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January 14, 2000

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Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED

JAN 14 2000

RE: Case No. SR-2000-69

Missouri Public
Service Commission

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **NOTICE OF FILING COMMISSION ORDERED REPORT**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

David J. Stueven
Assistant General Counsel
(573) 751-6726
(573) 751-9285 (Fax)

DJS/mm
Enclosure
cc: Counsel of Record

FILED

JAN 14 2000

Missouri Public
Service Commission

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

In the matter of Terre Du Lac Utilities	)	Case No. WR-2000-68
Corporation Water Rate Increase Request.	)	Tariff File 9900333
	)	
In the matter of Terre Du Lac Utilities	)	Case No. SR-2000-69
Corporation Sewer Rate Increase Request.	)	Tariff File 9900334

NOTICE OF FILING COMMISSION ORDERED REPORT

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through its undersigned counsel, and for its Notice to file Commission Ordered Report states to the Missouri Public Service Commission ("Commission") as follows:

1. By a letter dated October 23, 1998, which was received at the Commission's offices on October 26, 1998, Terre Du Lac Utilities Corporation ("Company") submitted its requests for increases in its annual operating revenues for both its water and sewer utility services ("Requests"). The Company submitted these Requests under the provisions of 4 CSR 240-2.200, the Commission's Small Company Rate Increase Procedure ("the informal rate case procedure"). By its Requests, the Company was seeking increases of \$23,000 and \$47,000 in its annual water and sewer operating revenues, respectively. Upon receipt and acceptance of the Company's Requests, the Commission's Records Department assigned file numbers 9900333 (water) and 9900334 (sewer) to the Requests, and forwarded them to the Commission's Water & Sewer Department for processing under the informal rate case procedure.

2. By a letter dated October 26, 1998, which had previously been approved by the Water & Sewer Department Staff, the Company notified its customers of its Requests.

3. The Company entered into a separate *Agreement Regarding Disposition of Small Company Rate Increase Request* for both the water and sewer revenue increase requests

("Agreements"). These Agreements called for increases of \$20,236 and \$14,402 in the Company's annual water and sewer operating revenues, respectively, and also included other terms and conditions necessary to dispose of all matters related to the Company's Requests.

4. Concurrent with entering into the above-referenced Agreements, the Staff and the Company also agreed to certain revisions to the Company's water and sewer tariffs that were necessary to implement the terms of the Agreements. Additionally, the Staff and Company agreed to certain other revisions to the Company's tariffs regarding miscellaneous service charges.

5. The Company submitted the above-referenced Agreements and related revised tariff sheets to the Commission by a letter dated July 21, 1999, which was received at the Commission's offices on July 26, 1999. The Company's filing transmittal letter was stamped "Filed" by the Commission's Records Department, and the subject cases (WR-2000-68 and SR-2000-69) were created, on August 3, 1999.

6. On August 13, 1999, the OPC filed a *Request for Local Public Hearing* in each of the subject cases. As a result of the OPC's *Request for Local Public Hearing*, the Commission issued its *Order Suspending Tariffs* in each of the subject cases on September 21, 1999. Those orders suspended the Company's revised tariff sheets until February 7, 2000. Additionally, on September 24, 1999, the Commission issued its *Order Scheduling Local Public Hearing* in each of the subject cases.

7. On November 16, 1999, the Commission held a combined local public hearing for the subject cases in the auditorium of the North County High School in Bonne Terre, Missouri.

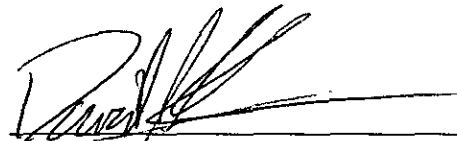
8. On November 24, 1999, the Staff filed a *Notice of Intent to Conduct Further Investigation and Motion to Further Suspend Tariffs*. On December 14, 1999, the Commission

issued an Order adopting a Procedural Schedule that required Staff to file its report on its further investigation on January 14, 2000.

9. Staff has completed its investigation and attached is its report. Included in the report are a number of recommendations which Staff will include in any agreement that it negotiates with the Company pursuant to the procedures found in 4 CSR 240-2.200. Said Agreement will be submitted to the Commission for approval.

