

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

In the Matter of the Application of KMB)	<u>Case No. SR-2010-0346</u>
Utility Corporation for a Sewer Rate)	
Increase)	

**NOTICE OF AGREEMENT REGARDING DISPOSITION
OF SMALL COMPANY RATE INCREASE REQUEST**

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through counsel, and for its *Notice of Agreement Regarding Disposition of Small Company Rate Increase Request* ("Agreement Notice") states as follows:

1. On May 21, 2010, the Missouri Public Service Commission ("the Commission") received a Rate Increase Request Letter ("Request Letter") from KMB Utility Corporation ("KMB" or "the Company").

2. In its Request Letter, KMB requested Commission approval of an increase of \$12,100 in its annual sewer system operating revenues pursuant to Commission Rule 4 CSR 240-3.050.

3. Upon completion of its investigation of the Company's request, Staff provided KMB and the Office of the Public Counsel ("Public Counsel") with materials related to Staff's investigation, as well as Staff's initial recommendations for the resolution of the revenue increase request.

4. Pursuant to negotiations held subsequent to the Company's and Public Counsel's receipt of the above-referenced information regarding Staff's investigation of the Company's Request, Staff and KMB were able to reach an agreement ("Company/Staff Disposition Agreement") regarding a resolution of the Company's request. This agreement provides for an

overall agreed-upon operating revenue increase of \$1,905. The agreement, among other things, also prescribes a schedule of depreciation rates and requires the Company to implement certain agreed-upon Staff recommendations.

5. Included in Appendix A, attached and incorporated by reference herein, is a copy of the above-referenced Company/Staff Disposition Agreement, as well as various attachments related to the Company/Staff Disposition Agreement. Additionally, Appendix A contains affidavits from Staff members that participated in the investigation of the Company's request.

6. Pursuant to Commission Rule 4 CSR 240-3.050, governing disposition agreements executed between Staff and small utility companies utilizing the small utility rate case procedure, KMB will file tariff sheets seeking to implement the terms of the Company/Staff Disposition Agreement. The tariff sheets will be filed December 13, 2010, and will bear an effective date of February 1, 2011, which, as required by Commission Rule 4 CSR 240-3.050(14), is not fewer than forty-five (45) days after they are filed.

7. KMB is current in its payment of Commission assessments and on its filings of annual reports and statements of revenue.

WHEREFORE, Staff respectfully submits this *Agreement Notice* and the attached Appendix A for the Commission's information and consideration in this case and requests that the Commission enter an Order adopting the terms agreed upon by Staff and the Company.

Respectfully submitted,

/s/ RACHEL M. LEWIS
Rachel M. Lewis
Deputy Counsel
Missouri Bar No. 56073

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 526.6715 (Telephone)
(573) 751-9285 (Fax)
rachel.lewis@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 9th day of December, 2010.

/s/ RACHEL M. LEWIS

APPENDIX A

STAFF PARTICIPANT AFFIDAVITS AND DISPOSITION AGREEMENT & ATTACHMENTS

CASE NO. SR-2010-0346

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Staff Participant Affidavits

James M. Russo – Water & Sewer Department

Roberta Grissum-Department

John Robinett – Engineering & Management Services Department

Deborah Bernsen – Engineering & Management Services Department

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

AFFIDAVIT OF JAMES M. RUSSO

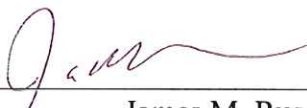
STATE OF MISSOURI)

) SS

CASE NO. SR-2010-0346

COUNTY OF COLE)

COMES NOW James M. Russo, being of lawful age, and on his oath states the following: (1) that he is the Rate and Tariff Examination Supervisor of the Missouri Public Service Commission's Water & Sewer Department; (2) that he participated in the Staff's investigation of the small company rate increase request that is the subject of the instant case; (3) that he has knowledge of the foregoing *Company/Staff Agreement Regarding Disposition of Small Sewer Company Rate Increase Request ("Disposition Agreement")*; (4) that he was responsible for the preparation of Attachments, A, C, D, E, and I to the Disposition Agreement; (5) that he has knowledge of the matters set forth in the Disposition Agreement and the above-referenced attachments thereto; and (6) that the matters set forth in the Disposition Agreement and the above-referenced attachments thereto are true and correct to the best of his knowledge, information and belief.

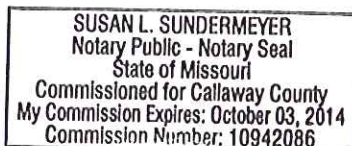


James M. Russo
Rate & Tariff Examination Supervisor
Water and Sewer Department

Subscribed and sworn to before me this 7th day of December, 2010.



Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

AFFIDAVIT OF ROBERTA A. GRISSUM

STATE OF MISSOURI

COUNTY OF

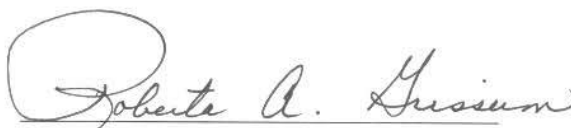
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Case No. SR-2010-0346

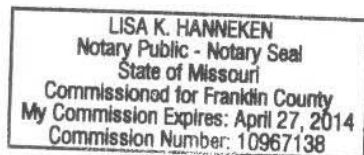
COMES NOW Roberta A. Grissum, being of lawful age, and on her oath states the following: (1) that she is a(n) Utility Regulatory Auditor in the Missouri Public Service Commission's Auditing Department; (2) that she participated in the Staff's investigation of the small company rate increase request that is the subject of the instant case; (3) that she has knowledge of the foregoing *Company/Staff Agreement Regarding Disposition of Small Sewer Company Rate Increase Request* ("Disposition Agreement"); (4) that she was responsible for the preparation of Attachments B and G to the Disposition Agreement; (5) that she has knowledge of the matters set forth in Attachments B and G to the Disposition Agreement; and (6) that the matters set forth in Attachments B and G to the Disposition Agreement are true and correct to the best of her knowledge, information, and belief.



Roberta A. Grissum

Utility Regulatory Auditor IV
Auditing Department

Subscribed and sworn to before me this 6TH day of October, 2010.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

AFFIDAVIT OF JOHN A. ROBINETT

STATE OF MISSOURI

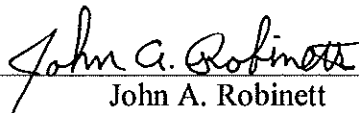
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COUNTY OF COLE

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Case No. SR-2010-0346

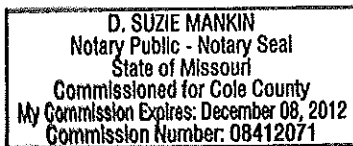
COMES NOW John A. Robinett, being of lawful age, and on his oath states the following: (1) that he is a(n)) Utility Regulatory Specialist in the Missouri Public Service Commission's Engineering & Management Services Department; (2) that he participated in the Staff's investigation of the small company rate increase request that is the subject of the instant case; (3) that he has knowledge of the foregoing *Company/Staff Agreement Regarding Disposition of Small Sewer Company Rate Increase Request* ("Disposition Agreement"); (4) that he was responsible for the preparation of Attachment F to the Disposition Agreement; (5) that he has knowledge of the matters set forth in Attachment F to the Disposition Agreement; and (6) that the matters set forth in Attachment F to the Disposition Agreement are true and correct to the best of his knowledge, information, and belief.



John A. Robinett

Utility Regulatory Specialist
Engineering & Management
Services Department

Subscribed and sworn to before me this 8th day of October, 2010.




Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

AFFIDAVIT OF DEBORAH A. BERNSEN

STATE OF MISSOURI

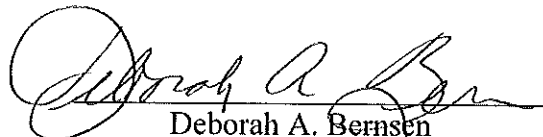
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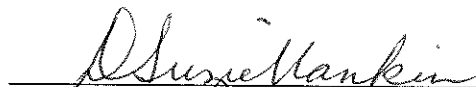
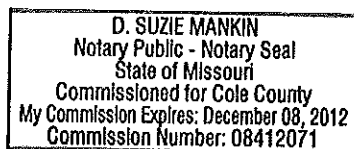
Case No. SR-2010-0346

COMES NOW Deborah A. Bernsen, being of lawful age, and on her oath states the following: (1) that she is a Utility Management Analyst III in the Missouri Public Service Commission's Engineering & Management Services Department; (2) that she participated in the Staff's investigation of the small company rate increase request that is the subject of the instant case; (3) that she has knowledge of the foregoing *Company/Staff Agreement Regarding Disposition of Small Sewer Company Rate Increase Request* ("Disposition Agreement"); (4) that she was responsible for the preparation of Attachment H to the Disposition Agreement; (5) that she has knowledge of the matters set forth in Attachment H to the Disposition Agreement; and (6) that the matters set forth in Attachment H to the Disposition Agreement are true and correct to the best of her knowledge, information, and belief.



Deborah A. Bernsen
Utility Management Analyst III
Engineering & Management
Services Department

Subscribed and sworn to before me this 8th day of October, 2010.



Notary Public

Company/Staff Disposition Agreement

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

KMB UTILITY CORPORATION

MO PSC CASE NO. SR-2010-0346

BACKGROUND

KMB Utility Corporation ("KMB or Company") initiated the small company revenue increase request ("Request") for sewer service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") Case Number by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.050, Small Utility Rate Case Procedure ("Small Company Procedure"). In its request letter, which was received at the Commission's offices on May 21, 2010, the Company set forth its request for an increase of \$12,100 in its total annual sewer service operating revenues. In its request letter, the Company also acknowledged that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would be reviewed during the Commission Staff's ("Staff") review of the revenue increase request, and could thus be the subject of Staff recommendations. The Company provides service to approximately 218 residential customers in the Cape Rock subdivision near Cape Girardeau, Missouri.

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

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

Normally, Staff is required to file a disposition agreement between at least the staff and the Company within one hundred fifty (150) days after a case is opened. 4 CSR 240-3.050(11). However, Staff and the Company may agree that the deadlines be extended for up to two (2)

months. 4 CSR 240.3.050(12). In this case the Company and Staff requested an extension of time for the Company to complete necessary improvements to the lift station located in Cape Rock Village. This request was approved by the Commission on October 20, 2010. Staff and the Company have reached this agreement after the improvements to the lift station were completed.

