

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 15th
day of July, 1994.

In the matter of the application of)
L.W. Sewer Corporation for authority)
to borrow up to \$50,000 from the)
Missouri Environmental Improvement)
and Energy Resources Authority.)

Case No. SF-94-202

In the matter of L.W. Sewer Corp.'s)
tariff revisions designed to implement)
a surcharge to recover principal and)
interest on its EIERA loan.)

Case No. SR-94-378

ORDER APPROVING FINANCING AND APPROVING A TARIFF

On December 29, 1994, L.W. Sewer Corporation (LWS) filed an application with the Commission seeking authority to enter into a loan agreement with the Missouri Environmental Improvement and Energy Resources Authority (EIERA) in which \$50,000 would be loaned to LWS over a 5-year term at an interest rate equal to the prime rate at the time of closing. In its application, LWS stated that the proceeds from this loan would be used to make substantial capital improvements in the existing physical plant, and specifically improvement of the lift station, removal and replacement of 3800 feet of concrete or vetrolite mains with PVC pipe, and the raising and replacement of manholes, where appropriate.

In addition, on June 21, 1994, a tariff was filed by LWS, in Case No. SR-94-378, proposing that a surcharge of \$5.42 per month, per customer, be levied in order to service the monthly obligation on the proposed financing arrangement. This tariff was filed with an effective date of July 21, 1994. Subsequently, on July 6, 1994, a Substitute Tariff Sheet was filed with the same arrangement and effective date.

LWS is a regulated public utility in the State of Missouri and a Missouri utility corporation, regulated by the Commission, with its principal offices at P.O. Box 265, Hillsboro, Jefferson County, Missouri. LWS is engaged in the provision of sewer service to approximately 184 customers located within Lake Wauwanoka Subdivision, in Jefferson County, Missouri.

The EIERA is a statutory government agency, administering the small private water and sewer company revolving loan fund program. LWS proposes to borrow \$50,000, repayable over a five-year period, at prime interest rate at the time of closing (currently 7.25%), to make necessary improvements in its system as specifically set out in LWS' application, as follows:

"LWS proposes to use the loan proceeds to improve its lift station by: (1) upgrading the grinder pump and rail system with simplex control panels and check valves; (2) upgrading the lever switch and motor controller; and (3) upgrading the effluent pump motor contractor and grinder system. Secondly, Applicant intends to remove and replace 3,800 feet of existing concrete and/or vetrolite mains with new PVC pipe. Thirdly, Applicant intends to raise and replace lids of manholes, where necessary."

LWS proposes to service and repay the loan with proceeds from a monthly surcharge to its ratepayers of \$5.42 per month.

On July 8, 1994, the Staff of the Commission filed a consolidated recommendation for this case and the tariff filing. In that recommendation the Staff states that the taking of the loan will result in a change in the capital structure of LWS, including a shift from 4.07% to 52.45% debt to total capital ratio, and a shift from 95.93% to 47.55% common equity to total capital ratio. The Staff states that this will increase the risk profile of LWS and decrease the cash flow below the amount necessary to cover the monthly debt service requirements of the

loan. This has caused LWS to file the proposed surc) conjunction with this case.

A supplemental Staff recommendation was filed containing a recommendation and supporting material from the water and sewer department of the Commission, showing that, while a general rate increase for LWS is not justified at this time, LWS does not currently have sufficient revenue to service the EIERA loan.

The supplemental recommendation also states that written notice of the proposed surcharge was given to customers on June 7, 1994. Of the 184 current customers of LWS, five letters were received by the Staff, all saying that the requested surcharge was too high. This notice, however, also included a proposed rate increase, which was later withdrawn by LWS. After financial examination of LWS, the Staff concluded that the requested rate increase was unjustified.

In its original recommendation, the Staff stated that extraordinary treatment was needed for the provision of safe and adequate service by LWS to its customers. The water and sewer department Staff stated that the proposed improvements to the physical plant of LWS are required to allow LWS to continue to provide adequate service. The Staff concluded that the loan and surcharge mechanism were necessary to fund the improvements, as LWS appears not to be able to gain a rate increase or to meet the interest and payment obligations on the loan otherwise.

The current monthly residential sewer bill for customers of LWS is \$9.25. With the proposed surcharge, the residential rate would climb to \$14.67. The Staff also recommended that LWS be instructed to account for the collection of the monthly surcharge as Contribution in Aid of Construction.

The Commission finds that adequate notice has been provided and an evidentiary hearing in this matter is not necessary. The Office of Public Counsel was informed as to the progress of this proposal and did not object to the loan or the proposed surcharge, but suggested language for inclusion in the proposed tariff. This language was added and a substitute tariff was filed on July 6, 1994.

The Commission has reviewed the various recommendations of the Staff and the filing and accompanying documents of LWS, and finds that the proposed EIERA loan for the necessary improvement of physical plant is reasonable and in the public interest. It is also clear from the Staff accounting information that the proposed surcharge will be necessary to service the debt obligation. The Commission finds the proposed surcharge, as set out in the substitute tariff filing of July 6, 1994, to be reasonable and necessary for the provision of safe and adequate service. The Commission will approve the EIERA loan and the levy of the necessary surcharge to service that loan.

IT IS THEREFORE ORDERED:

1. That L.W. Sewer Corporation is authorized to transact a loan arrangement as set out in its application of December 29, 1994, in an amount not to exceed \$50,000 from the small private water and sewer company revolving loan fund program, administered by the EIERA, and for the terms and conditions as set out in the above-referenced application and this order.

2. That the following substitute tariff sheet, filed July 6, 1994, by LWS, is approved for service on or after July 21, 1994:


P.S.C. Mo. No. 1

Substitute Tariff Sheet, PSC Mo. No. 1, Original Sheet No. 4A

3. That the proceeds from the above-stated loan will be used specifically for the purposes as set out in paragraph 5 of the application of LWS in this case, and that the proceeds from the above-stated surcharge will be accounted for as Contributions in Aid of Construction, kept in a separate account, and used only to meet the principal and interest obligations of the above referenced loan.

4. That this order shall become effective on July 21, 1994.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

McClure, Perkins, Kincheloe,
and Crumpton, CC., Concur.
Mueller, Chm., Absent.