Respectfully submitted,

Dana K. Joyce
General Counsel

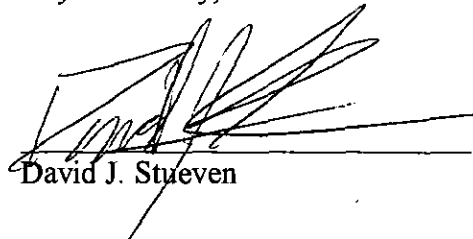


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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 14th day of January, 2000.



David J. Stueven

**Service List for
Case No. WR-2000-68
January 14, 2000**

Office of the Public Counsel
P.O. Box 7800
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Terre Du Lac Utilities Corporation
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STAFF REPORT ON ADDITIONAL INVESTIGATION

CASE NO'S. WR-2000-68 AND SR-2000-69

TERRE DU LAC UTILITIES CORPORATION

FILED

JAN 14 2000

Missouri Public
Service Commission

PREPARED BY:

DALE W. JOHANSEN - MANAGER

WATER & SEWER DEPARTMENT

[Signature]
1/14/00

INTRODUCTION

In accordance with its November 24, 1999 "Notice of Intent to Conduct Additional Investigation", the Commission Staff has completed its investigation of the nine areas set out in that pleading. This Report first includes a discussion of the Staff's investigation findings and the Staff's recommendations, where deemed appropriate, regarding the nine areas set out in the November 24, 1999 pleading. The Report then also includes a discussion of four additional areas that, upon review of the transcript of the Local Public Hearing, the Staff believes warrant discussion. Lastly, the Report also includes a discussion on moving forward with the Company/Staff agreed-upon rate increase on an interim, conditional basis.

In conducting its additional investigation for the subject cases, the Staff reviewed the transcript from the Local Public Hearing, reviewed applicable sections of the Company's water and sewer tariffs and thoroughly reviewed the workpapers that were produced as a result of the initial audit and investigation. The Staff also corresponded with a representative of the Terre Du Lac Property Owners Association, met with Company personnel and conducted field inspections of the Company's systems. Additionally, the Staff had several discussions regarding the subject cases with representatives of the Office of the Public Counsel (OPC).

The Commission should also note that representatives of all Departments directly involved in this case, appropriate management personnel and assigned personnel from the General Counsel's Office have reviewed this Report on several occasions during the course of its preparation.

AREAS OF ADDITIONAL INVESTIGATION IDENTIFIED
IN THE STAFF'S NOVEMBER 24, 1999 PLEADING

***The Company's Response, or Lack Thereof,
to Customer Inquiries and Trouble Reports***

In order to evaluate this area, the Staff reviewed the types of records that the Company currently maintains for customer calls. Company representatives indicated that they normally fill out a "work order" record for customer calls, and that this record has recently been modified to include additional information. The new "work order" record includes entries for the date & time the call was received, the name and address of the caller, the customer number, the lot number, the nature of the call, actions taken by the Company in response to the call, the date the responsive actions were taken, the manner in which the customer placing the call was advised of the Company's responsive actions and the date the customer was advised of those actions.

Regarding the receipt of calls after normal business hours, the Company now has answering machines for its regular and "after-hours" telephones. The after-hours telephones include those of the Office Manager, the Operations Manager and the on-call field operations personnel. Calls to the business office after regular working hours are forwarded to one of the after-hours telephones.

On a going-forward basis, the Staff recommends that the Company make sure that a "work order" record is kept for all customer calls, regardless of the nature of the call, and that all entries on the record are completed. Especially important in this regard is making sure that the customer making the call is advised of the actions taken by the Company and that this is noted on the "work order" record. Additionally, the Company should ensure that a "work order" record is completed for all after-hour calls received via the answering machines.

***The Adequacy of the Company's Response
to Notices of Water Main Breaks and Leaks***

As with customer calls, the Company normally completes a "work order" record for all system leaks discovered by Company personnel and/or reported by customers. In addition to the recommendation in the previous section, the Staff also recommends that documentation of leak repairs, such as work orders, material invoices, etc., be attached to the "work order" record pertaining to repaired leaks.

Regarding system leaks mentioned at the local public hearing and those that the Staff was subsequently notified about, all but one of those leaks have now been repaired and the remaining leak has been adequately addressed in the Staff's opinion. In fact, based on the Company's efforts to locate that remaining leak, which the Staff believes were more than adequate, it is not clear if the water being noticed is a leak, or is resulting from a spring or ground water seepage.

