

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

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

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

**LAKE REGION WATER & SEWER COMPANY'S  
RESPONSE TO APRIL 8, 2010 ORDER OF THE COMMISSION**

Comes now Lake Region Water & Sewer Company (Lake Region) and submits the following to the Commission:

1. On April 8, 2010 the Commission entered an Order Directing Discovery and Directing Filing.

2. On page 3 of that order the Commission directed Staff:

[t]o file a scenario using the same methodology used for accounting for availability fees used in the rate case for Ozark Shores Water Company. Thus, what would Lake Region's revenue requirement be if availability fees for the test year were included in revenue, but there was a corresponding addition to rate base as was testified to by Mr. Vernon Stump on page 561 of the Transcript.

3. The Commission further directed Staff to file the scenario described above by April 30, 2010. The Staff later sought an extension of that deadline on grounds that it needed a reasonable time to receive and then review the transcripts of depositions of subpoenaed witnesses and obtain further information if warranted. The Commission granted Staff's request and extended the time for it to file the scenario to May 18, 2010.

4. In his surrebuttal testimony filed on March 12, 2010, (Staff Exhibit No. 14) and again in his True Up Direct Testimony filed April 16, 2010, (Staff Exhibit No. 17) staff witness Carey Featherstone formulated: 1) a revenue requirement for Lake

Region, and 2) an alternate cost reallocation to Lake Region's shareholders that were both based entirely on estimates, not actual amounts, of availability fees that are charged and collected by Lake Region's shareholders.<sup>1</sup> He recommended that the Commission adopt either formulation as proposed.

5. Using the same estimates relied upon by Mr. Featherstone in his testimony, and using the results of Staff's cost of service study as shown in its Accounting Schedules, Lake Region has prepared, separate and apart from Staff, the scenario requested by the Commission in its April 8, 2010 order. It is attached as LRWS Schedule 1 and incorporated by reference in this response as if fully set forth.

Respectfully submitted,

/s/ Mark W. Comley

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<sup>1</sup> Lake Region has no tariffs for, and does not charge or collect, availability fees.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the above and foregoing document was sent via email, on this 30<sup>th</sup> day of April, 2010, to:

Jaime Ott at [jaime.ott@psc.mo.gov](mailto:jaime.ott@psc.mo.gov);  
Craig Johnson at [craigsjohnson@berrywilsonlaw.com](mailto:craigsjohnson@berrywilsonlaw.com);  
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General Counsel's Office at [gencounsel@psc.mo.gov](mailto:gencounsel@psc.mo.gov).

**/s/ Mark W. Comley**

Lake Region Water & Sewer Company  
Case Numbers SR-2010-0110 & WR-2010-0111  
Alternate Rate Base Scenario Per Order Dated April 8, 2010  
Revenue Requirement Schedule

Line Number		HB	SB Swr	SB Wtr	Total
1	Total Annualized Revenues	327,158	395,089	315,769	1,038,016
2	Total Operating Expenses	357,200	259,748	190,260	807,207
3	Rate of Return Including Int & Inc Tax	117,895	354,848	376,460	849,203
4	Total Cost of Service (Line 2 + Line 3)	<u>475,094</u>	<u>614,596</u>	<u>566,720</u>	<u>1,656,411</u>
5	Total Revenue Requirement (Line 4 - Line 1)	<u>147,936</u>	<u>219,507</u>	<u>250,951</u>	<u>618,395</u>

Line 1 is the sum of the tariffed revenues per Staff Accounting Schedule 5 plus the availability revenues per the Surrebuttal Testimony of Staff Witness Featherstone page 10, lines 14 &15.

Line 2 is per Staff Accounting Schedule 5 adjusted for the lower level of CIAC per the Rate Base Schedule.

Line 3 equals Line 11 of Rate Base Schedule

Lake Region Water & Sewer Company  
Case Numbers SR-2010-0110 & WR-2010-0111  
Alternate Rate Base Scenario Per Order Dated April 8, 2010  
Rate Base Required Return on Investment Schedule

Line Number	HB	SB Swr	SB Wtr	Total
1 Plant in Service	2,190,789	3,952,151	3,970,671	10,113,611
2 Less Accum Depreciation Reserve	(759,882)	(836,632)	(547,797)	(2,144,311)
3 Net Plant in Service	<u>1,430,907</u>	<u>3,115,519</u>	<u>3,422,874</u>	<u>7,969,300</u>
4 Other Rate Base Items:	-	-	-	-
5 Materials and Supplies	429	805	817	2,051
6 CIAC	(395,350)	(193,192)	(369,260)	(957,802)
7 CIAC Depreciaton	70,804	34,599	66,132	171,535
8 Deferred Taxes	(33,036)	(18,562)	(17,682)	(69,280)
9 Total Rate Base	<u>1,073,755</u>	<u>2,939,169</u>	<u>3,102,880</u>	<u>7,115,804</u>
10 Total Weighted Rate of Return Including Income Tax Per Rate of Return Schedules	10.98%	12.07%	12.13%	
11 Required Return & Income Tax	<u>117,895</u>	<u>354,848</u>	<u>376,460</u>	<u>849,203</u>