RESOLUTION OF THE COMPANY'S RATE INCREASE REQUEST

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

- (1) For the purpose of implementing the agreements set out herein, the Company will file with the Commission proposed tariff revisions containing the rates, charges and language set out in the example tariff sheet attached hereto as Attachment A and incorporated by reference herein, with those proposed tariff revisions bearing an effective date of February 1, 2011;
- (2) Except as otherwise noted in the agreements below, both the Exhibit Modeling System ("EMS"), attached hereto as Attachment B and incorporated by reference herein, and the ratemaking income statement attached hereto as Attachment C and incorporated by reference herein, accurately reflect the Company's annualized revenues generated by its current customer rates, the agreed-upon total annualized cost of service for the Company, and the resulting agreed-upon annualized operating revenue increase of \$1,905 is just and reasonable and designed to recover the Company's cost of service;
- (3) The audit workpapers attached hereto as Attachment B and incorporated by reference herein, which include consideration of a capital structure of 100% equity for the Company and a return on that equity of 9.02%, accurately reflect the agreed-upon total annualized cost of service for the Company and provide the basis for the ratemaking income statement referenced in item (2) above;
- (4) The rates set out in the attached example tariff sheet, the development of which is shown on the rate design worksheet attached hereto as Attachment D and incorporated by reference herein, are designed to generate revenues sufficient to recover the agreed-upon total annualized cost of service for the Company;
- (5) The rates included in the attached example tariff sheet will result in the residential customer impacts shown on the billing comparison worksheet attached hereto as Attachment E and incorporated by reference herein;
- (6) The rates included in the attached example tariff sheet are just and reasonable, and that the provisions of the attached example tariff sheet also properly reflect all other agreements set out herein, where necessary;

(7) The schedule of depreciation rates attached hereto as Attachment F and incorporated herein, which includes the depreciation rates used by Staff in its revenue requirement analysis, shall be the prescribed schedule of sewer plant depreciation rates for the Company;

(8) The Commission's Auditing Department conducted an audit of the Company's books and records using a test year consisting of the 12-month period ending May 31, 2010 to base the revenue requirement calculation. All revenues, expenses, and rate base investment were reviewed through this period. The audit findings and recommendations are identified hereto as Attachment G and incorporated by reference herein.

Staff provided the Company and OPC its initial recommendations of the revenue increase for the resolution of the Company's request and Staff's EMS run. The work papers supporting the revenue requirement calculation were also provided to the Company and OPC with the results of its investigation regarding the proposed rate increase;

(9) Within ninety (90) days of the effective date of an order approving this Company/Staff Disposition Agreement, the Company shall implement the following recommendations from the Auditing Department and Depreciation Staff associated with EMSD:

- a. The Company shall maintain and retain proper plant and Contribution in Aid of Construction ("CIAC") records;
- b. The Company shall adjust its books and records to reflect the plant and reserve account balances shown in the Staff EMS exhibit, attached hereto as Attachment B and incorporated by reference herein;
- c. The Company shall adjust its books and records to reflect the CIAC and the amortized CIAC account balances shown in the Staff EMS exhibit, attached hereto as Attachment B and incorporated by reference herein;
- d. The Company shall implement a work order system to track material cost, labor cost, overhead cost, and record cost of removal and gross salvage for all new, replaced or retired plant; and
- e. The Company shall follow National Association of Regulatory Utility Commissioners' ("NARUC") Uniform System of Accounts ("USOA") guidelines for the recording of cost of removal and gross salvage in the Company ledger as adjustments to plant and reserves;

(10) Within ninety (90) days of the effective date of an order approving this Company/Staff Disposition Agreement, the Company shall implement the recommendations contained in the EMSD Report attached hereto as Attachment H and incorporated by reference herein. The recommendation is the Company shall pursue the feasibility of a cooperative agreement with the City of Cape Girardeau to terminate water service for delinquent sewer bills;

(11) Within ninety (90) days of the effective date of an order approving this Company/Staff Disposition Agreement, the Company shall implement the recommendations contained in the Auditing Department Recommendation Memorandum identified hereto as Attachment G and incorporated by reference herein. The recommendation is the Company shall obtain assistance from Staff in preparing the Company's 2010 PSC Annual Report;

(12) The Company shall mail its customers a final written notice of the rates and charges included in its proposed tariff revisions prior to or with its next billing cycle after issuance of the Commission Order approving the terms of this Company/Staff Disposition Agreement. The notice shall include a summary of the impact of the proposed rates on an average residential customer's bill. When the Company mails the notice to its customers, it shall also send a copy to Staff Case Coordinator who will file a copy in this case;

(13) Staff may conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this Company/Staff Disposition Agreement;

(14) Staff may file a formal complaint against the Company, if the Company does not comply with the provisions of this Disposition Agreement;

(15) The Company agrees that it has read the foregoing Company/Staff Agreement Regarding Disposition of Small Sewer Company Revenue Increase Request; that facts stated therein are true and accurate to the best of the Company's knowledge and belief; that the foregoing conditions accurately reflect the agreement reached between the Company and Staff; and that the Company freely and voluntarily enters into this agreement; and

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

ADDITIONAL MATTERS

Other than the specific conditions agreed upon and expressly set out herein, the terms of this Company/Staff Disposition Agreement reflect compromises between Staff and the Company. In arriving at the amount of the annual operating revenue increase specified herein neither party has agreed to any particular ratemaking principle.

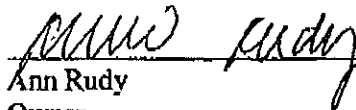
Staff has completed a Summary of Case Events and has included that summary as Attachment I to this Company/Staff Disposition Agreement.

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

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

SIGNATURES

Agreement Signed and Dated:



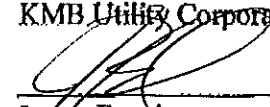
Ann Rudy

Owner

KMB Utility Corpora

Dec. 7, 2010

Date



James Busch
Manager

Water & Sewer Department

Missouri Public Service Commission Staff

12/7/10

Date

List of Attachments

Attachment A – Example Tariff Sheets

Attachment B – EMS

Attachment C – Ratemaking Income Statement

Attachment D – Rate Design Worksheet

Attachment E – Billing Comparison Worksheet

Attachment F – Schedule of Depreciation Rates

Attachment G – Auditing Department Recommendation Memorandum

Attachment H – EMSD Report

Attachment I – Summary of Events

Agreement Attachment A

Example Tariff Sheets

P.S.C. MO No. 1
Canceling P.S.C. MO No. 1

KMB Utility Corporation
Name of Issuing Company

7th Revised Sheet No. 5

6th Revised Sheet No. 5

For: Cape Rock Village (Cape Girardeau County
Certificated Service Area

Rules & Regulations
Rendering of Sewer Service

SCHEDULE OF SEWER RATES

Sewer Rate Schedule A: Single Family Dwelling

Availability:

The following rate is applicable to single family residences, including mobile homes not located in mobile home parks, and is applicable to all customers located in the Company's Cape Rock Village certificated service area and adjacent to the Company's collection sewer.

Customer Charge \$27.60 per month +
The Customer Charge will be billed each customer monthly.

Sewer Rate Schedule B: Multi-Family Dwelling

Availability:

The following rate is applicable to each rental unit of a multiple family dwelling and for individual mobile homes located in mobile home parks, where customers are located in the Company's Cape Rock Village certificated service area and adjacent to the Company's collection sewer.

Customer Charge \$22.08 per month +
The Customer Charge will be billed each customer monthly.

Taxes:

Any applicable Federal, State or local taxes shall be in addition to above charges.

Late Charges:

Billings will be made and distributed at monthly intervals. Bills will be rendered net, bearing the last date on which payment will then be considered delinquent. The period after which payment will then be considered delinquent is 21 days after rendition of the bill. A charge of \$5.00 or three percent (3%) per month times the unpaid balance, whichever is more, will be added to delinquent amounts.

Returned Check Charge

A returned check charge of \$20 per check will be paid on all checks returned from the bank for insufficient funds.

* Indicates New Rate or Text

+ Indicates Changed Rate or Text

Issue Date: December 13, 2010
Month/Day/Year

Effective Date: February 1, 2011
Month/Day/Year

Issued By: Ann Rudy President
Name & Title of Issuing Officer

510 Dulin Creek Road House Springs MO 63501
Company Mailing Address

Agreement Attachment B

EMS Run

Exhibit No.:
Issue: Accounting Schedules
Witness: Roberta Grissum
Sponsoring Party: MO PSC Staff
Case No: SR-2010-0346
Date Prepared: 7/19/2010



MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

STAFF ACCOUNTING SCHEDULES

CAPE ROCK VILLAGE SEWER

CASE NO. SR-2010-0346

Jefferson City, Missouri

July 2010

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Rate Design Schedule - Sewer