***The Adequacy of the Company's Response to
Notices of Low Water Pressure and/or Water Outages***

With regard to those areas of the system identified during the Local Public Hearing as having pressure problems, the Staff conducted a pressure test at one location in each of the areas, with the tests being conducted at the outside faucet of a residence. Two of the locations tested had pressures of 32 p.s.i., one had a pressure of 42 p.s.i. and one had a pressure of 43 p.s.i. The Staff considers all of these results satisfactory under current conditions. Two of these locations are on dead-end lines and would require the installation of approximately 1,000 feet of additional line to provide a looped system to the area. The other two areas are not located on dead-end lines, but at high points in the distribution system.

In order to more adequately evaluate these situations, the Staff believes additional testing during times of higher system demand are necessary. In that regard, the Staff plans to place its pressure recorder at each of the locations tested, as noted above, for one week each beginning around July 1, 2000. Additional spot checks will also be done in these areas to determine if significant differences exist between pressures measured on the upstream side of the meter sets as compared to the pressures measured at the houses.

These additional pressure tests, and a review of customer reported pressure problems, will allow the Company and the Staff to more adequately assess the situation in these areas of the system and determine whether additional, more formal studies are warranted.

***The Adequacy of the Company's Responses
to Customer Notices of Sewer System Overflows***

Sewer system overflows such as those in the Lac Carmel area reported by customers at the Local Public Hearing are likely caused by inflow/infiltration problems. An additional problem could also be the existence of line blockages caused by roots entering the collection

system lines. In fact, Staff's recent field investigations discovered that both of these problems exist. Because of these identified problems, the Staff recommends that the Company initiate a program to evaluate the "condition" of that portion of the system in the Lac Carmel area known to experience overflows. Such a program should include visual inspections of area homes to attempt to determine if downspouts are connected to the collection system and inspection of the system manholes in the problem areas. To the extent possible, the manhole inspections should be conducted in both dry and wet conditions. "Smoke testing" of the system in known problem areas should also be done as a part of the system evaluation program. To assist the Company with this initial system evaluation program, the Staff will provide members of its Water & Sewer Department to participate in the program in conjunction with Company personnel.

The Staff further recommends that the referenced system evaluation program, and a report on it, be completed by April 30, 2000, with the report including recommended solutions and estimated costs for implementing those solutions. Based upon the results of the evaluation program, the Staff recommends that the Company then develop a plan of action to correct any identified problems, with the plan to be completed by May 31, 2000.

The Staff also recommends that a copy of the system evaluation report be provided to the Staff and the OPC by May 15, 2000, and that a copy of the plan of corrective actions be provided to the Staff and the OPC by June 15, 2000. Based upon the scope of the corrective actions needed, the Company, the Staff and the OPC should then agree upon schedule under which the corrective actions will be carried out. Once corrective actions are initiated, the Staff believes that the Company should provide the Staff and the OPC quarterly progress reports regarding the corrective actions being taken.

To the extent that the above-referenced corrective actions do not result in a satisfactory solution to identified problems, the Company should have a formal engineering study conducted to further evaluate the situation. In fact, it should be noted that the Company has already made initial contacts with an engineer regarding a formal study and that the engineer met with Company and Staff personnel on January 11, 2000 to discuss this matter. If it does become apparent that a formal engineering study is needed, the Company, the Staff and the OPC should agree upon a timetable for completion of the study and a report on it, the development of a plan of corrective actions and initiation/completion of the necessary corrective actions.

Lastly, The Company has corrected the sewer system deficiencies identified at and subsequent to the Local Public Hearing and those corrections are to the Staff's satisfaction. Actions taken by the Company include the repair of system leaks and enhancement of the security of the Company's treatment facilities.

"Aesthetic" Water Quality Issues

During the course of its recent field inspections, the Staff discovered that the Department of Natural Resources conducts "total water quality" tests of each of the Company's three wells on a three-year cycle. The last tests were conducted in October 1997, and the next tests are thus due later this year. Subsequent to the results of those tests becoming available, the Staff recommends that the Company provide copies of the test results to the Staff, the OPC and the Property Owners Association. The Staff believes it would then be appropriate for those parties to meet and discuss possible corrective actions, and whether they are desirable and economically feasible, assuming that corrective actions appear warranted based upon the test results. To that end, the Staff will assume the responsibility for ensuring that such a meeting takes place after the test results become available.

