BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

CASE NO. WR-83-14

In the matter of Missouri Cities Water Company of St. Charles, Missouri, for authority to file tariffs increasing rates for water service provided to customers in the Missouri service area of the Company.

CASE NO. SR-83-15

In the matter of Missouri Cities Water Company of St. Charles, Missouri, for authority to file tariffs increasing rates for sewer service provided to customers in the Missouri service area of the Company.

CASE NO. WM-82-147

In the matter of the joint application of Missouri Cities Water Company and the City of Northmoor, Missouri, for authority authorizing Missouri Cities Water Company to sell, transfer and convey to the City of Northmoor the water distribution system and related property serving residents within the City of Northmoor.

CASE No. WM-82-192

In the matter of the joint application of Missouri Cities Water Company and the City of St. Charles, Missouri, acting on behalf of the Board of Public Works of said City, for authority authorizing Missouri Cities Water Company to sell, transfer and convey to the City of St. Charles the water distribution system and related property serving an area commonly referred to as the Cole Creek area.

\PPEARANCES: CHARLES G. SIEBERT, Attorney at Law, Schlafly, Griesedieck, Ferrell & Toft, 314 North Broadway, St. Louis, Missouri 63102, for the Missouri Cities Water Company.

JEREMIAH D. FINNEGAN, Attorney at Law, Suite 101, 4225 Baltimore Avenue, Kansas City, Missouri 64111, for the Cities of Weatherby Lake, Riverside, Parkville, Houston Lake, Platte Woods, Lake Waukomis; and Platte County Water District No. 6.

MICHAEL C. PENDERGAST, Assistant Public Counsel, 1014 Northeast Drive, Jefferson City, Missouri 65101, for the Office of the Public Counsel and the public.

MARTIN C. ROTHFELDER, Assistant General Counsel, Post Office Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

REPORT AND ORDER

Procedural Background:

On June 11, 1982, Missouri Cities Water Company (hereinafter, "Company" or "Missouri Cities") filed tariff sheets with this Commission by which the Company proposed a general increase in rates for water and sewer services provided to customers in its Missouri service areas. The proposed tariffs bore a requested effective date of July 15, 1982. On July 14, 1982, the Commission suspended those

tariffs until November 12, 1982. On November 4, 1982, the Commission further suspended the proposed effective date of the tariffs until May 12, 1983. Also on November 4, 1982, the Commission approved a form of notice to be given by the Company to its customers concerning the proposed rate increases in this case.

A timely application to intervene in this case was filed on behalf of the Missouri Cities of Weatherby Lake, Riverside, Parkville, Houston Lake, Platte Woods, and Lake Waukomis, and on behalf of Platte County Water Supply District No. 6, (hereinafter, "City Intervenors"). The City of Mexico, Missouri, also filed an application to intervene in Case No. WR-83-14. These applications to intervene were granted by Commission order of September 28, 1982.

The Company filed its prepared direct testimony and exhibits in this case on October 4, 1982.

On December 1, 1982, the Office of the Public Counsel (hereinafter, "Public Counsel") filed a "Request for Local Hearings" in this case. On December 10, 1982, the Commission issued its "Order Setting Local Public Hearing". Such local public hearing was held as scheduled on Saturday, January 15, 1983 in the cafeteria/gymnasium of the Willie Harris Elementary School, 1025 Country Club Road, St. Charles, Missouri. The transcript of that local public hearing is a part of the evidentiary record of this case, and all of the competent and substantial evidence contained therein has been considered by the Commission in reaching its Findings and Conclusions herein.

On December 21, 1982, the Commission issued its "Interim Rate Order" in response to an application for same filed for the Company on or about November 16, 1982, authorizing the Company to use the accelerated cost recovery system for calculating depreciation for income tax purposes and to use a normalization method of accounting as defined and prescribed in the Economic Recovery Tax Act of 1981, and as defined and prescribed in any rulings or regulations which might be promulgated to further explain or define the provisions of that Act.

On January 6, 1983, the prepared direct testimony and exhibits of the Commission Staff (hereinafter, "Staff") were filed in this case.

On January 17, 1983, the prehearing conference in this case was convened in Jefferson City, Missouri. On January 25, 1983, the hearing of this matter commenced in the Commission's hearing room in Jefferson City. The hearing concluded on January 27, 1983. The reading of the record by the Commission pursuant to Section 536.080, RSMo 1978, has not been waived. Briefs have been filed by all parties except the City of Mexico, Missouri, which did not participate in the prehearing conference or in the hearing.

On January 24, 1983, the Staff filed a "Motion to Exclude Consideration of the Mexico Well Issue." This motion was briefed by the parties, and by Commission order issued February 17, 1983, was granted by the Commission. For the reasons stated in that order, the issue designated in the Hearing Memorandum in this case as the "Mexico Well" Issue (Exhibit 1, Page 8, Section IX) has not been considered by the Commission on its merits in this case.

On February 4, 1983, the Commission issued its "Order of Consolidation" consolidating the instant cases with Cases No. SM-81-217, WM-82-147, and WM-82-192. On February 18, 1983, the Commission granted a further order re-separating Case No. SM-81-217 from the other four (4) cases for decision by the Commission, since that case is not yet ready for a decision. These cases are discussed further below under Section V (A) and Section VI (B), "Gain on Sales."

FINDINGS OF FACT

I. The Company:

Missouri Cities Water Company is a utility company engaged in providing water supply and sewer services in Missouri to approximately 23,571 water customers and 4,478 sewer customers. The Company provides water service through five (5) operating divisions: Brunswick, Mexico, Parkville, Warrensburg and St. Charles County. In addition, the Company provides sewer service in Parkville and St. Charles

County. The Company's rates are set separately for water and sewer service and for each division.

For the year ended December 31, 1981, the Company derived ninety (90) percent of its revenue from water operations and ten (10) percent from its sewer operations. The majority of its water industrial customers are in the Mexico and Warrensburg divisions, and the Company also sells water wholesale in the Brunswick, Mexico, Parkville and Warrensburg divisions.

The Company has 47 employees. Its principal office is located in St. Charles, Missouri, in which is located its engineering, accounting, administrative and other general office personnel. The Company is a wholly-owned subsidiary of Consolidated Water Company, a holding company which has other operating subsidiaries in Florida, Indiana, Ohio and Michigan. The offices of Consolidated Water Company are located in Coral Gables, Florida.

Missouri Cities Water Company is a water corporation and a sewer corporation, and a public utility, within the meaning and scope of Chapters 386 and 393, RSMo 1978, and as such is within the jurisdiction of this Commission.

II. Elements of Cost of Service:

The Company's authorized rates are generally based on its cost of service, or "revenue requirement". As elements of its revenue requirement, the Company is authorized to recover all of its reasonable and necessary operating expenses and, in addition, a reasonable rate of return on the value of its property used in public service (rate base). It is necessary, therefore, to establish the value of the Company's rate base and to establish a reasonable rate of return to be applied thereto which, when added to reasonable operating expenses, results in the total revenue requirement of the Company. By calculating the Company's reasonable level of revenues (earnings), it is possible to determine the existence and extent of any deficiency between the present earnings and the revenue requirement found reasonable in any rate proceeding.

III. Test Year and True-Up:

The purpose of using a test year is to construct a reasonably expected level of revenues, expenses and investment during the future period for which the rates to be determined herein will be in effect. Aspects of the test year operations may be adjusted upward or downward in order to arrive at a proper allowable level of all of the elements of the Company's operations.

The Company's original filing in this case was based on a test year ending December 31, 1981. However, the Company and all other parties have now agreed to use the Staff's historical test year ending September 30, 1982, adjusted for known and measurable changes. No true-up of rate base or expense items has been requested or made.

IV. Contested Issues:

The Commission hereinbelow sets out its findings as to those issues presented to it for decision in the Hearing Memorandum in this case (Joint Exhibit 1), which were not resolved by the parties in prehearing conference.

V. Net Operating Income:

Several adjustments to the Company's operating revenues and expenses have been proposed in this case. Generally, adjustments to operating revenues and expenses found to be proper represent a reduction of or addition to the Company's net operating income, after giving effect to income tax liability.

A. Gain On Sales.

During 1982, the Company sold its Northmoor water distribution system to the City of Northmoor, and its Cole Creek water distribution system to the City of St. Charles, pursuant to Commission authorization. These transactions are described in more detail below in Section VI. B., "Gain On Sales". City Intervenors and Public Counsel propose that the sale proceeds from those sales in excess of the net depreciated book value of the transferred systems be credited respectively to the Parkville and St. Charles districts' revenue requirements. If this position were

adopted, the net operating income available to the Company would be increased, and the Company's revenue requirement in this case would be decreased. The Staff recommends that the net gain of the sales be subtracted from the Company's rate base, as discussed below.

For reasons discussed below in Section VI. B., the Commission determines that the adjustment to net operating income proposed by the City Intervenors and Public Counsel should not be approved in this case.

B. Maintenance Accrual Account.

The Company accrues projected maintenance expense on normally recurring expenditures depending on the nature of the item, and then performs the necessary maintenance with funds already provided. The timing of the accrual and maintenance is at the discretion of Company officials. In this case, the Company proposes to include $72,600 in its cost of service, representing what Company alleges is its normal cost of maintaining wells, pumps and reservoirs.