A		B	C	D	E	F
Line Number	Description	Account Number (Optional)	Staff Annualized	Customer Charge	Commodity	Percentage Rate
Rev-1	ANNUALIZED REVENUES					
Rev-2	Annualized Rate Revenues	(1)	\$66,450			
Rev-3	Miscellaneous Revenues	(1)	\$3,115			
Rev-4	TOTAL ANNUALIZED REVENUES		<u>\$69,565</u>			
1	OPERATIONS EXPENSES	(2)				
2	Management Salary		\$6,439	\$0	\$6,439	0.00%
3	Hourly Employees		\$2,226	\$0	\$2,226	0.00%
4	Contract Operator - Strickland Engineering		\$6,505	\$0	\$6,505	0.00%
5	Electricity - Pumping Treatment		\$4,451	\$0	\$4,451	0.00%
6	TOTAL OPERATIONS EXPENSE		<u>\$19,621</u>	<u>\$0</u>	<u>\$19,621</u>	
7	MAINTENANCE EXPENSES					
8	System Repairs and Maintenance		\$13,652	\$0	\$13,652	0.00%
9	TOTAL MAINTENANCE EXPENSE		<u>\$13,652</u>	<u>\$0</u>	<u>\$13,652</u>	
10	CUSTOMER ACCOUNT EXPENSE					
11	Legal and Accounting Fees		\$872	\$0	\$872	0.00%
12	Billing & Collections		\$315	\$0	\$315	0.00%
13	Office Supplies		\$216	\$0	\$216	0.00%
14	Postage Expense		\$821	\$0	\$821	0.00%
15	Uncollectible Accounts		\$373	\$0	\$373	0.00%
16	TOTAL CUSTOMER ACCOUNT EXPENSE		<u>\$2,597</u>	<u>\$0</u>	<u>\$2,597</u>	
17	ADMINISTRATIVE & GENERAL EXPENSES					
18	Telephone & Pagers		\$459	\$0	\$459	0.00%
19	Office Utilities		\$92	\$0	\$92	0.00%
20	Vehicle Expense		\$1,836	\$0	\$1,836	0.00%
21	Medical Insurance		\$0	\$0	\$0	0.00%
22	Property & Liability Insurance		\$2,371	\$0	\$2,371	0.00%
23	Rent		\$630	\$0	\$630	0.00%
24	Other Misc. Expenses		\$178	\$0	\$178	0.00%
25	TOTAL ADMINISTRATIVE AND GENERAL		<u>\$5,566</u>	<u>\$0</u>	<u>\$5,566</u>	
26	OTHER OPERATING EXPENSES					
27	Registration Fees		\$3,011	\$0	\$3,011	0.00%
28	PSC Assessment		\$6,371	\$0	\$6,371	0.00%
29	Amortization of Engineering Report for Operating Permit		\$3,333	\$0	\$3,333	0.00%
30	Depreciation		\$6,858	\$0	\$6,858	0.00%
31	TOTAL OTHER OPERATING EXPENSES		<u>\$19,573</u>	<u>\$0</u>	<u>\$19,573</u>	
32	TAXES OTHER THAN INCOME					
33	Real & Personal Property Taxes		\$220	\$0	\$220	0.00%
34	Payroll Taxes		\$1,207	\$0	\$1,207	0.00%
35	TOTAL TAXES OTHER THAN INCOME		<u>\$1,427</u>	<u>\$0</u>	<u>\$1,427</u>	
36	TOTAL OPERATING EXPENSES		<u>\$62,436</u>	<u>\$0</u>	<u>\$62,436</u>	
37	Interest Expense	(3)	\$0	\$0	\$0	0.00%
38	Return on Equity	(3)	\$7,233	\$0	\$7,233	0.00%
39	Income Taxes	(3)	\$1,801	\$0	\$1,801	0.00%
40	TOTAL INTEREST RETURN & TAXES		<u>\$9,034</u>	<u>\$0</u>	<u>\$9,034</u>	
41	TOTAL COST OF SERVICE		<u>\$71,470</u>	<u>\$0</u>	<u>\$71,470</u>	
42	Less: Miscellaneous Revenues		<u>\$3,115</u>	<u>\$0</u>	<u>\$3,115</u>	0.00%

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Rate Design Schedule - Sewer

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
43	COST TO RECOVER IN RATES		\$68,355	\$0	\$68,355	
44	INCREMENTAL INCREASE IN RATE REVENUES		\$1,905			
45	PERCENTAGE OF INCREASE		2.74%			
46	REQUESTED INCREASE IN REVENUES		\$0			

- (1) From Revenue Schedule
(2) From Expense Schedule
(3) From PreTax Rate of Return Schedule, Rate Base & Return Schedule

Cape Rock Village Sewer
 Informal Rate Case
 Case No. SR-2010-0346
 Test Year Ending 5/31/2010
 Rate Base Required Return on Investment Schedule - Sewer

Line Number	A Rate Base Description	B Dollar Amount
1	Plant In Service	\$211,553 From Plant Schedule
2	Less Accumulated Depreciation Reserve	<u>\$131,363</u> From Depreciation Reserve Schedule
3	Net Plant In Service	\$80,190
4	Other Rate Base Items:	\$0
	Contribution of Aid of Construction	\$0
	CIAC Depreciation	\$0
5	Total Rate Base	<u>\$80,190</u>
6	Total Weighted Rate of Return Including Income Tax	<u>11.27%</u> From PreTax Return & Taxes Schedule
7	Required Return & Income Tax	<u><u>\$9,034</u></u>

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Rate of Return Including Income Tax - Sewer

	A	B	formulas
1 State Income Tax Rate Statutory / Effective	6.25% (2)	5.81%	$(1 - (B2 \times .5)) \times A1$
2 Federal Income Tax Rate Statutory / Effective	15.00% (1) & (2)	14.13%	$(1 - B1) \times A2$
3 Composite Effective Income Tax Rate		19.94%	$B1 + B2$
4 Equity Tax Factor		1.2490	$1 / (1 - B3)$
5 Recommended Weighted Rate of Return on Equity - Common and Preferred		9.02%	From Capital Structure Schedule
6 Weighted Rate of Return on Equity Including Income Tax		11.27%	$B4 \times B5$
7 Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term		0.00%	From Capital Structure Schedule
8 Total Weighted Rate of Return Including Income Tax		11.27%	$B6 + B7$

To Rate Base Schedule

(1) If Sub-Chapter S Corporation, Enter Y:

N

Equity Income Required \$8,509
& Preliminary Federal Tax

Tax Rate Table

Net Income Range				
Start	End	Tax Rate	Amount in Range	Tax on Range
\$0	\$50,000	15.00%	\$8,509	\$1,276
\$50,001	\$75,000	25.00%	\$0	\$0
\$75,001	\$100,000	34.00%	\$0	\$0
\$100,001	\$335,000	39.00%	\$0	\$0
\$335,001	\$9,999,999,999	34.00%	\$0	\$0
			<u>\$8,509</u>	<u>\$1,276</u>
			Consolidated Tax Rate:	
			Average Tax Rate:	0.15

Cape Rock Village Sewer
Informal Rate Case
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Test Year Ending 5/31/2010
Capital Structure Schedule - Sewer

Line Number	Description	Dollar Amount	Percentage of Total Capital Structure	Embedded Cost of Capital	Weighted Cost of Capital
1	Common Stock	\$80,190	100.00%	9.02%	9.020%
2	Other Security-Non Tax Deductible	\$0	0.00%	0.00%	0.000%
3	Preferred Stock	\$0	0.00%	0.00%	0.000%
4	Long Term Debt	\$0	0.00%	0.00%	0.000%
5	Short Term Debt	\$0	0.00%	0.00%	0.000%
6	Other Security-Tax Deductible	\$0	0.00%	0.00%	0.000%
7	TOTAL CAPITALIZATION	<u>\$80,190</u>	<u>100.00%</u>		<u>9.020%</u>

To PreTax Return Rate Schedule

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Plant In Service - Sewer

Line Number	A Account # (Optional)	B Plant Account Description	C Total Plant	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		INTANGIBLE PLANT					
2	301.000	Organization	\$3,000	P-2	\$0	100.00%	\$3,000
3		TOTAL INTANGIBLE PLANT	\$3,000		\$0		\$3,000
4		SOURCE OF SUPPLY PLANT					
5	310.000	Land & Land Rights	\$8,800			100.00%	\$8,800
6		TOTAL SOURCE OF SUPPLY PLANT	\$8,800		\$0		\$8,800
7		COLLECTION PLANT					
8	352.200	Collection Sewers - Gravity	\$12,189	P-8	\$11,815	100.00%	\$24,004
9	353.000	Other Collection Plant Facilities	\$3,400			100.00%	\$3,400
10		TOTAL COLLECTION PLANT	\$15,589		\$11,815		\$27,404
11		PUMPING PLANT					
12	363.000	Pumping Equipment (Elec., Diesel, other)	\$66,449	P-12	\$18,259	100.00%	\$84,708
13		TOTAL PUMPING PLANT	\$66,449		\$18,259		\$84,708
14		TREATMENT & DISPOSAL PLANT					
15	372.000	Oxidation Lagoon	\$30,063	P-15	\$39,572	100.00%	\$69,635
16	373.000	Treatment and Disposal Equipment	\$5,041			100.00%	\$5,041
17		TOTAL TREATMENT & DISPOSAL PLANT	\$35,104		\$39,572		\$74,676
18		GENERAL PLANT					
19	391.000	Office Furniture & Equipment	\$1,585			100.00%	\$1,585
20	392.000	Transportation Equipment	\$5,139	P-20	\$3,430	100.00%	\$8,569
21	393.000	Other General Equipment, includes stores, tools shop & garage, lab, power operated, communication, and other tangible equipment.	\$2,811			100.00%	\$2,811
22		TOTAL GENERAL PLANT	\$9,535		\$3,430		\$12,965
23		TOTAL PLANT IN SERVICE	\$138,477		\$73,076		\$211,553

To Rate Base & Depreciation Schedules

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Schedule of Adjustments for Plant in Service - Sewer

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
P-2	Organization	301.000		\$0
	Description		\$0	
	Description		\$0	
P-8	Collection Sewers - Gravity	352.200		\$11,815
	1. To Reflect Installation of Elder Valves for Non-Paying Customers (Grissum)		\$11,815	
P-12	Pumping Equipment (Elec., Diesel, other)	363.000		\$18,259
	1. To Reflect Capitalized Maintenance Expense related to Lift Station Repair in CY2006/CY2007 (Grissum)		\$13,264	
	2. To Reflect Addition of Guide Rails Installed on 10/25/2010 (Grissum)		\$4,995	
P-15	Oxidation Lagoon	372.000		\$39,572
	1. To Reflect Capitalized Maintenance Expense related to Lagoon Berm Repair in CY2007 & CY2009 (Grissum)		\$37,916	
	2. To Reflect Capitalized Maintenance Expense related Rock purchased for Lagoon Berm Repair that occurred during the Test Year (Grissum)		\$1,656	
P-20	Transportation Equipment	392.000		\$3,430
	1. To Reallocated Ford F-150 PU based upon usage of truck by each system (Grissum)		\$3,430	
Total Plant Adjustments				\$73,076

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Depreciation Expense - Sewer

