take official notice of Exhibits 1
23 through 7 attached to the application.

24 EXAMINER HYATT: Official notice will be so
25 taken.

Missouri Public Service Commission

1 Does the Staff have any cross-examination
2 for this witness?

3 MR. ELLINGER: Just a couple.

4 EXAMINER HYATT: Please proceed.

5 CROSS-EXAMINATION BY MR. ELLINGER:

6 Q Mr. Stump, you indicated that there would be
7 some sort of indication given to the Commission regarding
8 a transfer of property?

9 A Yes.

10 Q Would you repeat that or state that again for
11 the record?

12 A Okay. At the time we receive the certificate
13 of convenience from the Public Service Commission we will
14 close a contract transferring the property from the Trails
15 West Homeowners Association to Trails West Sewer Company,
16 Incorporated. At that time we will provide the Public
17 Service Commission a copy of this contract.

18 Q How soon do you plan to file tariffs so that
19 you can implement any rates that the Commission may approve?

20 A We will plan to file tariffs within ten days.

21 MR. ELLINGER: We have no further questions
22 for the witness.

23 EXAMINER HYATT: I have a couple questions.

24 QUESTIONS BY EXAMINER HYATT:

25 Q You stated in your testimony that, I believe,

1 that the description of the proposed service area as detailed
2 on the map on--which was Exhibit 3 attached to your appli-
3 cation is not totally accurate; is that correct?

4 A That's correct.

5 Q And that you also said that you would file
6 a revised map with your proposed tariff?

7 A That's correct.

8 Q Now, is the legal description of the service
9 area as contained in your application correct?

10 A Yes, it is.

11 Q And as contained in your study correct?

12 A Yes. The only problem with our map is that
13 it's apparently a little bit larger in size and the map is
14 a topographic map and there is no real good boundary lines
15 on it.

16 Q Fine. The second question is: Approximately
17 how long do you estimate it would take to complete the
18 required upgrading maintenance work that you spoke of?

19 A We plan on the majority of the upgrading work
20 which includes the items I mentioned, we would like to have
21 those completed some time within the next 30 days. We have
22 one other item that has not been mentioned which is the
23 possible installation of surface aerators. Our upgrading of
24 the plant will depend on what we find conditions are with
25 plant performance, and if the Department of Natural Resources

1 requires any additional upgrading.

2 EXAMINER HYATT: Thank you.

3 MR. ELLINGER: I have a couple of other
4 questions.

5 EXAMINER HYATT: Please proceed.

6 FURTHER CROSS-EXAMINATION BY MR. ELLINGER:

7 Q If the aeration system proves unneeded,
8 the money is to be returned to the Homeowners Association;
9 is that correct?

10 A That's correct.

11 Q I assume that you would have no difficulty
12 in keeping the Commission Staff informed as to the decision
13 regarding that aeration system?

14 A No. We would be willing to inform Staff of--
15 if an aeration system is added, we will have to apply to
16 the Department of Natural Resources for a permit to do this
17 kind of work and you will be--the Public Service Commission
18 would be informed also.

19 Q Now, since there is 67 connections now and
20 the system has been built for 61 as you have indicated in
21 your direct testimony, what kind of growth do you expect
22 would be there in the next five years?

23 A We would not anticipate ever having more than
24 70 connections on this particular system. There is almost
25 never a total buildup of--there are 72 plotted lots and we

1 wouldn't expect more than 70 to ever be built. Now, when we
2 have 70 houses built in a subdivision or 67, you usually have
3 a vacancy rate of three or four at almost any time. So
4 we don't look for ever having more than 65 active customers
5 on this system.

6 Q So that as a professional engineer and the
7 person that will be responsible for seeing that safe and
8 adequate service is given to this area, is it your opinion
9 that your plant and operation would be adequate to handle
10 any foreseeable growth in the area?