Staff proposes to include $52,000 in the Company's cost of service for maintenance accruals. Staff's proposed figure is the average of the Company's actual maintenance expenditures for the five (5) years ending September 30, 1982. It is Staff's opinion that the Company's method of projecting maintenance accrual causes customers to contribute to future maintenance costs, rather than paying for actual maintenance as incurred.

The items covered by the Company's maintenance accrual account are generally large cash outlays which occur periodically and cover the painting of storage tanks; maintenance on wells, pumps and motors; and maintenance on high-service pumps. The maintenance accrual account is made up of five (5) separate accruals representing the five (5) divisions of the Company. In the Brunswick Division, the Company has had to acidize the wells each year. However, with the addition of a new well in 1982 which will permit lower levels of pumpage from existing wells, the necessity of acidizing in the Brunswick Division should be

reduced from every year to every five (5) years. Acidizing the wells in the Mexico and Platte County Divisions is on a seven (7) to eight (8) year cycle, and in Warrensburg is on a ten (10) year cycle. Major maintenance for pumps and motors generally is incurred every seven to ten years, and the painting of the inside of water tanks in four (4) of the Company's divisions is on a seven (7) year cycle.

The Company's proposed maintenance accrual account level in this case is based upon projected maintenance procedures and the projected costs thereof, considering the dates when specific maintenance items were last undertaken. The maintenance actually scheduled under the Company's data in this case would not reach the $72,600 level that the Company is requesting as a "normal" maintenance expense, until 1987.

As stated previously in this Report and Order (See Section III., above), the purpose of using a test year is to construct a reasonably expected level of revenues, expenses and investment during the future period for which the rates to be determined herein will be in effect. The Commission finds and concludes that the Company has not met its burden of proving that its proposed level of maintenance expenses can be reasonably expected to be incurred during the future period for which the rates set in this case will be in effect. The expectation that maintenance expenses will reach $72,600 in 1987 is not sufficient to meet the Company's burden of proof. The possibility that maintenance expenses other than those included in that $72,600 amount could occur prior to 1987 is too speculative to be relied upon.

The Commission determines that Staff's actual five-year average is the more reasonable method of calculating the level of maintenance expenses which should be included in the Company's cost of service in this case. The Company is critical of the Staff's approach because it includes the first nine (9) months of 1982, in which the Company asserts that it severely limited its maintenance expenditures because of a cash-flow crisis. Actually, that circumstance points up the wisdom of using a

multi-year average to develop a normalized level of expenses, since such an average evens out the irregularities of any particular year.

Staff's proposal is adopted.

C. Full Normalization.

The Company proposes that it be authorized to normalize the timing differences between book and tax treatments relating to payroll expenses, transportation, interest and similar items related to construction, and to defer the differences of the income tax effects by setting up a separate account, Account Number 283-Accumulated Deferred Income Taxes. On the other hand, Staff proposes to flow-through those tax-timing differences to the Company's ratepayers. The timing differences arise from the capitalization of the items on the accounting books of the Company and the expensing of such items in computing income taxes. This treatment increases internally generated funds and reduces rate base because deferred taxes is a rate base deduction. The effect of the Company's proposal is to increase test year expense by $16,620, and to decrease rate base by the same amount.

The Commission has consistently utilized a "cash-flow test" for determining whether normalization treatment should be authorized for the tax-timing differences of particular utilities. Under its "cash-flow test", the Commission considers two primary factors: the Company's internally generated funds as a percentage of construction expenditures, and the Company's interest coverage. It is Staff's evidence in this case that if internally generated funds as a percentage of construction expenditures is at a level of thirty (30) percent or lower, and interest coverage is 1.5 percent or lower, then the Company would be experiencing significant cash-flow problems such that full normalization should be allowed.

The competent and substantial evidence upon the record of this case demonstrates that the after-tax interest coverages of Missouri Cities Water Company have been at levels between 1.62 and 2.09 from 1977 through 1981, inclusive; that the Company's test year-unadjusted after-tax interest coverage is 1.92; and that the

Company's test year-adjusted after-tax interest coverage is 1.72. In addition, internally generated funds as a percentage of construction have ranged between 57 percent and 78 percent for this Company between 1977 and 1981, inclusive, and are 87.53 percent for the test year in this case. The Commission finds that Staff's position on this issue is just and reasonable, and should be adopted. Therefore, the Commission finds and concludes that the Company's interest coverage and internally generated funds as a percentage of construction expenditures are adequate, and that full normalization should not be allowed in this case.

The Commission notes that the Company's calculations of internally generated funds as a percentage of construction expenditures included internal cash supporting the retirement of internal debt and preferred stock, in addition to cash supporting construction. The Commission traditionally has not included security retirements in its consideration of the normalization issue, and is not persuaded upon the record herein that it should do so in this case.

The Commission notes that it has opened a generic docket (PSC Case No. 00-83-220) for further study of the issue of normalization of tax-timing differences. However, upon the record in this case and for the reasons stated herein, Company's proposal of full normalization of tax-timing differences will not be adopted.

D. Rate Case Expense.

The Company proposes that the rates resulting from this case include rate case expenses equal to one-half the cost of the Company's last rate case ($35,600), plus the entire estimated cost of the present rate case ($52,000), or a total amount of $87,000. Company alleges that it is amortizing the expenses of its 1981 rate case over a two-year period on its books, and that such amortization only came into effect with the rates resulting from that rate case, which was settled, in approximately February, 1982.

The Staff contends that the amount of rate case expense which should be allowed in the Company's rates should equal the amount of the estimated expenses of

the instant rate case, which is $52,000. The Company asserts that the Staff's approach would deprive the Company of the opportunity to recover its past rate case expenses of $35,600, being the last half of its expenses from the 1981 rate case. The Company plans to file additional rate cases in 1983, 1984 and 1985.

As stated previously in this Report and Order (Section III., above), the purpose of using a test year is to construct a reasonably expected level of revenues, expenses and investment during the future period for which the rates to be determined herein will be in effect. Rate case expenses are not extraordinary expenses which should be amortized, but are ordinary expenses which should be included in a Company's cost of service at a reasonable level calculated upon historic data, adjusted if necessary for known and measurable changes. The Commission finds and concludes that the reasonable level of rate case expenses which should be included in the Company's cost of service in this case is $52,000, as proposed by the Staff. To provide for the recovery of past rate case expenses, as proposed by the Company, could constitute retroactive ratemaking, which is prohibited by State ex rel. Utilities Consumer Council of Missouri v. Public Service Commission of Missouri, 585 S.W.2d 41, 59 (Mo. en banc 1979). See also Re: Martigney Creek Sewer Company, Mo. PSC Case No. SR-83-166 (Report and Order issued March 4, 1983).

Staff's proposed level of rate case expenses is hereby approved.

E. Income Tax Credit for Parent Interest Payments.

The Company's filing in this case credited the Company's income tax liability by a pro rata share of the tax savings from the interest payments by Consolidated Water Company, the parent company of Missouri Cities Water Company. The amount of this income tax credit, calculated by the Company based upon its filing test year of December 31, 1981, was $15,000. Based upon the agreed test year in this case ending September 30, 1982, Company computes the credit to be $13,247.

City Intervenors and Public Counsel agree with the Company that there should be an income tax credit for interest payments by the Company's parent

corporation, but calculate the credit to be $25,206 rather than $13,247. This calculation is based upon a gross interest payment amount for Consolidated Water, rather than a net interest amount.

Staff opposes the additional interest deduction. Staff asserts that its methodology in this case synchronizes the interest deduction with the rate base and capital structure utilized by the Staff, thereby allowing as a deduction only that interest that would be paid through rates. Staff asserts that the Company, City Intervenor and Public Counsel proposals would reduce revenue requirement with a Company investor's tax deductions, rather than those of the Company itself which are paid in rates.

Upon the record in this case, the Commission determines that the interest amount used in establishing the Company's rates should reflect the overall capital that Consolidated Water Company has employed in its investment in Missouri Cities. Each month, Consolidated Water takes the total interest it pays or accrues and the total interest received from all sources, principally its subsidiaries, and nets the difference. The net difference is allocated monthly to the subsidiaries based on Consolidated Water Company's investment in its respective subsidiaries. This procedure of Consolidated and the Company has been followed consistently since the mid-1960's and has been used by the Company in all of its rate case filings since that time.

The Commission finds and concludes that the Company has met its burden of proving that its proposed income tax credit for parent interest payments is just and reasonable, and should be approved.

F. Net Operating Income-Summary.

After adjustments made on the basis of the contested issues discussed above, the Commission finds the Company's net operating income under present rates to be $1,256,291.

VI. Rate Base:

A. Negative Working Capital.

The Company did not include any cash working capital in its proposed rate base in this case. Staff, however, proposes that the Company's rate base be decreased by $80,152, representing a negative cash working capital component.

Cash working capital is the amount of cash required to pay the day-to-day expenses incurred by the Company to provide service to the ratepayer. Cash working capital is supplied by the shareholder (investor) and the ratepayer. When an expenditure by the Company to provide service to the ratepayer precedes the collection from the ratepayer for such service, the cash working capital must be provided by the investor. The ratepayer provides cash working capital when the reverse is true; collection for services rendered by the Company precedes the payment by the Company for the goods or services necessary to provide that utility service. The investor or the ratepayer, as appropriate, is compensated for the cash working capital provided to the Company by adjusting the Company's rate base. The investor-supplied cash working capital funds increase rate base, while ratepayer-supplied cash working capital funds reduce rate base.