Line Number	A Account Number	B Plant Account Description	C Adjusted Jurisdictional	D Depreciation Rate	E Depreciation Expense
1		INTANGIBLE PLANT			
2	301.000	Organization	<u>\$3,000</u>	0.00%	<u>\$0</u>
3		TOTAL INTANGIBLE PLANT	<u>\$3,000</u>		<u>\$0</u>
4		SOURCE OF SUPPLY PLANT			
5	310.000	Land & Land Rights	<u>\$8,800</u>	0.00%	<u>\$0</u>
6		TOTAL SOURCE OF SUPPLY PLANT	<u>\$8,800</u>		<u>\$0</u>
7		COLLECTION PLANT			
8	352.200	Collection Sewers - Gravity	\$24,004	2.00%	\$480
9	353.000	Other Collection Plant Facilities	<u>\$3,400</u>	2.00%	<u>\$68</u>
10		TOTAL COLLECTION PLANT	<u>\$27,404</u>		<u>\$548</u>
11		PUMPING PLANT			
12	363.000	Pumping Equipment (Elec., Diesel, other)	<u>\$84,708</u>	3.00%	<u>\$2,541</u>
13		TOTAL PUMPING PLANT	<u>\$84,708</u>		<u>\$2,541</u>
14		TREATMENT & DISPOSAL PLANT			
15	372.000	Oxidation Lagoon	\$69,635	4.00%	\$2,785
16	373.000	Treatment and Disposal Equipment	<u>\$5,041</u>	4.50%	<u>\$227</u>
17		TOTAL TREATMENT & DISPOSAL PLANT	<u>\$74,676</u>		<u>\$3,012</u>
18		GENERAL PLANT			
19	391.000	Office Furniture & Equipment	\$1,585	1.00%	\$16
20	392.000	Transportation Equipment	\$8,569	7.00%	\$600
21	393.000	Other General Equipment, includes stores, tools shop & garage, lab, power operated, communication, and other tangible equipment.	\$2,811	5.00%	\$141
22		TOTAL GENERAL PLANT	<u>\$12,965</u>		<u>\$757</u>
23		Total Depreciation	<u><u>\$211,553</u></u>		<u><u>\$6,858</u></u>

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Accumulated Depreciation Reserve - Sewer

Line Number	A Account Number	B Depreciation Reserve Description	C Total Reserve	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		INTANGIBLE PLANT					
2	301.000	Organization	<u>\$3,025</u>			100.00%	<u>\$3,025</u>
3		TOTAL INTANGIBLE PLANT	<u>\$3,025</u>		<u>\$0</u>		<u>\$3,025</u>
4		SOURCE OF SUPPLY PLANT					
5	310.000	Land & Land Rights	<u>\$0</u>			100.00%	<u>\$0</u>
6		TOTAL SOURCE OF SUPPLY PLANT	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
7		COLLECTION PLANT					
8	352.200	Collection Sewers - Gravity	<u>\$1,533</u>	R-8	<u>\$708</u>	100.00%	<u>\$2,241</u>
9	353.000	Other Collection Plant Facilities	<u>\$0</u>			100.00%	<u>\$0</u>
10		TOTAL COLLECTION PLANT	<u>\$1,533</u>		<u>\$708</u>		<u>\$2,241</u>
11		PUMPING PLANT					
12	363.000	Pumping Equipment (Elec., Diesel, other)	<u>\$82,788</u>	R-12	<u>\$5,182</u>	100.00%	<u>\$87,970</u>
13		TOTAL PUMPING PLANT	<u>\$82,788</u>		<u>\$5,182</u>		<u>\$87,970</u>
14		TREATMENT & DISPOSAL PLANT					
15	372.000	Oxidation Lagoon	<u>\$25,354</u>	R-15	<u>\$3,870</u>	100.00%	<u>\$29,224</u>
16	373.000	Treatment and Disposal Equipment	<u>-\$3,320</u>			100.00%	<u>-\$3,320</u>
17		TOTAL TREATMENT & DISPOSAL PLANT	<u>\$22,034</u>		<u>\$3,870</u>		<u>\$25,904</u>
18		GENERAL PLANT					
19	391.000	Office Furniture & Equipment	<u>\$1,865</u>			100.00%	<u>\$1,865</u>
20	392.000	Transportation Equipment	<u>\$4,783</u>	R-20	<u>\$3,192</u>	100.00%	<u>\$7,975</u>
21	393.000	Other General Equipment, includes stores, tools shop & garage, lab, power operated, communication, and other tangible equipment.	<u>\$2,383</u>			100.00%	<u>\$2,383</u>
22		TOTAL GENERAL PLANT	<u>\$9,031</u>		<u>\$3,192</u>		<u>\$12,223</u>
23		TOTAL DEPRECIATION RESERVE	<u><u>\$118,411</u></u>		<u><u>\$12,952</u></u>		<u><u>\$131,363</u></u>

To Rate Base Schedule

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Schedule of Adjustments for Accumulated Depreciation Reserve - Sewer

A Reserve Adjustment Number	B Accumulated Depreciation Reserve Adjustments Description	C Account Number	D Adjustment Amount	E Total Adjustment Amount
R-8	Collection Sewers - Gravity	352.200		\$708
	1. To Reflect Depreciation Reserve related to Installation of Elder Valves for Non-Paying Customers (Grissum)		\$708	
R-12	Pumping Equipment (Elec., Diesel, other)	363.000		\$5,182
	1. To Reflect Depreciation Reserve related to Lift Station Repair in CY2006/CY2007 (Grissum)		\$5,182	
R-15	Oxidation Lagoon	372.000		\$3,870
	1. To Reflect Depreciation Reserve related to Lagoon Berm Repair in CY2007 & CY2009 (Grissum)		\$3,870	
R-20	Transportation Equipment	392.000		\$3,192
	1. To Reallocate Ford F-150 PU based upon usage of truck by each system (Grissum)		\$3,192	
	Total Reserve Adjustments			\$12,952

Cape Rock Village Sewer
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Test Year Ending 5/31/2010
Revenue Summary Schedule - Sewer

Line Number	A Description	Residential 3/4"		Multi-Family 3/4"	
		B Amount	C Amount	D Amount	E Amount
1	<u>Customer Charge Revenues:</u>				
2	Customer Number	160		58	
3	Bills Per Year	12		12	
4	Customer Bills Per year	1,920		696	
5	Current Customer Charge	<u>\$26.83</u>		<u>\$21.46</u>	
6	Annualized Customer Charge Revenues		\$51,514		\$14,936
7	<u>Commodity Charge Revenues:</u>				
8	Total Gallons Sold	0		0	
9	Less: Base Gallons Included In Customer Charge	<u>0</u>		<u>0</u>	
10	Commodity Gallons	0		0	
11	Block 1, Commodity Gallons per Block	0		0	
12	Block 1, Number of Commodity Gallons per Unit	<u>0</u>		<u>0</u>	
13	Block 1, Commodity Billing Units	0.00		0.00	
14	Block 1, Existing Commodity Charge	<u>\$0.00</u>		<u>\$0.00</u>	
15	Block 1, Annualized Commodity Charge Rev.		\$0		\$0
16	Total Annualized Sewer Rate Revenues		<u>\$51,514</u>		<u>\$14,936</u>

Commodity Billing Units are based on the number of commodity gallons applicable to each block, divided by the tariff usage rate gallons (e.g. for tariff rate of \$2.50 per 1,000 gallons of usage, the commodity gallons for that rate would be divided by 1,000 to arrive at the number of commodity billing units.

Cape Rock Village Sewer
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Test Year Ending 5/31/2010
Revenue Summary Schedule - Sewer

Line Number	A Description	Commercial 2"		Total	
		F Amount	G Amount	H Amount	I Amount
1	<u>Customer Charge Revenues:</u>				
2	Customer Number	0		218	
3	Bills Per Year	0			
4	Customer Bills Per year	0		2,616	
5	Current Customer Charge	<u>\$0.00</u>			
6	Annualized Customer Charge Revenues		\$0		\$66,450
7	<u>Commodity Charge Revenues:</u>				
8	Total Gallons Sold	0		0	
9	Less: Base Gallons Included In Customer Charge	<u>0</u>		0	
10	Commodity Gallons	0		0	
11	Block 1, Commodity Gallons per Block	<u>0</u>			
12	Block 1, Number of Commodity Gallons per Unit	0			
13	Block 1, Commodity Billing Units	0.00			
14	Block 1, Existing Commodity Charge	<u>\$0.00</u>			
15	Block 1, Annualized Commodity Charge Rev.		\$0		\$0
16	Total Annualized Sewer Rate Revenues		<u>\$0</u>		<u>\$66,450</u>

Commodity Billing Units are based on the number of commodity gallons applicable to each block, divided by the tariff usage rate gallons (e.g. for tariff rate of \$2.50 per 1,000 gallons of usage, the commodity gallons for that rate would be divided by 1,000 to arrive at the number of commodity billing units.

Cape Rock Village Sewer
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Expense Schedule - Sewer

Line Number	A Account Number (Optional)	B Expense Description	C Company/ Test Year Amount	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		OPERATIONS EXPENSES					
2		Management Salary	\$3,544	S-2	\$2,895	100.00%	\$6,439
3		Hourly Employees	\$4,214	S-3	-\$1,988	100.00%	\$2,226
4		Contract Operator - Strickland Engineering	\$6,505			100.00%	\$6,505
5		Electricity - Pumping Treatment	\$4,361	S-5	\$90	100.00%	\$4,451
6		TOTAL OPERATIONS EXPENSE	\$18,624		\$997		\$19,621
7		MAINTENANCE EXPENSES					
8		System Repairs and Maintenance	\$19,651	S-8	-\$5,999	100.00%	\$13,652
9		TOTAL MAINTENANCE EXPENSE	\$19,651		-\$5,999		\$13,652
10		CUSTOMER ACCOUNT EXPENSE					
11		Legal and Accounting Fees	\$925	S-11	-\$53	100.00%	\$872
12		Billing & Collections	\$315			100.00%	\$315
13		Office Supplies	\$216			100.00%	\$216
14		Postage Expense	\$1,233	S-14	-\$412	100.00%	\$821
15		Uncollectible Accounts	\$373			100.00%	\$373
16		TOTAL CUSTOMER ACCOUNT EXPENSE	\$3,062		-\$465		\$2,597
17		ADMINISTRATIVE & GENERAL EXPENSES					
18		Telephone & Pagers	\$880	S-18	-\$421	100.00%	\$459
19		Office Utilities	\$92			100.00%	\$92
20		Vehicle Expense	\$891	S-20	\$945	100.00%	\$1,836
21		Medical Insurance	\$1,824	S-21	-\$1,824	100.00%	\$0
22		Property & Liability Insurance	\$2,371			100.00%	\$2,371
23		Rent	\$630			100.00%	\$630
24		Other Misc. Expenses	\$541	S-24	-\$363	100.00%	\$178
25		TOTAL ADMINISTRATIVE AND GENERAL	\$7,229		-\$1,663		\$5,566
26		OTHER OPERATING EXPENSES					
27		Registration Fees	\$3,186	S-27	-\$175	100.00%	\$3,011
28		PSC Assessment	\$2,334	S-28	\$4,037	100.00%	\$6,371
29		Amortization of Engineering Report for Operating Permit	\$0	S-29	\$3,333	100.00%	\$3,333
30		Depreciation	\$0	S-30	\$6,858	100.00%	\$6,858
31		TOTAL OTHER OPERATING EXPENSES	\$5,520		\$14,053		\$19,573
32		TAXES OTHER THAN INCOME					
33		Real & Personal Property Taxes	\$153	S-33	\$67	100.00%	\$220
34		Payroll Taxes	\$1,503	S-34	-\$296	100.00%	\$1,207
35		TOTAL TAXES OTHER THAN INCOME	\$1,656		-\$229		\$1,427
36		TOTAL OPERATING EXPENSES	\$55,742		\$6,694		\$62,436