11 A Yes, it is.

12 MR. ELLINGER: No further questions.

13 EXAMINER HYATT: Will there be any redirect?

14 MR. SCOTT: No redirect.

15 EXAMINER HYATT: You may step down, please.

16 Thank you very much.

17 (Witness excused.)
18

19 EXAMINER HYATT: Does the Applicant have any
20 further witnesses?

21 MR. SCOTT: Applicant rests.

22 EXAMINER HYATT: Thank you.

23 Would the Staff please present its first
24 witness.

25 MR. ELLINGER: The first witness for the Staff

1 is Mr. Earl Ebbe.

2 (Witness sworn.)

3
4 EARL EBBE testified as follows:

5 DIRECT EXAMINATION BY MR. ELLINGER:

6 Q Mr. Ebbe, would you give your title and
7 address, work address.

8 A I'm an engineer in the Utilities Division
9 at the Public Service Commission.

10 Q How long have you worked for the Missouri
11 Public Service Commission?

12 A About six years.

13 Q Would you briefly explain any experience
14 that you've had in the area of sewer regulation?

15 A I've been in appraisal work of sewers for
16 several years and then have made field inspections and
17 been on the regulatory part for about half of that period,
18 several years.

19 Q Would you give your address, please?

20 A 1611 Colonial Court, Columbia, Missouri 65201.

21 Q Would you give your work address?

22 A Jefferson Building, Jefferson City.

23 Q With the Public Service Commission?

24 A Yes, sir, with the Public Service Commission.

25 Q Did you personally inspect the plant and

1 operations of the Applicant today?

2 A Yes, sir, I did that on June the 5th.

3 Q Would you tell briefly the Commission what
4 you saw and your conclusions regarding what you saw there?

5 A I investigated the site of the lagoon and
6 some preparatory work had been done on cleaning up the site.
7 The weeds and cattails had been cut and some other cleanup
8 work. There was evidence, of course, of sludge and debris
9 floating on the lagoon and some duckweed covered the second
10 cell of the lagoon system and an access road had been made
11 down to get into this area so that further work could be
12 done.

13 Q Is it your opinion, Mr. Ebbe, that the
14 plant would be able to handle any additions in connections
15 up to a total of, say, 75?

16 A Well, that is quite problematical. I think
17 when the site got cleaned up and the air could get to it
18 again that it would very well function well enough to
19 handle the sewage load. I think, of course, that would
20 depend on monitoring the results, the test results of the
21 effluent.

22 MR. ELLINGER: No further questions for the
23 witness.

24 EXAMINER HYATT: Does the Applicant have
25 any cross-examination of this witness?

Missouri Public Service Commission

1 MR. SCOTT: No, your Honor.

2 EXAMINER HYATT: I have no questions of this
3 witness. You may step down.

4 (Witness excused.)

5
6 MR. ELLINGER: Thank you, Mr. Ebbe.

7 The Commission Staff would call as its second
8 and final witness Mr. Jim Merciel.

9 (Witness sworn.)

10
11 JAMES MERCIEL testified as follows:

12 DIRECT EXAMINATION BY MR. ELLINGER:

13 Q Would you state your name for the record?

14 A Jim Merciel.

15 Q Would you give your business address?

16 A Post Office Box 360, Jefferson City.

17 Q Do you work for the Missouri Public Service
18 Commission?

19 A Yes, I do.

20 Q In what capacity?

21 A I'm an engineer in the Water and Sewer
22 Department.

23 Q Have you testified before the Commission
24 before?

25 A Yes.

Missouri Public Service Commission

1 Q Would you explain your familiarity briefly
2 regarding sewer cases such as the one pending before us today?

3 A Okay. My responsibilities are--I handle
4 certificate cases for both water and sewer companies such
5 as this one. I also handle customer complaints and I do
6 some work on rate cases. That kind of includes looking at
7 the rates when a company comes in for a certificate.

8 Q How long have you worked for the Commission?

9 A A little over three years.

10 Q Would you give your educational background?

11 A I have a Bachelor of Science Degree in
12 Civil Engineering from the University of Missouri at Rolla.

13 Q Did you hear the testimony today of Mr. Vernon
14 Stump?

15 A Yes, I did.

16 Q Did you have cause to examine the exhibits
17 and application filed by Trails West Sewer Company?

18 A Yes, I have examined that.

19 Q Do you have any disagreements with anything
20 that Mr. Stump stated in his testimony?

21 A No, I have no disagreements with anything
22 in his testimony.

23 Q I would ask you to turn to Exhibit III in the
24 Applicant's engineering feasibility report which is Exhibit
25 No. IV.