Possible Use of the Company's Sewage Treatment Lagoons by Outside Entities

Based upon information obtained during its original and additional investigations, the Staff determined that the use of one of the Company's sewage treatment lagoons by an outside entity is based upon an unwritten agreement whereby the involved sewage disposal company provides sewage hauling services to the Company free of charge in return for its use of the Company's lagoons.

During a discussion with Staff personnel, the sewage disposal company's owner indicated that on average approximately five loads of waste per week are disposed of in the Company's lagoon. These loads consist of approximately 700 gallons of what the sewage disposal company's owner referred to as being "mostly liquids", and the waste is dumped into a manhole near the lagoon being used and not directly into the lagoon. Additionally, the sewage disposal company's records indicate that approximately 15 loads of waste were hauled for the Company

last year. The sewage disposal company's normal charge for its waste pumping and hauling services is \$100 per load.

Lastly, the sewage disposal company's owner indicated that no special permits from the Department of Natural Resources (DNR) are required for his business. However, to ensure this is correct, and that the DNR has no other concerns about this overall arrangement, the Staff will be forwarding information regarding this matter to the appropriate personnel at the DNR for their investigation.

The Appropriateness of the Company's Policies and Charges for Service Connections

Based upon the comments made at the local public hearing, this section will focus on issues related to new customer hook-ups to the Company's pressure sewer system. However, issues related to the Company's on-going responsibilities for the operation and maintenance of certain portions of that system will also be covered. Also, similar "hook-up issues" pertaining to the water system and gravity sewer system will be mentioned briefly.

The general matters of extension of company facilities, service connections and on-going system maintenance responsibility, and the charges related to each matter, pertaining to both sewer systems and the water system, are all covered in the Company's tariffs. The Staff has reviewed these tariff provisions and believes they are appropriate and sufficiently cover the necessary areas.

Regarding the pressure sewer system, provisions on the following areas are covered in the Company's tariff: (1) sewer connection charges; (2) extension of company facilities; (3) individual treatment facilities; (4) service connections; (5) inside piping and customer service sewers; (6) the standards that pump units used in the pressure system must meet and the availability of such pump units; (7) provisions regarding the Company's on-going maintenance of customer-premise facilities and the charges related to such maintenance; and (8) required inventory levels of pump units and related parts. As with the general tariff provisions mentioned above, the Staff has reviewed the tariff provisions related to the pressure sewer system and believes the provisions are appropriate and sufficiently cover the necessary areas.

Additionally, the Staff reviewed invoices related to the extension of service to new customers on the pressure system and found them to be consistent with the referenced tariff

provisions. The Staff would also note that the overall cost to new customers hooking up to the pressure system are consistent with, and actually less than, the initial cost to customers taking service from other Commission regulated utilities providing service through pressure sewer systems.

***The Relationship Between the Company Owner's
Development Company and the Utility Company***

The Staff recommends that the use of daily work logs for all employees, including the Company owner, who do work for both the utility company and the development company be initiated immediately. These logs should track the amount of time spent by the employees on both utility company work and development company work. Currently, field operations personnel and the Operations Manager maintain such work logs and the development company is billed for the time those employees spend on its work. However, the Office Manager does not keep such records, nor does the owner. While the Office Manager and owner are paid by the development company, a portion of their salaries and related expenses are allocated to the utility company and records of the time they spend on utility company business is thus important.

With further regard to this general area, the Staff recommends that the Company develop and implement a policy whereby work pertaining to the establishment of service to new customers is done on a "first-come, first served" basis, such that proper priority is given to work related to utility company activities. The Staff further recommends that the Company develop and implement a policy whereby "emergency" utility company work is given priority over all other work, whether it be development company work or utility company work. These policies should both be in place by April 30, 2000 and copies of them should be provided to the Staff and the OPC by May 15, 2000.

***Possible Compliance Issues Regarding
Department of Natural Resources Requirements***

This issue pertains mostly to work that has been done in extending the water and sewer systems to portions of the Company's service area that were previously not served. Based upon comments made by customers at the local public hearing, much of this work has apparently been done absent construction permits being requested from or granted by the DNR. The Staff will be

forwarding information regarding this matter to appropriate DNR personnel for their investigation. As noted previously, the Staff will also be forwarding information regarding the use of one of the Company's lagoons by an outside sewage hauler to DNR personnel for investigation.