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Expense Adjustment Schedule - Sewer

A Expense Adj Number	B Adjustment Description	C Account Number	D Adjustment Amount	E Total Adjustment
S-2	Management Salary			\$2,895
	1. To Annualize Payroll - Salaried Employee (Grissum)		\$2,895	
S-3	Hourly Employees			-\$1,988
	1. To Annualize Payroll - Hourly Employees (Grissum)		-\$1,988	
S-5	Electricity - Pumping Treatment			\$90
	1. To Annualize Electricity Expense for Water Losses (Ferguson)		\$90	
S-8	System Repairs and Maintenance			-\$5,999
	1. To Capitalize Maintenance Expense (Grissum)		-\$4,343	
	2. To Capitalize Maintenance Expense related to Rock purchased for Lagoon Berm Repair (Grissum)		-\$1,656	
S-11	Legal and Accounting Fees			-\$53
	1. Disallowance for Accounting Fee incurred outside of Test Year		-\$53	
S-14	Postage Expense			-\$412
	1. To Reflect Disallowance for Freight Charge Associated with Order Cancelled by Company (Grissum)		-\$380	
	2. To Annualize Postage Expense		-\$32	
S-18	Telephone & Pagers			-\$421

Cape Rock Village Sewer
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Expense Adjustment Schedule - Sewer

A Expense Adj Number	B Adjustment Description	C Account Number	D Adjustment Amount	E Total Adjustment
	1. Disallowance for AT&T Charges Associates with National Search Directory Inc.		-\$84	
	2. To Reallocate Pager Expense to Water System ONLY		-\$90	
	3. To Remove Cell Phone No Longer Used by Ann Rudy (Grissum)		-\$247	
S-20	Vehicle Expense			\$945
	1. To Annualize Vehicle Fuel Expense		\$73	
	2. To Reallocate Ford F-150 PU based upon usage of truck by each system (Grissum)		\$872	
S-21	Medical Insurance			-\$1,824
	1. To Annualize Employee Healthcare (Grissum)		-\$1,824	
S-24	Other Misc. Expenses			-\$363
	1. Disallowance for Bank Charges Associated with Insufficient Checks		-\$363	
S-27	Registration Fees			-\$175
	1. To Remove DNR Primacy Fees		-\$175	
S-28	PSC Assessment			\$4,037
	1. To Reflect Current MoPSC Assessment		\$4,037	
S-29	Amortization of Engineering Report for Operating Pe			\$3,333
	1. To Amortize Engineering Report required to Renew Operating Permit (Grissum)		\$3,333	
S-30	Depreciation			\$6,858

Cape Rock Village Sewer
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Expense Adjustment Schedule - Sewer

A Expense Adj Number	B Adjustment Description	C Account Number	D Adjustment Amount	E Total Adjustment
	1. To Annualize Depreciation		\$6,858	
S-33	Real & Personal Property Taxes			\$67
	1. To Reflect Personal Property Tax allocated based upon usage of truck by each system (Grissum)		\$67	
S-34	Payroll Taxes			-\$296
	1. To Annualize Payroll Tax - FICA (Grissum)		-\$212	
	2. To Annualize Payroll Tax - SUTA (Grissum)		-\$84	
	Total Expense Adjustments			<u>\$6,694</u>

Cape Rock Village Sewer
Informal Rate Case
Case No. SR-2010-0346
Test Year Ending 5/31/2010
Revenue Schedule - Sewer

Line Number	A Account Number (Optional)	B Revenue Description	C Company/ Test Year Amount	D Adjustment Number	E Jurisdictional Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
Rev-1		ANNUALIZED REVENUES					
Rev-2		Annualized Rate Revenues	\$64,904	Rev-2	\$1,546	100.00%	\$66,450
Rev-3		Miscellaneous Revenues	\$3,215	Rev-3	-\$100	100.00%	\$3,115
Rev-4		TOTAL ANNUALIZED REVENUES	\$68,119		\$1,446		\$69,565

Cape Rock Village Sewer
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 Revenue Adjustment Schedule - Sewer

A Revenue Adj Number	B Adjustment Description	C Account Number	D Adjustment Amount	E Total Adjustment
Rev-2	Annualized Rate Revenues			\$1,546
	1. To Annualize Rate Revenues		\$1,546	
	2. Description		\$0	
	3. Description		\$0	
Rev-3	Miscellaneous Revenues			-\$100
	1. To Annualize Miscellaneous Revenues		-\$100	
	2. Description		\$0	
	Total Revenue Adjustments			\$1,446

Cape Rock Village Sewer
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Miscellaneous Revenues Feeder - Sewer

Line Number	<u>A</u> Description	<u>B</u> Amount
3	Total Miscellaneous Revenues	<u>\$3,115</u>

Agreement Attachment C

Ratemaking Income Statement

KMB UTILITY CORPORATION-CAPE ROCK

Rate Making Income Statement-Sewer

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	66,450
2	Other Operating Revenues *	\$	3,115
3	Total Operating Revenues	\$	69,565
4	* See "Revenues - Current Rates" for Details		

Cost of Service

Item	Amount
1 Operators Salary	\$ 6,439
2 Operator-Backup	\$ 2,226
3 Contract Operator-Strickland Engineering	\$ 6,505
4 Electricity-Shop	\$ 4,451
5 System Repairs & Maintenance	\$ 13,652
6 Legal and Accounting Fees	\$ 872
7 Billing & Collections	\$ 315
8 Office Supplies	\$ 216
9 Postage Expense	\$ 821
10 Uncollectible Accounts	\$ 373
11 Telephone & Internet Expense	\$ 459
12 Office Utilities	\$ 92
13 Vehicle Expense	\$ 1,836
14 Property & Liability Insurance	\$ 2,371
15 Rent Expense	\$ 630
16 Miscellaneous General Expenses	\$ 178
17 Registration Fees	\$ 3,011
18 Regulatory Commission Expense	\$ 6,371
19 Sub-Total Operating Expenses	\$ 50,818
20 Property Taxes	\$ 220
21 MO Franchise Taxes	\$ -
22 Employer FICA Taxes	\$ 1,207
23 Federal Unemployment Taxes	\$ -
24 State Unemployment Taxes	\$ -
25 State & Federal Income Taxes	\$ 1,801
26 Sub-Total Taxes	\$ 3,228
27 Depreciation Expense	\$ 6,858
28 Amortization of Eng.Reprot for Oper. Permit	\$ 3,333
29 Sub-Total Depreciation/Amortization	\$ 10,191
30 Return on Rate Base	\$ 7,233
31 Total Cost of Service	\$ 71,470
32 Overall Revenue Increase Needed	\$ 1,905

Agreement Attachment D

Rate Design Worksheet

KMB UTILITY CORPORATION-CAPE ROCK

Development of Tariffed Rates-Sewer

Agreement is to increase currently tariffed rates by a percentage equal to the agreed-upon overall revenue increase divided by the revenues generated by the currently tariffed rates.

Revenues Generated by Current Tariffed Rates	\$ 66,450
Agreed-Upon Overall Revenue Increase	\$ 1,905
Percentage Increase Needed	2.867%

Metered Customer Rates

Customer Type	Current Service Charge	Proposed Service Charge
Single Family	\$ 26.83	\$ 27.60
Multi-Family	\$ 21.46	\$ 22.08

Agreement Attachment E

Billing Comparison Worksheet

KMB UTILITY CORPORATION-CAPE ROCK

Residential Customer Bill Comparison-Sewer

Rates for 5/8" Meter

<u>Current Base</u>	<u>Proposed Base</u>
<u>Customer Charge</u>	<u>Customer Charge</u>
<u>\$26.83</u>	<u>\$27.60</u>

current service charge is monthly charge

MONTHLY BILL COMPARISON

Current Rates

Customer Charge	\$ 26.83
Usage Charge	\$ -
Total Bill	\$ 26.83

Proposed Rates

Customer Charge	\$ 27.60
Usage Charge	\$ -
Total Bill	\$ 27.60

INCREASES

Customer Charge

\$ Increase	\$0.77
% Increase	2.87%

Usage Charge

\$ Increase	\$0.00
% Increase	N/A

Total Bill

\$ Increase	\$0.77
% Increase	2.87%

Agreement Attachment F

Schedule of Depreciation Rates

KMB SEWER COMPANY
SCHEDULE of DEPRECIATION RATES
(SEWER CLASS C)
SR-2010-0346 Attachment F

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT DESCRIPTION</u>	<u>DEPRECIATION RATE</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>	<u>NET SALVAGE</u>
	Land and Structures			
	Collection Plant			
352.2	Collection Sewers (Gravity)	2.0%	50	0%
	Pumping Plant			
363	Electric Pumping Equipment	3.0%	10	0%
	Treatment and Disposal			
372	Oxidation Lagoons	4.0%	25	0%
373	Treatment & Disposal Facilities	4.5%	20	0%
	General Plant			
391.1	Office Computer & Electronic Equip.	1.0%	5	0%
392	Transportation Equipment	7.0%	7	9%
393	Other General Equipment (tools, shop equip., backhoes, trenchers, etc.)	5.0%	13	13%

Agreement Attachment G

Auditing Department Recommendation Memorandum

AUDITING DEPARTMENT RECOMMENDATION
M E M O R A N D U M

TO: Jim Russo
Water and Sewer Department, Case Coordinator

FROM: Roberta Grissum
Lisa Ferguson
Kofi Boateng
Auditing Department, Staff

SUBJECT: KMB Utility Corporation
Informal Rate Increase Request
Case Nos. WR-2010-0345 and SR-2010-0346

DATE: November 17, 2010

On May 20, 2010 KMB Utility Corporation (KMB or Company), owned by Ms. Ann Rudy, filed a request asking for a \$18,500 increase in rates for the following seven water systems: Cedar Hill Estates, Crestview Acres, High Ridge Manor, Hillshine Acres, Lakewood Hills, Scotsdale, and Warren Woods. The Company has not specified how this requested increase should be spread among the seven water systems, except to recommend no increase in rates for the High Ridge Manor and Scotsdale systems. The Company also filed for a \$12,100 increase in rates for the Cape Rock sewer system. The total increase in rates sought by KMB is \$30,600.