Missouri Public Service Commission

1 A Okay. I have it here in front of me.

2 MR. ELLINGER: Mr. Examiner, you might wish
3 to have that in front of you, too. We'll be making specific
4 references to some figures and some changes that would be
5 necessary if the Commission is to approve rates.

6 EXAMINER HYATT: I see. It's Exhibit--
7 Roman numeral III of Exhibit IV attached to the application.
8 I have it in front of me. Thanks.

9 BY MR. ELLINGER:

10 Q Let me ask you first of all, Mr. Marciel,
11 if you would explain the differences between the original
12 file figures here and that which the company and the Staff
13 have now stipulated to? What is the main difference, first
14 of all?

15 A There are two major differences between
16 what was filed and what the Staff is recommending. The
17 first difference is the management amount which--actually
18 it would be best if we could flip to the next two pages
19 over to this other exhibit. Tom, if you'd turn to two
20 pages after this one. They have broken down the cost of
21 operating the sewer system and the very last figure, which
22 is labeled as Accounting No. 832, Other General Expenses
23 with Management in parenthesis, for the first year they
24 show \$600. For the second year they show \$660. Staff
25 has recommended that those figures be deleted from these

1 columns. That makes the totals, rather than 4650 and 5139.
2 it makes the totals 4050 and 4479.

3 Okay. Now, if we can go back to what was
4 marked as--or listed as Exhibit III in the feasibility
5 report, up near the top they have Operating Expenses and
6 you see these figures up here. We substituted our 4050 and
7 4479.

8 Q Now, where exactly will those be substituted--
9 in lieu of the 4650, one would cross out 4650 and write
10 in 4050; is that correct?

11 A That's correct.

12 Q And would one strike 5139 in the next column
13 headed Year 2 and insert 4479?

14 A That's correct.

15 Q Would you proceed?

16 A Okay. Let me mention at this time that
17 we've ignored the third year because we're going to recommend
18 that these rates go into effect for an interim period of
19 18 months so we won't really need to worry about the third
20 year at this time.

21 Okay. Going on we have the operating
22 expenses and then below that we have taxes and accounting.
23 We've left those figures alone. So that gives us total
24 operating costs for the first year of \$4,700 and for the
25 second year, 5129. I've added those two together and

1 I've made my own column down near the bottom of the page
2 for expenses. That adds up to 9829.

3 MR. ELLINGER: With your permission,
4 Mr. Examiner, I would show this to you, our calculations.
5 It may help in the explanation.

6 Is that okay, Mr. Scott?

7 MR. SCOTT: That's fine.

8 MR. ELLINGER: I'll just point to them as
9 we go through here.

10 BY MR. ELLINGER:

11 Q Go ahead, Mr. Merciel.

12 A Okay. I pointed out the 9829 which I have
13 put in the column down at the bottom of the page.

14 Okay. Now, going back up near the middle
15 of the page where it says Capital and Other Receipts, they
16 have a line marked Capital Stock and there's \$500 in there.
17 The \$500, I understand, is what the company has put up
18 to form their corporation and just more or less get the
19 corporation going. So that's investment on the company's
20 part. It's not really invested in plant. It's just some
21 money that they have in on their corporation.

22 There are really three ways to handle this
23 amount. One is to just completely ignore it. The other
24 way is to let them earn a rate of return on it. And the
25 other is to write it off over a period of, for example,

1 five years. I think I would recommend that we write it
2 off over five years. It amounts to--well, for the first
3 two years it would be \$200 per year. Just for the record,
4 that comes out to 12 cents per month, per customer.