The Staff determined its proposed negative working capital adjustment in this case by the use of a lead-lag study. The Commission has consistently accepted the lead-lag methodology for the determination of cash working capital requirements. See, for example, Re: Kansas City Power & Light Company, MoPSC Case No. ER-78-52, 28 PUR 4th 398 (1979); Re: Kansas City Power & Light Company, MoPSC Case No. ER-81-42 (Report and Order issued June 17, 1981); and Re: Continental Telephone Company of Missouri, MoPSC Case No. TR-82-223 (Report and Order issued January 26, 1983).

Staff's lead-lag study in the instant case developed and compared a revenue lag and an expense lag for the Company. A revenue lag is the amount of time between the provision of service by the Company and the receipt of payment for that service.

The revenue lag consists of three components: usage, billing and collection lags. The expense lag describes the amount of time between the receipt of goods or services by the Company and the subsequent payment by the Company for those goods and services, which are used in providing utility service to the ratepayer. When the revenue lag exceeds the expense lag, the cash working capital is provided by the investor. When the expense lag exceeds the revenue lag, the cash working capital is provided by the ratepayer.

The Company performed no lead-lag study in this case. The Company opposes the Staff's proposed negative working capital adjustment on the basis of the Company's allegation that its credit has been deteriorating and its earnings have been substandard, asserting that the cash balance which the Company maintains, its investment in unamortized plant abandonment losses and its preliminary engineering expenditures demonstrate that Staff's negative working capital adjustment should be disapproved. These arguments of the Company are irrelevant to a determination of the Company's cash working capital, as defined herein.

Staff's lead-lag study in the instant case demonstrates that, in the aggregate, the ratepayer provides cash working capital to the Company. The Commission finds and concludes that the Staff's lead-lag study is reasonable and should be relied upon in this case. As a result, the Company's rate base should be reduced by the amount of the negative cash working capital requirement, which is $80,152.

B. Gain On Sales.

On December 11, 1981, Missouri Cities Water Company and the City of Northmoor, Missouri, filed a joint application with this Commission seeking authority for the Company to sell, transfer and convey to Northmoor the water distribution system and related property serving Northmoor. The application was assigned PSC Case No. WM-82-147.

The Company had been providing water service to the residents of Northmoor since the year 1960, pursuant to a Certificate of Convenience and Necessity granted by this Commission in PSC Case No. 14,550. The distribution system was part of the Company's Parkville division, and served approximately 130 customers. The City of Northmoor decided to purchase the water distribution system so that it could upgrade that system to meet the fire standards required by Kansas City, Missouri, in order that the residents of Northmoor could receive fire protection from Kansas City.

The Company and Northmoor agreed to a cash sale price of $28,000. The original cost of the Northmoor distribution system was determined to be $18,793, arrived at pursuant to an original cost study ordered by the Commission in Case No. 15,946. The sale price of $28,000 is asserted to represent the replacement value of the system, less depreciation.

On February 19, 1982, the Commission entered an order in Case No. WM-82-147 requiring the Company to send notice of the application to its affected customers and setting an intervention deadline in that case of April 9, 1982. No applications to intervene were filed.

On February 8, 1982, the Company and the City of St. Charles, Missouri, filed a joint application with this Commission seeking authority for the Company to sell, transfer and convey to St. Charles the water distribution system and related property serving an area commonly referred to as the Cole Creek area. This application was assigned PSC Case No. WM-82-192.

The Company had been providing water service to approximately 60 residential customers, 25 commercial customers, 11 multi-family customers and 1 industrial customer in the Cole Creek area pursuant to a Certificate of Public Convenience and Necessity granted by this Commission in Case Nos. 15,032 and 15,593. The Cole Creek area is part of the Company's St. Charles Division. A portion of the Cole Creek area is located within the corporate limits of the City of St. Charles and an additional portion of the Cole Creek area may be annexed by the City of St.

Charles in the near future. The Company and the City of St. Charles agreed to a sale price of $140,000, which is asserted to represent the replacement value of the system, less depreciation. The Company determined that the original cost of the property to be sold to the City of St. Charles, less accumulated depreciation, amounted to $52,060.

On March 1, 1982, the Commission issued an order in Case No. WM-82-192 requiring the Company to send notice of the application to its affected customers, and set an intervention deadline in that case of April 15, 1982. No applications to intervene were filed.

On June 10, 1982, the Commission issued its "Order Setting Hearing" in Case Nos. SM-81-217, WM-82-147 and WM-82-192. Case No. SM-81-217 involves the application of the Company for authority to (1) enter into an agreement with the City of St. Peters for sewage treatment and (2) to abandon its Steeplechase sewage treatment plant and recover the unamortized loss on the abandonment thereof over a ten-year period. A hearing on the consolidated cases took place as scheduled on June 11, 1982 at the Commission's offices in Jefferson City, for the purpose of answering questions of the Commission regarding the propriety of severing the question of the appropriate accounting entries to be made as a result of the transactions contemplated by those cases, from the Commission's determination to authorize the underlying transactions. On July 2, 1982, the Commission issued its "Order and Notice of Hearing" in the three cases, in which it denied motions filed by the Company for an order approving transfer of the utility property, consolidated all three cases for determination of the accounting issues raised therein, set a deadline for the filing of the Company's direct testimony and exhibits and scheduled a hearing to be held on August 13, 1982. Company filed direct testimony in accordance with that order, and the Commission's Staff also prefiled testimony in Case Nos. WM-82-147 and WM-82-192.

On July 23, 1982, the Commission issued its Interim Report and Order in Case No. SM-81-217, approving a Stipulation and Agreement entered into by the parties

to that case, thereby approving the agreement between the Company and the City of St. Peters, Missouri, for the treatment of sewage in the area served by the Company's Steeplechase sewage treatment plant, and approving the abandonment of the Steeplechase sewage treatment plant and amortization of the remaining undepreciated plant resulting therefrom over a ten-year period. Pursuant to the Stipulation and Agreement, the Commission deferred a decision as to the proper accounting and ratemaking treatment to be afforded to the proceeds of any sale of the land upon which the abandoned sewage treatment plant was situated. On July 27, 1982, the Commission issued an order in each of Case Nos. WM-82-147 and WM-82-192 approving the transfers requested in those cases, but reserving ruling on the appropriate accounting treatment to be afforded to the gain realized by the Company on those sales.

An evidentiary hearing on the contested accounting issue in Cases No. WM-82-147 and WM-82-192 was held as scheduled on August 13, 1982 in the Commission's hearing room in Jefferson City. Because no sale of the remaining land related to the abandoned Steeplechase sewage plant had occurred, the parties agreed that the proper accounting treatment of such a sale in Case No. SM-81-217 was not ripe for hearing before the Commission. Company and Staff filed initial briefs and reply briefs in Case Nos. WM-82-147 and WM-82-192.

In Case Nos. WR-83-14 and SR-83-15, City Intervenors propose that the gain experienced by the Company on the sale of the Northmoor water system should be amortized over a two-year period and thereby offset against the rates to be paid by the remaining customers of the Parkville Division of the Company. Public Counsel supports the City Intervenors as to the proposed treatment on the Northmoor sale, and further proposes that consistent treatment be afforded the Cole Creek sale. The Commission Staff proposes that the gain on these sales should be deducted from the Company's rate base, and contends that its proposed rate base treatment is supported by the Uniform System of Accounts. The Company opposes all of the above proposals

and asserts that gains and losses from the sale of operating units should be afforded "below the line" accounting and ratemaking treatment.

On February 4, 1983, the Commission issued its "Order of Consolidation" in Case Nos. SM-81-217, WM-82-147, WM-82-192, WR-83-14 and SR-83-15, consolidating those cases for decision by the Commission. On February 18, 1983, the Commission issued another order in those five cases, called "Order Separating Case No. SM-81-217," separating Case No. SM-81-217 from the other four cases for decision by the Commission, since Case No. SM-81-217 involves vacant land rather than a distribution system and since no sale of that land has actually been accomplished.

Therefore, the Commission has before it in the instant case the question of the appropriate accounting and ratemaking treatment to be afforded to the gains realized by the Company from the sale of its Northmoor and Cole Creek water distribution systems.

The gain realized by the Company on the Cole Creek sale, net of taxes and expenses, is $54,911.33. The gain realized by the Company on the Northmoor sale, net of taxes and expenses, is $2,705.39. If Staff's rate base proposal were approved, the Company's net original cost rate base in this case would be reduced by $57,616.72 on a total Company basis (rounded to $57,616 by the parties in the reconciliation in this case, attached to Joint Exhibit No. 1). If the Commission were to adopt the proposal of the City Intervenors and Public Counsel, the net gain proceeds would be amortized over two years, thereby reducing the revenue requirement to be established in this case by $28,808.36 (rounded to $28,808 in the Joint Hearing Memorandum). [In its brief, the Public Counsel recommends that the gain on the Cole Creek sale be amortized over a ten year period rather than over two years as proposed by the City Intervenors as to the gain on the Northmoor sale.] The adoption of the Company's proposal to treat the net gain as "below the line" income would have no effect on the Company's rates or rate base.

The Commission has adopted the Uniform System of Accounts (USoA) for Class A and B water utilities published by the National Association of Regulatory Utility Commissioners, as the standard for accounting for regulated water utilities. 4 CSR 240-50.030.