The last rate increases approved by the Missouri Public Service Commission (Commission) for KMB became effective April 21, 2006 as a result of Case No. WR-2006-0286 and February 21, 2006 as part of Case No. SR-2006-0285. As part of these two most recent rate cases, the Commission approved a \$9,221 increase in rates in total for all seven of KMB's water systems and a \$775 increase for KMB's Cape Rock sewer system.

The Auditing Staff has conducted an investigation of the Company's books and records, based upon the twelve-month test year period ending May 31, 2010 and has determined that an increase of \$25,293 in water revenues and an increase of \$1,905 in sewer revenues are necessary. The chart shown below provides a breakdown of the Auditing Staff's proposed rate increase or decrease by system:

System Name	Customer	County	Current Monthly	Staff Proposed	Staff Proposed
Sewer/Water	#'s	Location	Rates	\$ Increase/ Decrease	% Increase/ Decrease
Cape Rock Sewer	218	Cape Girardeau	Minimum Monthly Charge-\$26.83 single	\$1,905	2.74%
			multi-family- \$21.46 per unit		
Cedar Hill	193	Jefferson	Minimum Monthly	(\$3,472)	(8.85%)
Estates			Minimum Monthly		
			Charge-3/4" = \$8.68 1" = \$14.47		
			\$1.84/1,000 gal.		

Crestview Water	55	Franklin	Minimum Monthly Charge-\$8.81	\$5,198	42.49%
			\$2.60/1,000 gal.		
High Ridge Water	84	Jefferson	Minimum Monthly Charge-\$6.54	(\$311)	(1.65%)
			\$2.44/1,000 gal.		
Hillshine Water	33	Franklin	Minimum Monthly Charge-\$10.32	\$3,612	40.20%
			\$2.00/1,000 gal.		
Lakewood Water	116	Jefferson	Minimum Monthly Charge-\$12.32	\$4,285	10.65%
			\$3.20/1,000 gal.		
Scotsdale Water	37	Jefferson	Minimum Monthly Charge-\$30.22 res \$36.67 - commercial	\$6,089	42.39%
			\$3.93/1,000 in excess 10,000 gal.		
Warren Woods Water	21	Jefferson	Minimum Monthly Charge-\$12.92 (Metered); \$38.51 (Unmetered)	\$9,881	138.12%
			\$2.92/1,000 gal		
Total Water	539			\$25,293	17.96%
Total Company	757			\$27,198	19.31%

CAPITAL STRUCTURE

KMB's capital structure consisted entirely of common equity. Staff member David Murray of the Commission's Financial Analysis Department calculated a return on equity and a total overall rate of return (ROR) of 9.02 %. The overall ROR was applied to KMB's rate base at each of its various systems to develop the recommended revenue requirements noted above.

RATE BASE

Plant, Reserve and Contributions In Aid Of Construction (CIAC)

The Auditing Staff has reflected all capital improvements completed on KMB's water and sewer systems since the time of their last rate cases. The chart shown below summarizes the Auditing Staff's calculations that support the amount of plant, depreciation reserve and contribution in aid of construction (CIAC) net of depreciation that should appropriately be included in the cost of service calculation:

Company	Plant	Depreciation Reserve	CIAC Net of Depreciation	Rate Base
Cape Rock Village Sewer	\$211,553	\$131,363	\$0	\$80,190
Cedar Hill Water	\$157,724	\$136,356	\$301	\$21,607
Crestview Acres Water	\$48,242	\$22,973	\$130	\$25,139
High Ridge Manor Water	\$88,834	\$83,112	\$6,267	(\$545)
Hillshine Acres Water	\$28,687	\$11,613	\$1,133	\$15,941
Lakewood Hills Water	\$153,095	\$74,825	\$543	\$77,727
Scotsdale Water	\$88,226	\$39,730	\$0	\$48,496

Warren Woods Water	\$69,336	\$36,705	\$899	\$31,731
Total Water	\$634,144	\$405,314	\$9,273	\$219,557
Total Water and Sewer	\$845,697	\$536,677	\$9,273	\$299,747

DEPRECIATION

The Audit Staff incorporated the depreciation rates supplied by Arthur Rice of the Commission's Engineering and Management Services department into its cost of service calculation. Using these depreciation rates, the Auditing Staff included an annualized level of depreciation expense for each of KMB's water systems and its Cape Rock sewer system based on the level of plant in service at May 31, 2010.

INCOME STATEMENT ADJUSTMENTS

Revenues

The Staff annualized revenues for each system based on the number of customers as of May 31, 2010 and the current rates. Staff also included in its cost of service calculation the reconnection fees collected during the test year for the Cedar Hill Estates and High Ridge Manor systems. The Staff's review of revenues produced annualized levels as shown below:

	<u>Revenues</u>	<u>Other Revenues</u>	<u>Total</u>
Cape Rock Village	\$66,450	\$3,115	\$69,565
Cedar Hill Estates	\$34,608	\$4,644	\$39,252
Crestview Acres	\$11,393	\$840	\$12,233
High Ridge Manor	\$17,925	\$962	\$18,887
Hillshine Acres	\$8,525	\$461	\$8,986
Lakewood Hills	\$39,533	\$692	\$40,225
Scotsdale	\$13,650	\$415	\$14,065
Warren Woods	\$6,824	\$330	\$7,154
Total Water	\$132,458	\$8,343	\$140,801
Total Company	\$198,908	\$11,458	\$210,366

Allocation of Expenses

The Staff allocated many overhead expenses that benefitted each of the water and sewer systems based upon the annualized customer counts at each system. However, some expenses such as payroll and contract operations and maintenance expense were allocated in a more system specific manner based upon an assessment of the ongoing needs of each of KMB's systems.

Payroll, Payroll Taxes and Contract Operations

As part of its payroll analysis, the Staff reviewed all payroll records for the 12-months ending May 31, 2010. Staff also compared the amounts paid during this 12-month period to the amount included in Staff's cost of service in Case Nos. WR-2006-0286 and SR-2006-0285. Ms. Rudy, the Company's owner, manages the operations of KMB. During the test year, Ms. Rudy was paid \$13,500 for the work that she performed for KMB. As manager, Ms. Rudy's duties include approving all expenditures and making decisions regarding major repairs and capital improvements, among other activities. In the last rate case, Staff allowed an annualized salary of

\$13,000 for Ms. Rudy. The Staff factored up the annualized salary from the last case for all increases in the Consumer Price Index as reported by the Bureau of Labor Statistics of the United States Department of Labor for the period July 1, 2005 through May 31, 2010. Staff has included an annualized salary in the amount of \$14,602 in its cost of service for Ms. Rudy and believes this to be reasonable.

Staff also found the \$7,540 of wages paid during the test year to Carolyn Highley, the Company's secretary, to be reasonable. Ms. Highley's duties include: answering phone, maintaining records, assisting meter readers, paying bills, customer billing and collection duties, among other activities.

During February 2010, KMB entered into an agreement with Bob Wideman, owner of Franklin County Lab, LLC, to serve as the new full-time operator for each of KMB's seven water systems. Mr. Wideman currently maintains a class D water system operator's license. Franklin County Lab is primarily responsible for providing operation and maintenance services to KMB's water systems. The Staff has included a \$44,960 annualized level for Franklin County Labs to serve as KMB's full-time water system operator, as sponsored by Staff witness Steve Loethen of the Commission's Water and Sewer Department. Since these operation and maintenance services were previously provided by two KMB employees, Staff removed all wages, related payroll taxes and health insurance costs pertaining to these former employees that were incurred by the Company during the test year. The Staff has also included a \$1,750 annualized level for Flynn Well Drilling to perform an annual water supply pumping equipment inspection at each of KMB's water systems. Accordingly, Staff has allocated \$250 to each of KMB's water systems for these inspections.

On December 7, 2008, KMB entered into a contractual agreement with Strickland Engineering to perform wastewater operation and maintenance duties at KMB's Cape Rock wastewater treatment facility. The Staff has included the cost for this contract operator in the cost of service. Ms. H. Elizabeth Long, who holds a Class D operator's license, serves as the operator and has authority to sign all pertinent forms related to the permit discharge monitoring report requirements for the Cape Rock Village wastewater treatment facility. The basic services provided under this contract include: maintaining DNR operator's certificate, performing monthly inspections of the facility components, preparing and filing the necessary reports, obtaining the wastewater samples for testing, and directing appropriate contractors to make repairs to the system as needed for operation. Strickland Engineering is also available to provide emergency services at an additional cost. Basic services are billed at a monthly fee of \$300 per month. During the test year, KMB paid Strickland Engineering \$6,505 for all operations and maintenance costs performed at KMB's Cape Rock sewer system and Staff has included this level in the cost of service calculation.

Medical Insurance

During the test year, the Company provided health insurance to its employees as an employee benefit. The Company no longer provides this benefit to its employees. Therefore, Staff has removed the test year level of expense from its cost of service calculation.

Electricity Expense

The Staff's annualization of electric expense addresses the recent rate increase for AmerenUE that took effect during June 2010. The Staff also reduced electric expense for an excessive level of lost water that occurred at Cedar Hill Estates, Crestview Acres, Hillshine, and Lakewood Hills.

Chemicals

KMB is required by the Missouri Department of Natural Resources (MoDNR) to provide chlorination treatment at its Scotsdale and Warren Woods water systems. Staff accepted the test year levels of expense for chemicals for the Scotsdale and Warren Woods systems.

Repairs and Maintenance

The Audit Staff reviewed all invoices related to repairs and maintenance expense. Staff removed all expenses paid during the test year that were incurred in prior periods. Likewise, Staff included all appropriate expenses incurred during the test year but not yet paid. Staff also included any monthly inspections of pumps and aerators on the Cape Rock Village Sewer System performed by Cotner Electric Company as part of repairs and maintenance expense.

The Staff capitalized some items that the Company had incorrectly recorded as repairs and maintenance expense. These items related to plant additions and were included in the plant in service balances as of May 31, 2010.

Accounting Expense

KMB paid Stephen Finch and Associates \$3,250 for accounting services during the test year. This \$3,250 amount was paid for preparing monthly payroll and financial statements, income taxes and KMB's Annual Report to the Commission. Based on its examination, the Auditing Staff found the amount to be reasonable and has included these accounting fees in its cost of service calculation.