5 Okay. So, down at the bottom here I've--
6 to the 9829, that adds another \$200 to that expense.

7 Q What is that total?

8 A Actually I'm not ready for the total yet.

9 In addition to that, since there is no
10 plant investment and there is no rate of return, other
11 than getting back this \$500, we would recommend that the
12 company be allowed a 10 percent management fee, which is
13 there so that the operator of the--or rather the owner of
14 the company has something to make his time worthwhile to
15 operate this company. It's an incentive for him to properly
16 operate the treatment plant. That will be \$983 for the
17 two-year period.

18 EXAMINER HYATT: I have it here on this
19 sheet across from average net income. So that's what actually
20 represents solely this management fee?

21 WITNESS MERCIEL: Yeah, it's just management
22 fee. It's not really an average net income.

23 EXAMINER HYATT: Can we go off the record
24 for a second?

25 (Discussion off the record.)

Missouri Public Service Commission

1 EXAMINER HYATT: Back on the record.

2 MR. ELLINGER: Mr. Examiner, if it's agreeable
3 we would have this typed up and submitted later today at
4 your convenience. We'll mail a copy to the company so they
5 don't have to wait here, if that's agreeable.

6 EXAMINER HYATT: I will then reserve a place
7 for Joint Exhibit No. 1 to be late-filed.

8 MR. ELLINGER: Very well.

9 EXAMINER SCOTT: That's agreeable, your
10 Honor.

11 BY MR. ELLINGER:

12 Q Proceed, Mr. Marciel. You explained the
13 10 percent and now we need to get to the totals.

14 A Okay. Well, after this 10 percent, that
15 gives us three figures: 9829, plus \$200, plus \$983. That
16 adds up to \$11,012. So this will be the total expenses
17 for a two-year period.

18 Dividing that by the two years and then
19 dividing that by 67 customers and dividing that by 12 months
20 gives us \$6.84 per month, which is what we recommend the
21 sewer rate to be.

22 Q Having sat through this testimony and having
23 had read the exhibits filed by the company, is it your
24 opinion that this appears to be a businesslike and responsi-
25 ble answer to the sewer needs of the people in the subdivision

Missouri Public Service Commission

1 where Trails West Sewer Company is located?

2 A Yes. It appears to me that it's in the
3 public interest that this company be operating this system
4 which, of course, is already existing. And it appears to
5 be feasible for this company to operate it. So Staff is
6 in favor of the certificate being granted.

7 Q Assuming all the property applications are
8 filed, is it the Staff's opinion that this application
9 be granted?

10 A Yes.

11 MR. ELLINGER: We have no further questions.

12 EXAMINER HYATT: I just have one question
13 to clarify something.

14 QUESTIONS BY EXAMINER HYATT:

15 Q Based on these revised figures that you all
16 have stipulated to, Staff and the Applicant, would that
17 have an effect on the average rate of return on capital
18 investment, or would it be the same as in the Exhibit III--
19 Roman numeral III which is a part of Exhibit IV, the
20 feasibility study?

21 A Well, we're not really allowing any rate of
22 return on any investment. In this exhibit they've claimed
23 the \$500 as investment. Now, the way I recommended it was
24 that the \$500 just be written off over a five-year period.
25 So that's why we added the \$200 per year. I'm sorry, it's

1 \$100 per year and I added the \$200 in because these are
2 two-year figures when I was adding these expenses.

3 MR. ELLINGER: If I might, Mr. Merciel,
4 in effect it's the Staff's position that the company should
5 not get both a rate of return and this depreciation method
6 that you have calculated?

7 WITNESS MERCIEL: That's right. That's right.
8 If we write this off over five years there will be zero
9 rate of return to the company.

10 EXAMINER HYATT: Thank you very much,
11 Mr. Merciel.

12 Are there any further questions? Will there
13 be any cross-examination?

14 EXAMINER SCOTT: I have no cross-examination,
15 your Honor.

16 EXAMINER HYATT: The witness may step down.
17 (Witness excused.)

18
19 MR. ELLINGER: We will file later today what
20 will be marked Commission Staff Exhibit A.

21 EXAMINER HYATT: Off the record for a second,
22 please.

23 (Discussion off the record.)