Instruction 5-F of the Uniform System of Accounts states the following:

> 5. Utility Plant Purchased or Sold.
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> . . .
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> F. When utility plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in account 114, Utility Plant Acquisition Adjustments, and the amounts (estimated if not known) carried with respect thereto in the accounts for accumulated provision for depreciation and amortization and in account 252, Advances for Construction, and account 271, Contributions in Aid of Construction, shall be charged to such accounts and the contra entries made to Account 106, Utility Plant Purchased or Sold. Unless otherwise ordered by the Commission, the difference, if any, between (a) the net amount of debits and credits and (b) the consideration received for the property (less commissions and other expenses of making the sale) shall be included in account 422, Gains (Losses) From Disposition of Property. (See account 106, Utility Plant Purchased or Sold.)
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> Note: In cases where existing utilities merge or consolidate because of financial or operating reasons or statutory requirements rather than as a means of transferring title or purchased properties to a new owner, the accounts of the constituent utilities, with the approval of the Commission, may be combined. In the event original cost has not been determined, the resulting utility shall proceed to determine such cost as outlined herein.

Company asserts that Instruction 5-F clearly applies where an operating system and its connected customers are transferred, and the system continues to be

utilized by the purchaser to serve the same customers. Company asserts that the Northmoor and Cole Creek systems which were sold by the Company are "utility plant constituting an operating unit or system" within the meaning of Instruction 5-F, so that the gain on the sales of those systems should be recorded "below the line," in account 422, Gains (Losses) From Disposition of Property. It is Company's position that this treatment of the gain is reasonable, since the investor is the one who runs the risk of the gain or loss on the partial liquidation of the Company's business. Included in that risk of loss, in the Company's view, is the recovery in real purchasing power of less than the initial investment. Company states that in an original cost State such as Missouri, the customer never pays for cost of service based upon depreciation computed on a replacement value of the asset, but rather pays depreciation based upon the original book value, so that the customer never faces the risk of inflation in relation to depreciation.

Company asserts that its proposed accounting and ratemaking treatment of the gains in question is supported by the Commission's decision in Re: Kansas City Power & Light Company, Case No. ER-77-118. In that case, Kansas City Power & Light Company (KCP&L) sold certain electric distribution properties to the Kansas City Board of Public Utilities, and at the same time sold a 69 KV transmission line to the City of Independence, Missouri. The proceeds received by KCP&L from those sales resulted in a gain over net original cost, and the Company proposed that these gains should be recorded "below the line" for accounting purposes. In its Report and Order approving this accounting treatment, the Commission stated at Page 42:

> It is the Commission's position that ratepayers do not acquire any right, title and interest to Company's property simply by paying their electric bills. It should be pointed out that Company investors finance Company while Company's ratepayers pay the cost of financing and do not thereby acquire an ownership position. Therefore, the Commission finds that the disposal of Company property at a gain does not entitle its ratepayers to benefit from that gain nor does the disposal of Company property at a loss require that Company's ratepayers absorb that loss.

The Staff asserts that another provision of the Uniform System of Accounts may be applied to the gains in question as an alternative to Instruction 5-F, and that the Commission should weigh the equities involved and then determine which of the alternative sections of the USoA should be applied. The alternative provision referred to by the Staff is Instruction 10-B(2), which provides as follows:

> (2) When a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

The USoA also includes the following definitions related to Instruction 10-B(2):

> 21. "Property retired," as applied to utility plant, means property which has been removed, sold, abandoned, destroyed, or which for any cause has been withdrawn from service.
>
> 22. "Replacing" or "replacement," when not otherwise indicated in the context, means the construction or installation of utility plant in place of property retired, together with the removal of the property retired.
>
> 25. "Retirement units" means those items of utility plant which, with or without replacement, are accounted for by crediting the book cost thereof to the utility plant account in which included.
>
> 26. "Salvage value" means the amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale, or, if retained, the amount at which the material recoverable is chargeable to materials and supplies, or other appropriate account.

Staff asserts that Instruction 10-B(2) can be applied to the instant factual situation, since the Northmoor and Cole Creek operating systems have been

"sold" and "withdrawn from service" and are therefore "property retired" within the USoA definitions. Since, in Staff's view, either Instruction 5-F or Instruction 10-B(2) may be applied to the instant facts, the decision should be based upon a weighing of the equities involved. That weighing process, according to the Staff, results in the conclusion that the Company's ratepayers should be entitled to the benefit of the gain on sales of the Northmoor and Cole Creek facilities.

Staff asserts that the investor's legally protected interest resides in the capital he invests in the utility, rather than in the items of property which are purchased with that capital for the provision of utility service. As the basis of this proposition, staff cites Southwestern Bell Telephone Company v. Missouri Public Service Commission, 262 U.S. 276 (1923), and Democratic Central Committee of the District of Columbia v. Washington Metropolitan Area Transit Commission, 485 F. 2d 786 (D.C. cir. 1973), cert. denied sub. nom. Transit System, Inc. v. Democratic Central Committee, 415 U.S. 935 (1974). In the latter case, (hereinafter referred to as the DCC case), the Court concluded that the allocation of appreciation in value of utility assets while in operating status depends on two principles: (1) the right to capital gains on utility assets is tied to the risk of capital losses (principle of "gain follows loss"); and (2) he who bears the financial burden of particular utility activity should also reap the resulting benefit (principle of "benefit follows burden"). Based upon a detailed analysis in that case, the Court concluded that ratepayers of the Washington Metropolitan Area Transit Commission had borne substantial risks of loss and financial burdens associated with the assets employed in the utility's business, and were entitled to the benefit of the gain realized by the sale of certain appreciable assets.

Based upon these principles, Staff asserts that the recovery by Missouri Cities' investors of the proceeds of the sale of appreciated utility properties should be limited to the amount of their original investment. Applying the two underlying principles of the DCC case, Staff asserts that the application of both

principles to the instant facts should result in the conclusion that the ratepayers of Missouri Cities Water Company should receive the benefit of the gains from the Northmoor and Cole Creek sales. First, Staff asserts, it is clear that the ratepayer bears the risk of capital losses. Staff points to the Commission's decisions in Re: Missouri Edison Company, PSC Case No. ER-79-120 (Report and Order issued September 25, 1979), in which the Commission allowed the utility to amortize, over a period of time, extraordinary expenses resulting from a major ice storm during the test year; Re: St. Joseph Light and Power Company, PSC Case No. 18,448 (Report and Order issued July 30, 1975), where the Commission authorized the utility to increase rates to cover purchased power costs amounting to $1,350,000 necessitated by damage to a generating facility caused by explosion, extreme heat and fire; and Re: Missouri Public Service Company, PSC Case No. ER-81-85 (Report and Order issued May 27, 1981), in which the Commission authorized the utility to amortize extraordinary purchased power costs and extraordinary maintenance costs associated with an outage at a generating facility caused by a defective turbine.

Concerning the "benefit follows burden" principle, Staff asserts that it is equally clear that the ratepayer bears the expense of ordinary operation, maintenance and depreciation, as well as absorbing investment losses brought on by functional obsolescence and the exhaustion of depletable assets. In Staff's view, the Company's shareholders have already received their original cost investment through the depreciation expense which is included in the Company's rates, and have received a return on that investment. Having received their full legally protectable interest in those assets, Staff believes that the Company's investors cannot be heard to complain that they have not received their just due. Therefore, it is Staff's position that this weighing of the equities demonstrates that the Company's ratepayers are entitled to the benefit of the gain on the sales of the Northmoor and Cole Creek operating facilities.

The Company asserts that Instruction 10-B(2), relied upon by the Staff, does not apply to the sale of used and useful operating systems and the transfer of the customers related to those systems. The Company alleges that a reading of Instructions 5-F and 10-B(2) together leads to the conclusion that the method proposed by the Staff is properly applied where retirement units are sold or disposed of or abandoned owing to obsolescence or due to newer facilities, and where the customers affected by the disposition of the retirement units remain customers of the utility in question. On the other hand, Company avers, when a utility sells utility property to another utility or municipality, as here, and withdraws from the business of serving the customers who are thereafter served by the purchaser, the accounting treatment in respect to the proceeds received by the selling utility are properly accounted for by Instruction 5-F. Company points out (and Staff's witness agreed) that if the Company sold all of its utility business, all of the gain or loss on that sale would inure to the investors of the Company and not to the ratepayers. It is therefore consistent, says the Company, to treat a partial liquidation of the Company's business, by the sale of a distribution system and the transfer of its customers, in the same manner, ie., "below the line".

In addition, the Company argues that the DCC case, relied upon by the Staff, is inapposite, since it involved the sale of improved real estate pursuant to a conversion of the utility from a streetcar-bus system to an all-bus system and did not involve a sale of an operating system or transfer of customers to a purchasing utility. Also, the Court in the DCC case found no uniform accounting rule or other well established principle to govern the situation, and said that if there were a general rule applicable, it should be given great deference, particularly in an accounting proceeding.

Company also argues that its customers, by the payment of their utility bills, do not acquire any right, title or interest in the property of the Company; and that the proposals of City Intervenors, Public Counsel and Staff would take the

Company's property without fair compensation and would deprive the Company of substantive and procedural due process of law, in violation of the applicable provisions of the Constitutions of the United States and of the State of Missouri.