Postage Expense

The Staff has calculated postage expense by including twelve monthly billings at a post card rate for annualized customer levels at each of KMB's systems. Also included in the annualized postage is the cost of mailing one annual customer notification letter per system and the cost of other required mailings. KMB leases a postage meter from Pitney Bowes Corporation and the cost associated with the lease is also included in the cost of service.

Telephone and Pager Expenses

The Staff allowed the test year level of telephone and pager expenses with the exception of the charges by National Search Directory, Inc. for internet listing. The Staff believes there is no customer benefit associated with KMB's decision to advertise its name through the internet. Since the pager is used by Franklin County Lab for the operation of the water systems, test year pager cost that was charged to the Cape Rock Village sewer system was reallocated to the water systems based upon annualized customer levels.

Vehicle Fuel Expense

The Staff has calculated an annualized vehicle fuel expense by multiplying the test year gallons used, by a historical 52-week average of retail fuel price for the Midwest of \$2.61 per gallon, obtained from the U.S. Energy Information website (www.eia.gov). The Staff believes using a historical average of fuel price which fluctuates on a daily basis is a reasonable method to determine future cost of service for a utility's ratepayers.

Rent

The Staff reviewed the test year rent paid by KMB to Piffel Excavating, and believes this annual level of rent is reasonable.

PSC Assessment

The Auditing Staff included the most current PSC assessment in the cost of service calculation.

MoDNR Fees and Lab Sampling

The Missouri Clean Water Law requires that all sewer utilities pay an annual operating permit fee to the MoDNR for each wastewater treatment plant that discharges to the waters of the State, with that permit fee normally being based on the design flow of each particular treatment facility. KMB is assessed \$3,000 annually for this permit fee based on the design flow its Cape Rock wastewater treatment facility and the Audit Staff included this fee in its cost of service calculation.

The MoDNR also charges KMB \$200 for each water system for a total company amount of \$1,400. This fee is charged annually for mandatory water testing requirements as part of MoDNR's water program administration fee. The MoDNR water testing program provides smaller utilities like KMB with a direct and affordable approach to maintain compliance with water system testing requirements. The Staff has included these annual water testing fees in its cost of service calculation.

The MoDNR provides small utilities with drop locations that will ship water samples to its testing facilities at no charge. As such, Staff has determined it is appropriate to include the cost of mileage one time per month for 12 months at a rate of 35 miles roundtrip based upon a fuel cost of \$2.61 per gallon and 15 miles per gallon. Therefore, Staff is including \$73 on an annualized basis in its cost of service for lab sampling.

Normalization of Legal Fees

During KMB's last rate case, the Staff discovered that the Company incurred \$20,072 of legal costs related to an easement dispute with a property owner at its Lakewood Hills water system. As part of the last rate proceeding, the Staff normalized this cost over a ten year period by including \$2,007 in the cost of service calculation. As part of the current rate proceeding, the Staff has included \$2,007 in the cost of service calculation to reflect this ten year normalization.

Normalization of Tank Painting

The Audit Staff has included \$1,870 to account for the 15-year normalization of the \$28,050 tank painting that occurred at the Cedar Hill system in October 2002.

Amortization of Engineering Report

KMB is required by the MoDNR to submit an “engineering report prepared by a registered professional engineer in the State of Missouri, recommending corrective actions to eliminate the recurring bypasses in the collection system. Solutions such as, but not limited to, increasing lift station storage capacity, providing an alternate means of electrical power to the lift station pumps, or an alternate means of pumping wastewater from the lift station should be considered.” KMB consummated a signed contract with Strickland Engineering on August 13, 2010 to prepare the required report for a cost not to exceed \$10,000. As such, Staff has amortized this amount over a three year period for ratemaking purposes.

Piffel Excavating – Affiliated Company

Ms. Rudy also owns Piffel Excavating (Piffel) that performs a significant portion of the repairs and capital improvement projects for KMB’s water and sewer systems. Piffel provides KMB with detailed invoices for all repair and capital improvement project it performs on the water and sewer systems. During the course of its audit, Piffel also made available to the Staff for its review all documentation, including invoices and contracts that support the fees that Piffel charges to all other water and sewer utilities with which it conducts business. Based upon the Staff’s review of the invoices, as well as physical inspections of facilities at KMB’s systems, the Staff believes these charges are reasonable.

RECOMMENDATIONS

1. The Audit Staff recommends the revenue requirements calculated and described earlier in this memorandum.
2. The Audit Staff recommends that the Company maintain and retain proper plant and CIAC records. The Auditing Staff will meet with the Company to explain in detail how to maintain these types of records.
3. The Audit Staff recommends that the Company contact the Auditing Staff to obtain assistance with the preparation of their 2010 PSC annual report and to make corrections, so that the information contained within this report will be correct on a going forward basis.
4. In the future filing of any rate case, KMB should be required to file all of its water and sewer systems concurrently.

Agreement Attachment H

EMSD Implementation Review

REPORT OF CUSTOMER SERVICE AND BUSINESS OPERATIONS REVIEW

SMALL COMPANY RATE INCREASE REQUEST

KMB UTILITY CORPORATION

CASE NOS. WR-2010-0345 & SR-2010-0346

ENGINEERING AND MANAGEMENT SERVICES DEPARTMENT

The Engineering and Management Services Department (EMSD) staff initiated an informal review of the customer service processes, procedures and practices at KMB Utility Corporation (KMB or Company) in House Springs, Missouri in June 2010. The review was performed in conjunction with the Company's filed rate increase request submitted to the Missouri Public Service Commission (Commission) on May 21, 2010 and assigned case numbers WR-2010-0345 and SR-2010-0346. The Company last filed for increases in water and sewer service rates in 2005.

The Company is requesting an increase of \$12,100 in the annual sewer system operating revenues and an increase of \$18,500 in its annual water system operating revenues. These increases are only being requested for five of the seven operating areas of the water system. The requested increases are for: Hillshine Acres/Sunshine, Lakewood Hills, Warren Woods, Cedar Hill Estates/Village Green, and Crestview Acres. The request for sewer system increases includes an estimate of the amount that will be spent on an engineering report required in order to renew the Company's operating permit issued by the Missouri Department of Natural Resources (DNR).

The EMSD staff examined Company tariffs, annual reports, Commission complaint records and other documentation related to the Company's customer service operations. The EMSD staff participated in meetings with Company personnel in July 2010.

Through its audit, the EMSD staff is making three recommendations to the Company:

Implement a method that documents and records the number of all estimates used for customer bills for each service address. This recommendation must be completed within sixty (60) days of the Commission order approving the Disposition Agreement in Case No. WR-2010-0345.

Implement procedures to contact customers receiving at least three consecutively estimated bills and schedule an appointment to obtain access to the customer's meter. This recommendation must be completed within sixty (60) days of the Commission order approving the Disposition Agreement in Case No. WR-2010-0345.

Pursue the feasibility of a cooperative agreement with the City of Cape Girardeau to terminate water service for delinquent sewer bills. This recommendation must be completed within ninety (90) days of the Commission order approving the Disposition Agreement in Case No. SR-2010-0346.

The specific information regarding EMSD staff's recommendations will be explained in greater detail in the Findings, Conclusions and Recommendations section of this report.

The purpose of the EMSD is to promote and encourage efficient and effective utility management. This purpose contributes to the Commission's overall mission to ensure that customers receive safe and reliable utility service at just, reasonable and affordable rates, while providing utilities the opportunity to earn a fair return on their investment.

The objectives of this review were to document and analyze the management control processes, procedures, and practices used by the Company to ensure that its customers' service needs are met and to make recommendations, where appropriate, by which the Company may improve the quality of service provided to its customers. The findings of this review will also provide the Commission with information regarding the Company's customer service operations.

The scope of this review focused on processes, procedures and practices related to:

- Customer Billing
- Meter Reading
- Credit and Collections

This report contains the results of the EMSD staff's review.

As a result of this audit, the EMSD is making recommendations to the Company to make improvements to its procedures for estimating bills and collecting delinquent sewer payments.

History

The EMSD staff previously performed a customer service review of the Company in September 2002. That review included recommendations for improvements in the areas of returned checks and depositing customer receipts. After the completion of the audit, the EMSD staff worked with the Company to ensure that improvements were made in these processes. The Company did take action to address these situations and recommendations.

An additional review was conducted by the EMSD staff in 2005 and focused on several operational issues that were prompted by customer comments and concerns. This review resulted in recommendations made to the Company in the areas of computerized customer billing, estimated bills, customer complaint logs, documentation with regard to the utilization of outside contractors, and the formalization of credit and collection policies. The Company accepted the EMSD staff's recommendations and met with Staff several times to discuss how best to comply with the recommendations. The recommendations and their present status are as follows:

Investigate and analyze the alternatives to provide computerized customer and billing systems in an efficient and effective manner.

The Company has addressed this recommendation and the EMSD staff considers it completed.

Develop an effective method to track the number and location of estimates used for customer billings.

The Company has not completed this recommendation. The EMSD staff will make additional recommendations regarding estimated bills in this report.

Develop and utilize a series of procedures to attempt contact with customers receiving consecutive estimated bills. These procedures should include efforts on the part of the Company to schedule appointments to obtain access to the meter.

The Company has taken steps to contact customers receiving estimated bills and attempt to gain access to the meter. The EMSD staff will make additional recommendations regarding estimated bills in this report.

Develop and utilize a log that documents the complaints and inquiries received by the Company. Ensure that records are maintained for two years.

The Company has addressed this recommendation and the EMSD staff considers it completed.

Maintain the appropriate documentation regarding the utilization of outside contractors, including Piffel Excavating Company.

The Company has addressed this recommendation and the EMSD staff considers it completed.

Develop and document a set of procedures to be utilized in dealing with delinquent accounts and communicate this information to the customer in a mailing or brochure.

The Company has addressed this recommendation and the EMSD staff considers it completed.

Develop a customer informational brochure to be distributed to all customers informing them of the rights and responsibilities of the customer and the Company.

The Company has addressed this recommendation and the EMSD staff considers it completed.

Consider and evaluate the use of deposits for new customers, consistent with the provisions of 4CSR 240-13.050, to assist the Company in its management of bad debt.

The Company has addressed this recommendation and the EMSD staff considers it completed.

The EMSD staff has reviewed the present status of these recommendations and this report will focus on the opportunities for improvements in the area of consecutive estimated meter readings for bills and credit and collections efforts.