Lines 1, 2, 4, 5 and 8 are per Staff Accounting Schedule 7

Lines 6 & 7 reflect the removal of CIAC plant to reflect inclusion of availability revenue and the corrected allocation of CIAC

Lake Region Water & Sewer Company  
 Case Numbers SR-2010-0110 & WR-2010-0111  
 Alternate Rate Base Scenario Per Order Dated April 8, 2010  
 Rate of Return Including Income Tax

**Rate of Return Including Income Tax - Horseshoe Bend Sewer**

Line Number	A	B	formulas
1	6.25%		$5.77\% (1 - (B2 \times .5)) \times A1$
2	16.31%		$15.29\% (1 - B1) \times A2$
3			$21.06\% B1 + B2$
4			$1.2669 \ 1 / (1 - B3)$
5			5.36% From Capital Structure Schedule
6			6.79% B4 x B5
7			4.19% From Capital Structure Schedule
8			<u>10.98% B6 + B7</u>
9			Equity Return <span style="float: right;">57,548</span>

**Tax Rate Table**

Start	End	Tax Rate	Amount	Tax
-	50,000	15%	50,000	7,500
50,001	75,000	25%	7,548	1,887
75,001	100,000	34%	-	-
100,001	335,000	39%	-	-
335,001	9,999,999,999	34%	-	-
				9,387
				16.31%

10  
11

**Rate of Return Including Income Tax - Shawnee Bend Sewer**

Line Number	A	B	formulas
1	6.25%	5.42%	$(1 - (B2 \times .5)) \times A1$
2	28.37%	26.59%	$(1 - B1) \times A2$
3		32.01%	$B1 + B2$
4		1.4709	$1 / (1 - B3)$
5		5.36%	From Capital Structure Schedule
6		7.88%	$B4 \times B5$
7		4.19%	From Capital Structure Schedule
8		12.07%	$B6 + B7$
9			Equity Return

157,524

**Tax Rate Table**

Start	End	Tax Rate	Amount	Tax
-	50,000	15%	50,000	7,500
50,001	75,000	25%	25,000	6,250
75,001	100,000	34%	25,000	8,500
100,001	335,000	39%	57,524	22,435
335,001	9,999,999,999	34%	-	-

44,685  
28.37%

10  
11

Lake Region Water & Sewer Company  
Case Numbers SR-2010-0110 & WR-2010-0111  
Alternate Rate Base Scenario Per Order Dated April 8, 2010  
Rate of Return Including Income Tax

**Rate of Return Including Income Tax - Shawnee Bend Water**

Line Number	A	B	formulas
1	6.25%	5.40%	$(1 - (B2 \times .5)) \times A1$
2	28.93%	27.12%	$(1 - B1) \times A2$
3		32.52%	$B1 + B2$
4		1.4820	$1 / (1 - B3)$
5		5.36%	From Capital Structure Schedule
6		7.94%	$B4 \times B5$
7		4.19%	From Capital Structure Schedule
8		12.13%	$B6 + B7$
9			Equity Return

166,298

**Tax Rate Table**

Start	End	Tax Rate	Amount	Tax
-	50,000	15%	50,000	7,500
50,001	75,000	25%	25,000	6,250
75,001	100,000	34%	25,000	8,500
100,001	335,000	39%	66,298	25,856
335,001	9,999,999,999	34%	-	-
				48,106
				28.93%



Lake Region Water & Sewer Company  
Case Numbers SR-2010-0110 & WR-2010-0111  
Alternate Rate Base Scenario Per Order Dated April 8, 2010  
Capital Structure

Line Number		Dollar Amount	Percentage of Total Capital Structure	Embedded Cost of Capital	Weighted Cost of Capital
1	Outstanding Debt	2,629,091	36.95%	5.01%	1.85%
2	Common Equity	4,486,713	63.05%	8.50%	5.36%
3	Total Capital Structure	<u>7,115,804</u>	<u>100.00%</u>		<u>7.21%</u>

The Outstanding Debt amount is per Staff Accounting Schedule 8.

The percentages in the Embedded Cost of Capital column are per Staff Accounting Schedule 8