The City Intervenors assert that the sale of the Northmoor system by the Company will result in an increase in rates to the remaining customers in the Platte County Division of the Company, since the loss of the Northmoor customers will result in the fixed costs for that division being spread over fewer customers. City Intervenors seek the amortization of the gain on the Northmoor sale over a two-year period in order to cushion the impact of the loss of the Northmoor system and customers on the remaining ratepayers in the Platte County Division. As previously stated, Public Counsel supports the City Intervenors as to the gain on the Northmoor sale and proposes that consistent treatment be afforded the Cole Creek sale, recommending in his brief that the gain on the Cole Creek sale be amortized over a ten-year period against the rates in the St. Charles County Division. No provision of the Uniform System of Accounts or Commission precedent is cited in support of the City Intervenor-Public Counsel proposal.

In deciding this issue, the Commission is not bound by the Uniform System of Accounts. Commission Rule 4 CSR 240-50.030(4) states:

> In prescribing these systems of accounts the Commission does not commit itself to the approval or acceptance of any items set out in any account for the purpose of fixing rates or determining other matters before the Commission.

The Commission also notes that Instruction 5-F of the USoA, relied upon by the Company, provides for "below the line" treatment of gains or losses to which that Instruction applies, "unless otherwise ordered by the Commission."

The Commission does, however, find Instruction 5-F of the USoA persuasive on this issue. The Commission's reading of Instructions 5-F and 10-B(2) of the USoA lead it to the determination that Instruction 5-F is more appropriately applied to the instant transactions. The Northmoor and Cole Creek operating systems were not

retired for obsolescence or some other cause, nor abandoned or destroyed. Rather, they were operating systems which were sold to another, within the meaning of Instruction 5-F.

The Company's ratepayers have paid depreciation and maintenance expenses, and a rate of return, based upon the transferred property. In turn, the ratepayers have received utility service from the Company by the use of that property. It can be argued that the Company's ratepayers had no reasonable expectation of benefit from those Company assets other than the receipt of utility service. In addition, the decisions of this Commission cited by the Staff concerning the bearing by the ratepayer of extraordinary expenses caused by damage to utility plant do not involve losses on the sale of utility property.

Of the options presented to the Commission upon the record of this case, the Commission determines that the Company's proposal is the most reasonable, and should be approved.

The Commission is of the opinion that it would be possible to develop additional alternative treatments of gains on the sale of appreciated utility assets, for ratemaking purposes, in addition to those presented in this case. Such alternatives might include returning to the ratepayer through amortization the depreciation expense which the ratepayer has paid to the Company on the assets which are sold, and allowing the Company to treat the remainder of the gain "below the line"; or returning to the ratepayer a percentage of the net gain equal to the percentage of the Company's capital structure which is non-equity, and allowing the Company to treat "below the line" the percentage of the gain representing the percentage of the Company's capital structure which is equity. These alternatives would permit a sharing of the benefit of gains on appreciated utility assets between the ratepayer and the shareholder. It is possible that such alternatives would prevent the possibility of a multiple recovery by the Company's investors for particular utility plant (through the recovery of depreciation expense in rates, and

then again through an appreciated sale price); and would, on the other hand, still provide an incentive to the Company and its shareholders to invest in property which may appreciate in value to the benefit of the Company. The options before the Commission upon the instant record, however, are "all-or-nothing" options; under the Company's proposal, the gain on sales inures entirely to the benefit of the shareholder; while under the Staff, City Intervenor and Public Counsel proposals, the gain on sales accrues entirely to the ratepayer.

For these reasons, the Commission is limiting its decision on this issue to the facts and record of this case. Although the Commission is not strictly bound by the principles of stare decisis and res judicata, the Commission nonetheless wishes to emphasize that its authorization of "below the line" treatment of the gain on the sales of the Northmoor and Cole Creek systems by Missouri Cities Water Company is not necessarily indicative of a general policy of the Commission to treat the gain on sale of utility property in this same manner as to other utilities in future cases, for accounting or ratemaking purposes. The instant decision is not binding upon the Commission or the parties in future cases involving similar issues.

For purposes of this case and upon the record herein, the Commission finds and concludes that the gain on the sale by Missouri Cities Water Company of its Northmoor and Cole Creek operating systems should be treated "below the line" in accordance with Instruction 5-F of the Uniform System of Accounts, for accounting and ratemaking purposes. Therefore, no adjustment to Company's net operating income or rate base shall be made as a result of those sales in this case.

C. Mexico Well Issue.

In its prepared direct testimony and exhibits in this case, the Company proposed that it be authorized to implement a supplemental rate of $.105/CCF as an additional consumption charge for the Mexico Division, to be collected when a new well which is planned for the Division is completed and placed in service. This proposal was set out in the Hearing Memorandum in this case (Joint Exhibit No. 1).

On January 24, 1983, the Staff filed a "Motion to Exclude Consideration of the Mexico Well Issue," and a Memorandum in support of that motion, asserting that the Commission was without authority to grant the Company's proposed Mexico Well rate increment since it was not requested by the Company's proposed tariffs filed in this case on June 11, 1982. On February 9, 1983, Company and Public Counsel filed briefs in response to the Staff's motion and memorandum.

On February 17, 1983, the Commission issued its "Order Granting Staff Motion" in this case, thereby excluding consideration of the Mexico Well Issue in this case.

D. Original Cost Rate Base.

Upon the competent and substantial evidence in this case, and adjusting for the determinations reached on rate base issues above, the Commission finds and concludes that the Company's net original cost rate base is $12,504,700.

VII. Capital Structure and Rate of Return:

A. Double Leveraging.

The Commission hereby overrules the Company's objection to certain testimony of City Intervenors' witness Dittmer on this issue. (Transcript, Pages 279-280).

Since the Company is a wholly-owned subsidiary of Consolidated Water Company, City Intervenors and Public Counsel propose that Missouri Cities' capital structure should be adjusted to recognize the fact that the Company's equity is composed entirely of the components of the capital structure of Consolidated Water Company. The capital structure of Consolidated is comprised in part of lower cost (and tax deductible) debt and lower cost preferred stock, and in part of higher cost common equity. This lower cost debt and preferred stock has, in the view of City Intervenors and Public Counsel, been used by Consolidated to finance the acquisition of the common stock of Missouri Cities. Therefore, it is argued, Consolidated

employs financial leverage at the parent level in the same manner that the subsidiary Company (Missouri Cities) achieves leverage by issuing its own debt. Under such "double leveraging," the holder of Consolidated's common equity would earn a return in excess of the return on common equity authorized by this Commission, it is asserted. To avoid such a result, City Intervenors and Public Counsel propose a "double leveraging" adjustment to be applied to the Staff's proposed capital structure, designed to reduce the Staff's low recommended return on rate base as follows:

Staff's low recommended rate of return	11.08%
Less effect of double leverage	.29%
Rate of return using double leverage	10.79%

City Intervenors and Public Counsel allege that the cost of the long-term debt and preferred stock portions of Consolidated Water Company's outstanding securities are significantly less than the cost of common equity as recommended in this case by either Company or Staff. City Intervenors and Public Counsel assert that integrating this lower cost debt and preferred stock into Missouri Cities' capital structure, as they propose by their adjustment, merely recognizes that Consolidated has employed this financial leverage at the parent level in order to acquire and maintain its common equity investment in Missouri Cities. The absence of such adjustment, it is asserted, will have the inevitable effect of authorizing Consolidated, as the immediate investor in Missouri Cities, to earn a rate of return in excess of that finally approved by the Commission in this proceeding. City Intervenors and Public Counsel cite several Commission precedents for the adoption of a double leveraging adjustment, including Re: Southwestern Bell Telephone Company, Case Nos. TR-81-208 and TR-82-199; Re: Continental Telephone Company, Case No. TR-82-223; and Re: Missouri Power & Light Company, Case Nos. HR-82-178, ER-82-180 and GR-82-181.

The Company opposes the proposal of City Intervenors and Public Counsel because it does not believe that the double leverage theory is consistent with proper ratemaking concepts. Company asserts that it has designated certain property to the public service, and it is that property on which the Company is entitled to earn a fair return. The identity of a regulated utility's investors, whether corporate or individual, and how they acquired or financed their capital for investment in the utility, should have no effect on the level of rates paid by that utility's customers, in the Company's view.

The Staff does not oppose the use of a double leveraging adjustment as a matter of ratemaking principle, and has supported such an adjustment in cases such as the Southwestern Bell rate cases cited above. However, Staff contends that the double leveraging adjustment is inappropriate in the instant case. Staff asserts that this Commission's use of the double leveraging adjustment has only involved parent corporations whose equity has clearly identifiable cost. See Re: Missouri Power & Light Company, Case Nos. HR-82-178, ER-82-180 and GR-82-181 (Report and Order issued October 29, 1982); Re: Southwestern Bell Telephone Company, Case No. TR-82-199 (Report and Order issued December 30, 1982). Staff argues that if the double leveraging concept is to be applied, it should be carried to its logical conclusion and applied to the senior parent company whose common equity costs are specifically identifiable (ideally, one whose stock is market traded). However, Consolidated Water Company (the parent corporation of Missouri Cities Water Company) is a wholly-owned subsidiary of Avatar Utilities, Inc., which in turn is a wholly-owned subsidiary of Avatar Holdings, Inc., which is a market-traded company. Therefore, says the Staff, City Intervenors and Public Counsel should have started by identifying the capital costs of the parent which is market traded (Avatar Holdings, Inc.), and then worked down to Missouri Cities, which would have required quadruple leveraging. However, the evidence in this case shows that Avatar Holdings, Inc. filed for reorganization under Chapter XI of the Bankruptcy Act in January of 1976, subsequently reorganized, and recently has showed negative earnings. Based on these facts, the Staff avers that setting a rate of return based upon the equity of Avatar Holding, Inc. would be speculative and inappropriate.