Overview

The current owner purchased KMB in September 2000 and subsequently acquired the Cedar Hill Water Company in February 2001. The Cedar Hill system was effectively merged with KMB's operations in 2003 as part of the Commission's Order in Case No. WM-2003-0194. The current owner also owns and operates an excavating company, Piffel Excavating Company, located in the House Springs, Missouri vicinity.

KMB rents office space and shares some work with the excavating company. The Office Manager for both companies handles the administrative functions such as answering phone calls, maintaining records and performing customer billing. Office hours are maintained Monday through Friday from 8 am to 5 pm and all calls after that time are routed to a paging system. Emergencies that occur during non-business hours are routed to the Company's outside contractors, Piffel Excavating Company, for service work.

These personnel will either correct the problem or contact the owner for instructions. Piffel employees maintain time sheets indicating the work performed, hours worked and the system where the work was located. The office maintains a notebook with information regarding customer calls and inquiries.

KMB has seven water systems and one sewer system. The water system names, county location and number of customers are displayed in the following table.

WATER SYSTEMS		
Name	County	No. of Customers
Cedar Hill Estates	Jefferson	193
Crestview Acres	Franklin	55
High Ridge Manor	Jefferson	84
Hillshine Acres	Franklin	33
Lakewood Hills	Jefferson	116
Scotsdale	Jefferson	37
Warren Woods	Jefferson	21

Source: MoPSC Auditing Department

The sewer system, Cape Rock Village, is located near Cape Girardeau, Missouri and has 218 customers who are charged on a flat rate.

Meter Reading Process

The Company utilizes an outside company, Franklin County Lab, to read its meters on a pre-determined schedule each month. The table below lists the information provided to the EMSD staff regarding the monthly schedule for meter reading at each of the water systems.

<i>System</i>	<i>Date Read</i>
Cedar Hill Estates	Billed on the 15 th -reads begin 2 days before
Crestview Acres	Billed on the 1 st -reads begin 2 days before
High Ridge Manor	Billed on the 1 st -reads begin 2 days before
Lakewood Hills	Billed on the 1 st -reads begin 2 days before
Hillshine	Billed on the 1 st -reads begin 2 days before
Scotsdale	Billed on the 1 st -set amount each month
Warren Woods	Billed on the 1 st -reads begin 2 days before

Source: Company response to EMSD information request

Meter reading has been performed by employees of Franklin County Lab and provided to the office manager since early 2010. Readings are entered into the billing system and bills are produced and mailed to the customers. When the Company is unable to obtain an actual reading, an estimate is produced by the billing software.

Two of the systems, Hillshine and Crestview Acres, have inside water meters. As part of the Disposition Agreement in Case No.WR-2006-0286, customers of Hillshine and Crestview Acres have the option to read their own meters eleven (11) months of the year. Customers in these two subdivisions are mailed a bill that includes a space on the return stub for them to provide an actual meter reading. Once a year, the Company makes an attempt to obtain an actual reading to make any corrections necessary. The Company has indicated that they have been able to obtain customer supplied readings or Company obtained readings from many of the customers in each system. However, a review of meter reading sheets for the two systems still indicate that most meters are being estimated because of a lack of access to the inside meters.

The Disposition Agreement in Case No.WR-2006-0286 addressed a requirement for the Company to replace existing inside meters at Hillshine and Crestview with new meters to include remote reading devices. Customers had the option to obtain a new meter with the remote reading device. If they did not agree to this, then the meter would be moved outside and the costs charged directly to the customer. All of the customers located on these two systems refused to allow the Company to install the remote devices primarily due to a requirement to drill through the foundation of their homes and in February 2009 the Commission granted the Company a waiver of compliance with the sections of the Disposition Agreement that addressed this issue.

The Company has been able to improve its performance in reading meters in the other systems since the EMSD staff's prior review. The issue of estimated bills continues to be a challenge for the Company in the Hillshine Acres and Crestview Acres subdivisions where almost all of the meters are inside.

Customer Billing Process

The Company updated its billing software in 2005 and presently utilizes Sequoah Software to enter meter readings, produce bills and post payments. The printed bills

are normally mailed to the customer the same day that the meter readings are entered. The billing software maintains 36 months of data and the Company indicates it has records from 1998.

New customers may initiate service by calling the office and requesting that the bill be put in their name. An application form will be mailed to them to be filled out and returned. Deposits are not required of any customers.

Credit and Collections

The customer is able to pay their bill by remitting a check, cash or money order. The Company indicated that almost all of the payments are by check. Payments are almost always mailed to the office and are posted to the customer's account the day they are received.

Customers are given thirty (30) days in which to make their payment. After that time, they will be assessed a fee of \$5 or 3% of the bill amount, whichever is greater. The next bill mailed to the customer will note that it is delinquent and payment is due. If the customer's account is still delinquent when the third bill is mailed, they will also receive a letter informing them that their service is in danger of disconnection. The letter also informs the customers that they have an additional two (2) weeks to make payment and tells them to contact the office. In addition, the Company attempts to make phone contact with the customer, and also leaves a hang tag informing them of the pending disconnection. Since 2009, the Company has attempted to be more aggressive with respect to the collection of its delinquent accounts while following the rules regarding contact with the customer prior to disconnection of service.

The sewer system, Cape Rock Village, located in Cape Girardeau, Missouri has encountered the most challenges with respect to collection of delinquent bills. It is difficult and costly to discontinue sewer service to a delinquent customer. The Company has accrued the greatest amounts of write-offs and delinquencies attributable to its sewer operations. The owner of KMB has recently contacted the city of Cape Girardeau regarding a cooperative agreement to discontinue water service in those cases where the sewer charges have not been paid. However, the city is not willing to enter into such an agreement.

Findings, Conclusions and Recommendations

The following discussion presents a summary of the findings, conclusions and recommendations pertaining to the Company's customer service operations. The information presented in this section focuses on the following areas that require Company management's attention:

- Meter Reading
- Credit and Collections

Meter Reading

The Company is often unable to obtain an actual read on all meters on an annual basis, particularly for the Hillshine and Crestview Acres areas. They are also unable to easily determine and track the number of readings that have been estimated consecutively at a customer location.

The Company has experienced difficulty with monitoring the level of estimated bills rendered and the number of consecutive estimated bills. Meter reading sheets note if the prior bill was estimated but do not indicate the number of estimates. Some readings used for billing may have been the result of a customer supplied reading. The billing system used to maintain information on customer accounts does not provide the number of consecutive estimated bills at a specific premise over the course of the year without a tedious review of each record or a review of each meter sheet. Overall, there is no summary document that allows them to record the number of estimated bills for each service address.

Estimated bills are never a preferred outcome because they do not reflect actual usage. In addition, estimated bills may not approximate actual usage if they are continually based upon estimated meter readings month after month.

Commission Rule 4 CSR 240-13 is the Service and Billing Practices for Residential Customers of Electric, Gas and Water Utilities and therefore applies to the water operations of KMB. This rule sets out specific requirements for various customer service functions conducted at the Company. Commission Regulation 4 CSR 240-13.020(2)(B) states, "that a utility shall not render a bill based on estimated usage for more than three (3) consecutive billing periods, except under certain conditions." If the Company

does render an estimated bill for three (3) consecutive billing periods, the Company is required to take specific actions to contact the customer and try to obtain an actual reading. 4 CSR 240-13.020(3).

The previous 2005 EMSD Audit Report discussed and made recommendations in the area of estimated bills. Although the Company did not complete the prior recommendations as noted in the front of this report, the EMSD staff has determined customer bills can be improved by the Company taking several steps. These steps would focus upon 1) the maintenance and utilization of information and 2) efforts to obtain an actual meter reading on an annual basis. The Company needs to be aware of the frequency of consecutive estimated billings and target those customers that have received an excessive number of estimated bills to obtain an annual reading.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop an effective method to track the number and location of consecutive estimates used for customer billings and the reasons for the estimates. This recommendation must be completed within sixty (60) days of the Commission order approving the Disposition Agreement in Case No. WR-2010-0345.

Once the Company can determine the number and location of estimated meter readings, it should then develop a series of specific actions to be taken in attempting to obtain an actual reading. This series of procedures will assist it in addressing the requirements of Commission Regulation 4 CSR 240-13.020(3) which specifies the actions required when the Company is unable to obtain an actual meter reading for three (3) consecutive billing periods. Company management should ensure and document that there is a serious effort to read all meters at least once a year. In any instance, where circumstances prevent the operator from reading the meter, the reasons for the estimate must be documented and actions implemented to attempt to obtain an actual reading.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop and utilize procedures to attempt contact with customers receiving consecutive estimated bills. These procedures should include efforts on the part of the Company to schedule appointments to obtain access to the meter. This recommendation must be completed within sixty (60) days of the Commission order approving the Disposition Agreement in Case No. WR-2010-0345.

Credit and Collections

The Company has been unable to successfully disconnect its delinquent sewer customers' services due to the complexity and cost associated with this action. A recent inquiry into developing a cooperative agreement with the city of Cape Girardeau, Missouri was denied by the city. The EMSD staff is aware of other instances where the water and sewer providers enter into cooperative agreements to provide this service. Companies report a mutual benefit in receiving their payments for services and actually find that they do not have to resort to this disconnection very often.

THE EMSD STAFF *RECOMMENDS* THAT COMPANY MANAGEMENT:

Pursue the feasibility of the development of a cooperative agreement with the City of Cape Girardeau regarding termination of water service for delinquent sewer bills. This recommendation must be completed within ninety (90) days of the Commission order approving the Disposition Agreement in Case No. SR-2010-0346.

Agreement Attachment I

Summary of Case Events

KMB Utility Corporation
Case #SR-2010-0346
Summary of Case Events

Date Filed	May 21, 2010
Day 150	October 18, 2010
Extension?	Yes
If yes, why?	Complete installation of guide rails at lift station.
Amount Requested:	\$12,100
Amount Agreed Upon	\$1,905
Item(s)/Dollar(s) Driving Rate Increase	Elimination of health insurance Hiring of Contract Operators PSC Assessment
Number of Customers	218
Rate of Return	9.02%
Return on Equity	9.02%
Assessments Current	Yes
Annual Reports Filed	Yes
Statement of Revenue Filed	Yes
Other Open Cases before Commission	WR-2010-0345
Status with Secretary of State	Good Standing
DNR Violations	No
Significant Service/Quality Issues	None