24 EXAMINER HYATT: Back on the record.

25 I'm informed off the record that the Staff

1 will be the one to file the revised projected financial
2 analysis as a late-filed exhibit and that it won't be filed
3 as a joint exhibit as I had earlier stated on the record.
4 Therefore, I would reserve a place for such an exhibit to
5 be filed as a late-filed exhibit as Staff Exhibit No. 1.

6 Now, does the Staff have any more witnesses?

7 MR. ELLINGER: No. That concludes the
8 Staff's case. We rest.

9 EXAMINER HYATT: Let's go off the record.
10 for a second, please.

11 (Discussion off the record.)

12 EXAMINER HYATT: Please go back on the record.
13 Is it my understanding that both of the
14 parties wish to submit no formal stipulation?

15 MR. ELLINGER: That's correct for the Staff.

16 EXAMINER HYATT: Either oral or in writing?

17 MR. ELLINGER: That's correct.

18 EXAMINER HYATT: Are both parties willing to
19 have this case decided solely on the basis of the infor-
20 mation which has heretofore been introduced into the
21 record?

22 EXAMINER SCOTT: Yes, your Honor.

23 MR. ELLINGER: Yes.

24 EXAMINER HYATT: It is my understanding that
25 the parties have already, in writing, waived reading of the

1 transcript by the Commissioners under Section 536.080(2),
2 Revised Statutes of Missouri; is that correct?

3 MR. ELLINGER: Yes.

4 MR. SCOTT: Yes.

5 EXAMINER HYATT: Also that both parties have
6 waived their rights to present oral argument and written
7 briefs pursuant to Section 536.010(1) of the Revised Statutes?

8 MR. ELLINGER: That's correct.

9 MR. SCOTT: That's right.

10 EXAMINER HYATT: Would you go off the record,
11 please?

12 (Discussion off the record.)

13 EXAMINER HYATT: Go back on the record,
14 please.

15 Is there anything further to be offered at
16 this time by either of the parties?

17 MR. ELLINGER: Nothing for the Staff.

18 EXAMINER SCOTT: Nothing for the Applicant,
19 your Honor.

20 EXAMINER HYATT: Then the case will be submitted
21 on the record and this hearing is herewith adjourned.

22 WHEREUPON, the hearing of this case was
23 concluded.
24
25

I N D E X

COMPANY'S EVIDENCE:

PAGE

VERNON L. STUMP

Direct Examination by Mr. Scott

4

Cross-Examination by Mr. Ellinger

24

Questions by Examiner Hyatt

24

Further Cross-Examination by Mr. Ellinger

26

STAFF'S EVIDENCE:

EARL EBBE

Direct Examination by Mr. Ellinger

28

JAMES MERCIEL

Direct Examination by Mr. Ellinger

30

Questions by Examiner Hyatt

37

E X H I B I T S

STAFF'S EXHIBIT:

Exhibit No. 1 *

Revised Projected

Financial Analysis

(Recommendation for Monthly Rates)

*Late-Filed

TRAILS WEST SEWER COMPANY

CASE NO. SA-80-192

Staff Exhibit 1

Recommendation for Monthly Rates

<u>Operating Expenses</u>	<u>Year 1</u>	<u>Year 2</u>
Supervision and Labor	\$ 2,420	\$ 2,686
Operating Supplies and Expenses	100	110
Maintenance of Treatment Facility	530	583
Maintenance of Collecting Sewers	400	440
Billing Expenses	600	660
Taxes	400	400
Accounting	<u>250</u>	<u>250</u>
	\$ 4,700	\$ 5,129
10% of Expenses for Management Fee	470	513
\$500 Investment - Write Off Over 5 Years	<u>100</u>	<u>100</u>
	\$ 5,270	\$ 5,742
2 Year Expenses	\$11,012	
Yearly Average	\$ 5,506	
Cost to Each of 67 Customers	\$ 82.17/Year	
	\$ 6.84/Month	

late filed

Staff Exhibit No. 1

Date 6/6/80 Case No. SA-80-192

By N. Fore