In addition, Staff alleges that the City Intervenors' adjustment constitutes merely a mechanical adjustment without a sound basis either presented on the record or inferable from the record. That adjustment simply adjusts Staff's low end of its range of recommended rates of return on equity, to Consolidated Water Company's equity, without defined theoretical or practical basis.

City Intervenors indicate in their initial brief in this case that quadruple leveraging from the publicly traded parent company (Avatar Holdings, Inc.) would result in a lower rate of return than double leveraging from the immediate parent (Consolidated). The evidence in the record of this case, however, sheds no light whatever on the rate of return which would result from triple or quadruple leveraging. City Intervenors also argue in their reply brief that it is "inexplicable" that the Staff should suggest that quadruple leveraging could be appropriate for this Company, but then argue against the application of double leveraging. City Intervenors' argument on this point is obviously based on the assumption just recited, that quadruple leveraging would result in a lower rate of return than double leveraging, which is not supported by the evidence herein.

Upon the evidence before it, the Commission cannot find that the double leveraging adjustment proposed by City Intervenors and Public Counsel would more accurately reflect the cost of equity capital of Missouri Cities. No valid and reliable theoretical or practical basis for the proposed adjustment is discernible from the record of this case. The Commission cannot accept the purely mechanical adjustment proposed herein.

In addition, this Commission's use of the double leveraging adjustment has generally involved ultimate parent corporations (not parents who are themselves subsidiaries) whose equity has a specifically identifiable cost. Re: Southwestern Bell Telephone Company, supra; Re: Continental Telephone Company, supra; and Re: Missouri Power & Light Company, supra. The effects of parental capital structures cannot be assessed absent a showing of the leveraging effects of Avatar Utilities, Inc. upon

that of Consolidated Water Company, or of the capital structure of Avatar Holdings, Inc. on that of Avatar Utilities, Inc. Further, even if that data were a part of the instant record, the Commission would have to conclude on the evidence before it that the effects of quadruple leveraging are too speculative to be replied upon, due to the fact that the market-traded "ultimate" parent (Avatar Holdings, Inc.) is operating under Chapter XI reorganization and has recently experienced negative earnings.

For these reasons, the double leveraging adjustment proposed by the City Intervenors and Public Counsel must be rejected in this case.

B. Rate of Return:

The Company proposes that a fair cost of equity capital to the Company would be not less than 18.5 percent. This would result in an overall rate of return on original cost rate base of 12.75 percent. Staff asserts that the Company should earn in a range of 13.5 to 14.5 percent on equity, which would result in an overall rate of return on original cost rate base in a range from 11.08 percent to 11.41 percent. City Intervenors and Public Counsel support the Staff's low return on equity (13.5 percent), but propose an overall rate of return on original cost rate base of 10.79 percent based on a double leveraging adjustment (See Section VII. A., "Double Leveraging", above).

As of the end of the test year in this case (September 30, 1982), the capital structure of the Company was as follows:

	Amount	Percent of Capitalization
Common Stock	$ 4,075,817	33.34
Preferred Stock	562,200	4.60
Long-term Debt	7,588,188	62.06
	$ 12,226,205	100.00%

Company asserts that a reduction of debt leverage through the expansion of the equity base is desirable, but states it is difficult in today's market to attract equity capital that earns only 8 to 10 percent. The Company points out that a financial summary of investor-owned water companies in 1980 prepared by the National Association of Water Companies shows that long-term debt averaged 45.7 percent for companies in the $1 million to $1.5 million revenue range, 48.2 percent for companies in the $5 million to $10 million revenue range, and 53.6 percent for companies with revenues in excess of $10 million. Company asserts that the common stockholder of Missouri Cities Water Company has supplied approximately 1/3 of the capital requirements of the Company in the last six years, and has earned from 7.3 percent to 10.7 percent on equity (or an average of 8.6 percent) from 1977 through 1981, inclusive. The pay-out of earnings averaged 59 percent during that period. The Company considers these earnings on equity to be substandard, so that new equity capital will be difficult to attract without a significant increase in the Company's rate of return on equity.

In arriving at his recommended level of return on equity of 18.5 percent, the Company's witness testified that he had considered the size of the construction program of the Company, the percentage of funds generated internally, the cost of alternative securities such as bonds and common stock, the size of the companies, the economic conditions in which the Company operates, and the legal criteria of the decisions of the United States Supreme Court in Federal Power Commission v. Hope Natural Gas, 320 U.S. 591, 64 S.Ct. 281 (1944), and Bluefield Waterworks v. Public Service Commission of West Virginia, 262 U.S. 679, 43 S.Ct. 675 (1923). In Bluefield Waterworks, the Supreme Court stated the following:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be

> reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

In the Hope Natural Gas case, the Supreme Court provided this additional guidance:

> [I]t is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock....By that standard the return to the equity owner should be commensurate with risks on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Company asserts that its sixty-two percent (62%) debt level approaches the upper limit allowed by its Indenture, and that its pro forma earnings have been such that its interest coverage ratio has been deteriorating over the last seven years to a perilous level. Company's witness also presented a "risk spread analysis" showing that the risk spread between debt and equity capital on electric companies has varied from 3 percent to 5.8 percent, and asserted that the interest rate to the Company on its debt generally parallels the trend in Baa-rated bonds.

Company asserts that its stock carries an additional risk which the Company designates as a "liquidity risk," because an investor purchasing that stock cannot readily take his capital back out of the business, in contrast to an investor who buys the equity of a publicly traded company. Company states that over the next several years it will be required to attract $500,000 per year of outside capital to finance construction but will probably not be able to attract equity capital on reasonable terms because of its low level of earnings. The Company also has sinking funds and maturity schedules for 1983 through 1987 requiring an additional funding of $2,144,000. The interest rates which will be required to attract capital for such

refunding under today's economic conditions will be significantly higher than the rates of the outstanding debt, Company argues.

The Company's average equity ratio for the period of February 1979 through September 1982 was 33.18 percent, which was similar to the majority of the Company's included in an industry composite consisting of nine market-traded water companies for the years 1979 through 1981, studied by the Staff.

The Staff's rate of return on equity proposal is based on a Discounted Cash Flow Model (DCF), which is a theoretical representation of an investor's view of future cash flows which the investor expects to receive from ownership of a company's common stock. The model states that the value of a given share of common stock is based upon the amount of the expected future cash flows and upon the riskiness of the expected future cash flows. The amount of expected cash flows consists of dividends to be received and/or growth of the stock which will result in capital gains. The cost rate of common equity is, therefore, the discount rate which equates the present value of these cash flows to the current market price of the common stock.

The DCF model is expressed by the following equation:

$$k = \frac{D}{P} + g$$

where "k" represents the investor's required rate of return or discount rate; "D" represents indicated dividends per share; "P" represents the market price per share of common stock; and "g" represents the growth rate in dividends per share and earnings per share. The $\frac{D}{P}$ part of the formula represents the market dividend yield; and "g" represents the percentage growth the investor expects the dividend to have continuously into the future. Thus, Staff identifies this model as the "continuous growth form" of the DCF model. This form of the DCF model includes the following assumptions: (1) perpetual life of the Company; (2) constant required rate of return over time (i.e., constant "k"); (3) constant growth in cash dividends (i.e., constant "g"); and (4) identical growth rates for cash dividends, earnings and common stock prices. Additionally, it is implied in these assumptions that there

is a constant dividend pay-out ratio and a constant price/earnings multiple over time.

Since neither Missouri Cities Water Company nor its parent, Consolidated Water Company, are market-traded, the Staff selected data for nine market-traded companies for use in the DCF model. Staff studied the dividend yields of the nine water companies from 1977 through 1982. The annual composite averages of those yields grew from 8.25 in 1977 to 11.52 in 1981, retreating in 1982 to 10.98. However, the composite monthly yields steadily declined in July through December of 1982 from 11.37 to 10.03. Staff studied the approximate daily composite stock yields of its test companies from October 1 through December 31, 1982, and observed that stock prices were rising from October 1 to October 18 (as evidenced by declining yields), but that the average yields stabilized at about 9.9 percent through the remainder of October and all of November. The December yields reflect further consolidation and are influenced upward by slow market adjustment to dividend increases by two of the study companies. In Staff's view, December yields are also influenced upward by the market's tendency for profit-taking prior to year end.

Based on its study of this data, the Staff determined that the late October through November, 1982, average yields of 9.9 percent should constitute the mid-point for the range of yields to be used in Staff's DCF model. Allowing for the possibility of continued gentle rise, or of continued decline, from that mid-point, Staff set a range of 9.6 to 10.2 percent.

In establishing its growth rate (element "g") for the DCF model, Staff evaluated both the dividends per share and the earnings per share for the nine market-traded water companies in its study. Staff analyzed 10-year Trend-Line growth rates of both earnings and dividends per share for the nine companies from 1977 through 1982. The average dividend growth rates for each year exceeded average earnings growth. Staff observes that if this trend continues, payments of dividends will eventually represent a return of owners' equity.