The Staff is confident the DNR staff will adequately investigate these matters and take the necessary compliance actions and thus does not believe that further Staff or Commission action is needed.

**AREAS OF CONCERN RAISED AT THE LOCAL PUBLIC HEARING
BUT NOT ADDRESSED IN THE STAFF'S NOVEMBER 24, 1999 PLEADING**

Design of the Proposed Water and Sewer Rates

Based upon comments made at the local public hearing, there was clearly confusion regarding how the proposed water rate structure will affect "commercial" versus residential customers. This confusion appears to exist in part due to questions regarding the size of the meters utilized by the Company to serve different "classes" of customers, and whether the rate structure is based on customer class or meter size. The Staff's proposed rate design in this case does not distinguish between customers on the basis of "classes", but rather is premised on the size of the meters used to serve customers. Copies of the Staff's rate design workpapers have previously been filed in the case papers, as an attachment to the Staff's November 2, 1999 filing.

There were also comments made and questions asked at the local public hearing regarding why there is not a rate differential between the gravity sewer system and the pressure sewer system. These comments and questions were apparently premised on the thought that the cost of operating the pressure system is less than the cost of operating the gravity system. In turn, this thought is apparently based in part on the fact that the pressure system customers pay for the operation of the on-premise pumps used in the pressure system and the Company pays for the cost of operating lift stations in the gravity system.

Staff's comments regarding this matter are twofold. First, while it is true that the cost of operating the on-premise pumps in the pressure sewer system is borne directly by the customers, the Company does incur costs associated with the operation of the pressure system that do not exist for the gravity system. Examples of such costs are the maintenance and replacement of the

on-premise pumps. Second, identification and allocation of costs associated with each of the systems would be difficult at best and would likely not produce meaningful differences in the rate structure. Because of these two items, the Staff does not believe it is necessary to pursue this matter further.

***Lack of Connections to Sewer System by
Some Residences Where Mains are now Available***

During its recent field work, the Staff confirmed that provisions do exist in the Covenants and Restrictions for the development whereby occupied properties are required to hook up to the sewer system when it becomes available. Based upon other provisions in the covenant and restrictions, it appears that both the Property Owners Association and the development company have the authority to enforce the sewer system hook-up provisions.

Regarding this matter, the Staff recommends that the Company survey its system to determine how many occupied residences now have central sewer service available to them, but have not yet hooked up to the system, and that it provide a report of its findings to the Staff, the OPC and the Property Owners Association. Subsequent to the Company providing that report, the Staff will arrange a meeting of the parties to discuss the ramifications of the subject provisions in the covenants and restrictions not being enforced and to lay out a plan of action for the enforcement of those provisions.

***Ratemaking Treatment of the
Recent Sewer System Extensions***

Generally speaking, the Staff believes that the ratemaking treatment it applied to the recent sewer system extensions was done in a manner consistent with the Company's tariff provisions on such extensions. However, this is an area that was covered in the Company/Staff "Agreement Regarding Disposition of Rate Increase Request" that was previously filed in the case papers, and additional details regarding the treatment of the sewer system extensions can be found in that Agreement.

PROCEEDING WITH THE RATE INCREASES ON A "CONDITIONAL" BASIS

In order to encourage the Company's compliance with the Staff's recommendations contained in this Report, the Staff believes the Commission's approval of the Company/Staff agreed-upon rate increases should be done on an interim, conditional basis. In that regard, the Staff will be discussing this approach with the Company and the OPC in the hopes of reaching an agreement on this approach.

The general approach contemplated by the Staff will be consistent with the approach recently used in two KMB Utilities rate cases, namely Case No's. WR-97-100 and SR-97-101. That process included the company being required to file an "implementation" report regarding its compliance with the conditions placed upon it, and the Staff conducting a follow-up investigation and filing a report on that investigation.

Approval of the Company/Staff agreed-upon rate increases on an interim, conditional basis provides the opportunity for the Commission, the Staff and the OPC to be assured that the Company is in compliance with the ordered conditions. Additional information regarding this matter will be provided in future filings in these cases.