Staff's approach was to average several years of growth rates together due to the vacillation which occurs in earnings per share from year to year. Based on its study data, the 1977 through 1982 average of earnings growth was 4.28 percent. The Staff eliminated Hackensack Water Company (one of the study companies) from this computation of earnings growth, because earnings data for both 1981 and 1982 for that company was affected by severe water restrictions prompted by the 1980 drought.

Staff's witness next analyzed a series of economic indicators, including expansion of the gross national product and of the money supply, interest rate and stock market trends, and fiscal and monetary actions of the federal government. Based upon these indicators and the views of leading economists and analysts, Staff's witness estimated a growth range based upon his expectation of movement of the economy into a period of sustained and controlled moderate economic growth. Staff's witness concluded that the 4.28 percent average earnings growth of the nine study companies analyzed by the Staff would represent the high end of the growth rate spectrum. Staff's witness further determined the low end of the growth rate range should be 3.945 percent, developed from the average of earnings growth for the four-year period 1977 through 1980. Staff asserts that this analysis is consistent with the concept that water utilities are not generally considered to be companies whose stock price, earnings, or dividend increases are classified as highgrowth. Rounded to the nearest 1/10 of 1 percent, Staff's recommended range of growth rates for inclusion in its DCF model is from 3.9 to 4.3 percent.

Inserting the ranges derived for market dividend yield and expected growth into the DCF model formula results in the following range of Staff's recommended rate of return on equity for the Company:

$$k = 9.6 + 3.9 = 13.5$$

$$k = 10.2 + 4.3 = 14.5$$

Staff concludes that investors' required return on equity for the nine market-traded water companies, using Staff's DCF model, is between 13.5 and 14.5 percent, inclusive. Staff also calculated pro forma after-tax interest coverages for Missouri Cities Water Company based upon the range of returns on equity determined

by Staff's DCF, and those interest coverages were from 1.73 to 1.78 times. The Company's existing bond issues are safeguarded by an Indenture of Mortgage dated June 1, 1956, which requires annual interest coverage after taxes of 1.5 times, and limits the amount of total debt to 66-2/3 percent of net plant less contributions in aid of construction. Staff's recommended returns on equity will allow additional debt financing up to the 66-2/3 percent limit and still meet the interest coverage requirement under the Indenture.

Staff's recommended range of rates of return on equity would result in an overall rate of return of 11.08 to 11.41 percent on the Company's original cost rate base.

Based upon the record in this case, the Commission finds and concludes that the Company has failed to meet its burden of proving that a rate of return on equity of 18.5 percent is just and reasonable. First, Company's analysis relies upon economic data from mid-1982 and earlier and does not reflect the significant changes in the financial markets that began to become evident in mid-August of 1982, including substantial declines in interest rates and record-setting increases in stock prices. For example, Company's witness relied upon interest rates for long-term U.S. Government bonds and Baa-rated utility first mortgage bonds of 12.2 percent and 16.0 percent, respectively. As of the time of the hearing in this case, interest rates on those bonds had dropped to 10.0 percent and 13 percent, respectively. Also, unlike the DCF model utilized by the Staff, Company's analysis of rate of return on equity is highly subjective and does not present a technique or model which can be applied by the Commission to this or other utilities in a systematic manner. For example, Company's witness asserted that one of the considerations in his determination of a recommended rate of return on equity was the size of the construction budget. However, no discernible standard for analyzing the impact of such construction budgets upon the Company's cost of equity capital was offered. In addition, the Company presented evidence of a "risk spread" of 3.0 percent to 5.8

percent for electric utilities, but presented no evidence that the risks and risk premium of the electric utilities studied are the same for water companies.

The Commission has consistently found Discounted Cash Flow (DCF) analyses to be appropriate for determining a rate of return on equity. As stated by the Commission in its Report and Order in Re: Continental Telephone Company, PSC Case No. TR-82-223 (Report and Order issued January 26, 1983), "[t]his is because it is relatively simple to apply and measures investor expectations for a specific company." (Id., at Page 18). As acknowledged by the Commission in Re: Missouri Public Service Company, PSC Case No. 18,181, 20 Mo.PSC (N.S.) 57, (1975), the DCF analysis is "considerably more systematic and allows this Commission to treat all utilities it regulates in a consistent manner."

Company is critical of Staff's DCF result because it conflicts with what the Company refers to as the "risk premium confirmation test." This test, Company argues, is based upon the financial principle that a purchaser of common stock of a Company has greater risk in relation to return of his principal investment and to earnings than does the purchaser of the debt security of the same company. This is due to the fact that the purchaser of the debt security has a claim on the assets and earnings of the Company which is prior to claims of the shareholders. As a result, the equity purchaser will demand a higher return than the debt purchaser. Staff's witness agreed on cross-examination that a risk premium exists under normal market conditions.

Upon the evidence in the record of this case, the Commission finds and concludes that the Staff's DCF analysis is reasonable and should be relied upon. The Commission further finds and concludes that the existence of "risk premium" compels the use of the high end of Staff's recommended range for rate of return on equity. Having considered the totality of the competent and substantial evidence before it in this case, the Commission finds that the appropriate and necessary return on common equity to be allowed Company is 14.5 percent. Applying this figure to the capital

structure set out hereinabove results in an overall rate of return of 11.41 percent on the Company's net original cost rate base.

VIII. Fair Value Rate Base:

The Commission finds and concludes that the Company's fair value rate base is $12,504,700.

IX. Revenue Requirement (Revenue Deficiency):

Based upon the findings and conclusions of the Commission herein, the total net operating income requirement of Missouri Cities Water Company is $1,426,786. The net operating income available for purposes of this proceeding is $1,256,291, leaving a net operating income deficiency of $170,495. After applying a factor for income tax, the Commission finds that the gross revenue deficiency of Missouri Cities Water Company in this proceeding is $324,705.

X. Service Issues:

Several service problems involving the Company were raised at the local public hearing in this case on January 15, 1983 in St. Charles, Missouri. Staff and Company presented evidence at the hearings in Jefferson City on these, and related, service problems, and Company also filed a late-filed exhibit (Exhibit No. 23) setting out the results of its follow-up on certain service issues.

Testimony was adduced at the local public hearing concerning accumulations of water at the entrance to Sunnydale Mobile Home Park in St. Charles, causing ice on the streets at freezing temperatures. Staff investigated the problem and found that any such accumulation of water was not related to the master water meter at the mobile home park, and found no evidence that it was related to the sewage lift station which is located at the entrance of the mobile home park. Therefore, this problem is apparently not related to the Company's operations.

A recurring problem relates to the Sunny Meadows Subdivision in St. Charles County. At least three homes on Carpenter Drive in that subdivision experience sewage backups into the basements of the homes during heavy rains. The Company has begun an investigative and repair program concerning this problem. These sewage

backups appear to be caused by "infiltration" of storm water into the sanitary sewer system of the Company. Storm water can infiltrate into the sanitary sewage system from foundation drains along the foundation of homes which, in turn, are connected to the service lateral on the customer's premises and therefore to the sanitary sewage system; from outside stairwell drains ("catch basins") on a customer's premises which are connected to the service lateral; and from other sources, including leaking manholes or leaking joints on sanitary sewer facilities. The infiltration at Sunny Meadows appears to be due in large part to catch basins connected to the service laterals.

Sewer backup problems have also been occurring in the Warsen Hills Subdivision in St. Charles County, and are also believed to be caused or aggravated by storm water infiltration into the sanitary sewage system. Apparently a number of homes in Warsen Hills were constructed some years ago with foundation drains and other storm water drains connected to the sanitary sewage system. The Company has done a significant amount of investigative and repair work in these two subdivisions over the past two and one half (2 1/2) years, including smoke tests and television inspections, and has been reporting the results of these tests and of the repair work to the Staff. The Staff is of the opinion that the Company has been adequately handling these infiltration problems with respect to Company-owned facilities at Warsen Hills.

The Company's tariffs on file with this Commission include rules stating the following:

> Rule 5(a)...The Company shall deny service where footing drains, down spouts, or other sources of uncontaminated water are permitted to enter the system through either the inside piping or through the building sewer.
>
> Rule 6(b)...No person shall discharge or cause to be discharged, any storm water, surface water, ground water, roof runoff, sub-surface drainage, cooling water or unpolluted industrial process waters to any Company's mains.

A reading of Rule 5 of the Company's tariffs, including Rule 5(j), makes it

clear that the customer is to construct and maintain the service sewer (service lateral), including the connection to the Company's collecting sewer.

Based upon these provisions of the Company's tariffs, the Staff recommends that the Company enforce its tariffs by requiring the disconnection of any storm water drainage facilities on a customer's premises from the Company's sanitary sewage system, at risk of disconnection of sewage service to the customer. By letter dated March 23, 1982, Staff recommended to the Company that it proceed to notify customers who are known to be in violation of the Company's tariffs concerning infiltration of storm water. The Company had not, however, given any written notification to those customers as of the time of the hearing in this case.

The Staff witness testified that customer violations are difficult to deal with because the customer is required to spend a substantial amount of money to repair his facilities, and that notification to these customers often generates complaints to the Company and/or to the Commission and Public Counsel. However, in Staff's view, the customers experiencing sewage backup as a result of storm water infiltration will not see their problem resolved regardless of what action the Company takes on its own system unless customer violations are found and required to be corrected.

Since the Company is obtaining wholesale sewage treatment services from the City of St. Peters, its ratepayers are paying for treatment of all the water that goes through the metering facility of the St. Peters plant. As a result, reducing the amount of storm water which is infiltrated into the sewage system from the Sunny Meadows Subdivision will have cost-related benefits to the Company and its ratepayers.

As to the Sunny Meadows Subdivision, Staff has also recommended an interim measure to protect the homes on Carpenter Drive from sewage backups while the investigation and long-range repairs in the subdivision are being performed. In response to that recommendation, the Company installed back-flow prevention devices

(check valves) in the service laterals on the premises of the five homes located on Carpenter Court. This device allows sewage flows to pass from the customer's lateral into the Company's collection system, but will not allow flows to enter the customer's lateral from the collection system beyond the location of the valve. The Commission was advised by the Company's late-filed Exhibit No. 23 that installation of these devices was completed on February 4, 1983. The homeowners involved all agreed to the installation of those valves, in writing.

The back-flow devices cost approximately $400 to $550 each, installed. Company does not propose (nor has Staff recommended) this interim solution for the Warsen Hills Subdivision because Company believes that the primary infiltration problem at Warsen Hills is foundation drains, which catch significantly more water per unit than the catch basins on Carpenter Court do. Therefore, the back-flow devices would cause the water which is running into the foundation drains to come back into the customer's basement.

Company's witness also testified that the Company is now planning to mail notices to customers in Sunny Meadows and Warsen Hills Subdivisions who are known to be in violation of the Company's tariffs respecting storm water infiltration. The Company will send these letters to the Staff for review before sending them to customers. Company's witness testified that the Company had agreed with the Staff to allow customers until August of 1983 to come into compliance with the Company's infiltration tariffs.

Before connecting service to any new customer, the Company now inspects the sanitary sewage system on the premises to insure that it is a fully enclosed system and is not subject to storm water or other infiltration. The homes in Sunny Meadows Subdivision and Warsen Hills Subdivision which are believed to have infiltration problems were apparently constructed before the sanitary sewage system serving those homes became part of the Company's system.

Staff recommends that the Commission order the Company to install backup devices protecting the five homes on Carpenter Court. However, since the Commission has been advised by the Company that those devices have already been installed, the Commission determines that such an order is not necessary. The Staff is free to, and should, verify that these devices have been installed.

Staff also recommends that the Company be required to file two reports concerning its investigation and repair of its own system as it relates to the Sunny Meadows Subdivision. The first report would detail the Company's program in Sunny Meadows for investigation and elimination of infiltration sources and would include a tentative schedule of repairs through the remainder of 1983. The second report would describe actions actually taken as of that time, and the Company's plans for further action.

In addition, Staff recommends that the Commission order the Company to file two reports concerning its efforts to bring about compliance by customers with its tariff provisions concerning infiltration of storm water into the sewage system. The first of these reports would include information for both Sunny Meadows and Warsen Hills Subdivisions concerning the number of customers contacted, and copies of the type or types of notices sent to customers. The second report would detail, for both subdivisions, the status of the programs to bring customers into compliance, the number of customers involved, the number of customers brought into compliance, the number of customers facing disconnect and the number of customers which are disconnected due to the program. The second report would also detail the procedures used by the Company to locate customers with service sewers in violation of the Company's tariffs and the Company's plans for locating such customers in the future.

The Commission determines that the Staff's recommendation concerning continued investigation, repair and compliance actions by the Company, and for filing reports with the Commission on those matters, is reasonable, and should be approved, as ordered below.

Testimony was also received at the local public hearing, and additional testimony adduced at the hearings in Jefferson City, concerning an allegation that six fire hydrants in St. Charles Hills Subdivision in the Company's service area could not be opened. The Company inspects fire hydrants annually and lubricates or otherwise maintains them as necessary upon such inspections.

Hearsay evidence indicates that the hydrants complained of had been painted during the summer of 1982 and the man who was painting them could not open them. Captain McWilliams from the St. Charles Fire Protection District was contacted, and he opened the hydrants although three of them opened with difficulty.

There is also hearsay evidence in the record indicating that the Company was notified of the problems concerning these six hydrants sometime between the summer of 1982 and January of 1983. It cannot be determined with certainty from the competent and substantial evidence in this case whether those problems were in fact reported to the Company. At hearing, the Company's vice president testified that the Company would visually inspect any hydrant reported to the Company as not working properly. While the Commission has insufficient evidence before it upon which to base any findings of fact regarding this alleged incident, the Commission does expect the Company to promptly investigate any reports of malfunctioning fire hydrants and to take all necessary steps to assume that such hydrants are in proper working order at all times.

Certain other alleged service problems were testified to which have been investigated by the Staff, Public Counsel and/or the Company, and which do not present issues which the Commission need resolve in this case.

Conclusions:

The Public Service Commission of Missouri reaches the following conclusions:

The Company is a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo, 1978.

The Company's tariffs which are the subject matter of this proceeding were suspended pursuant to authority vested in this Commission by Section 393.150, RSMo, 1978.

The burden of proof to show that the proposed increased rates are just and reasonable is upon the Company.

The Commission, after notice and hearing, may order a change in any rate, charge or rental, and any regulation or practice affecting a rate, charge or rental, of the Company, and may determine and prescribe the lawful rate, charge or rental and the lawful regulation or practice affecting said rate, charge or rental thereafter to be observed.

The Commission may consider all facts which, in its judgment, have any bearing upon a proper determination of the price to be charged with due regard, among other things, to a reasonable average return upon the capital actually expended and to the necessity of making reservations out of income for surplus and contingencies.

This Commission has general supervisory power over the Company and may take such action as is reasonably necessary to assure the provision of safe and adequate service by the water and sewer companies it regulates. Section 393.140, RSMo 1978.

The order of this Commission is based upon competent and substantial evidence upon the whole record.

The Company's existing rates and charges for water and sewer service are insufficient to yield reasonable compensation for water and sewer services rendered by it in this state and, accordingly, revisions in the Company's applicable water and sewer tariff charges, as herein authorized, are proper and appropriate and will yield the Company a fair return on the net original cost rate base or the fair value rate base found proper herein. Water and sewer rates resulting from the authorized revisions will be fair, just, reasonable and sufficient and will not be unduly discriminatory or unduly preferential.

For ratemaking purposes, the Commission may accept a stipulation in settlement of any contested matter submitted by the parties. The Commission is of the opinion that the matters of agreement between the parties in this case are reasonable and proper and should be accepted.

All motions not heretofore ruled upon are denied and all objections not heretofore ruled upon are overruled.

The Company should file, in lieu of the proposed revised water and sewer tariffs filed and suspended in this case, new tariffs designed to increase gross water and sewer revenues by approximately $324,705 exclusive of gross receipts and franchise taxes.

It is, therefore,

ORDERED: 1. That the proposed revised water and sewer tariffs filed by Missouri Cities Water Company in Case Nos. WR-83-14 and SR-83-15 are hereby disapproved, and the Company is authorized to file in lieu thereof, for approval by this Commission, permanent tariffs designed to increase gross revenues by approximately $324,705 on an annual basis, exclusive of gross receipts and franchise taxes.

ORDERED: 2. That Missouri Cities Water Company shall file the water and sewer tariffs in compliance with this Report and Order on or before May 9, 1983, for review by the Commission.

ORDERED: 3. The rates established and the tariffs authorized herein may be effective for water and sewer service rendered on and after the 12th day of May, 1983.

ORDERED: 4. That Missouri Cities Water Company be, and is hereby, ordered and directed to continue its investigation and repair of its own system serving the Sunny Meadows Subdivision, as discussed hereinabove, and provided further, that the Company shall file a report with the Commission's Staff on or before May 25, 1983 detailing its program in Sunny Meadows Subdivision for investigation and elimination

of infiltration sources, including a tentative schedule of repairs through the remainder of 1983; and on or before September 1, 1983, the Company shall file a report with the Commission's Staff detailing actions actually taken in regard to such investigation and elimination and detailing the Company's plans for continuation of the investigation and repair process.

ORDERED: 5. That Missouri Cities Water Company be, and is hereby, ordered and directed to take actions specifically designed to require compliance by its customers in Sunny Meadows and Warsen Hills Subdivisions with the Company's tariff provisions prohibiting infiltration of storm water into the Company's sanitary sewage system; provided further, that the Company shall file a report with the Commission's Staff on or before May 25, 1983 setting out, for both of said subdivisions, the number of customers contacted by the Company concerning tariff compliance, and copies of the type or types of notices sent to customers, if any; and the Company shall file a report with the Commission's Staff on or before September 1, 1983 detailing, for both of said subdivisions, the status of the programs to bring customers into tariff compliance, the number of customers involved, the number of customers actually brought into compliance, the number of customers facing disconnect for non-compliance, and the number of customers actually disconnected for non-compliance. The latter report shall also detail the procedures used by the Company to locate customers with service sewers in violation of the Company's tariffs and the Company's plans for locating such customers in the future.

ORDERED: 6. That this Report and Order shall become effective on the 12th day of May, 1983.

BY THE COMMISSION

Harvey G. Hubbs
Secretary

(S E A L)

Shapleigh, Chm., McCartney,
Fraas, Dority and Musgrave, CC., Concur.
and certify compliance with the
provisions of Section 536.080 RSMo, 1978.

Dated at Jefferson City, Missouri,
this 2nd day of May, 1983.