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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 17th
day of March, 1995.

In the matter of the Application of Foxfire Utility)
Company, a Missouri Corporation, for 1) permission,)
approval, and a certificate of convenience and)
necessity authorizing it to construct, install, own,)
acquire, operate, control, manage, and maintain a) CASE NO. WA-95-31
water and sewer system for the public located in an)
unincorporated area in Stone County, Missouri; 2))
authority to borrow up to \$400,000 for purposes of)
acquiring, constructing and installing utility plant)
and equipment; and 3) authority to place a mortgage)
on its plant and equipment to secure said loan.)

ORDER GRANTING CERTIFICATE OF CONVENIENCE AND NECESSITY AND APPROVING
FINANCING

On August 1, 1994, Foxfire Utility Company (Foxfire) filed an application pursuant to §§ 393.170, 393.190, and 393.200, RSMo 1986 for a certificate of convenience and necessity authorizing it to construct, install, own, acquire, operate, control, manage, and maintain a water and sewer system for the public located in an unincorporated area in Stone County, Missouri. The application included a number of exhibits designed to comply with 4 CSR 240-2.060(2) and 4 CSR 240-2.060(6). On August 5, 1994, the Commission issued an Order and Notice, giving notice of Foxfire's application and setting an intervention deadline of September 6, 1994.

One entity, the Village of Indian Point (Indian Point) filed a timely request for intervention, which the Commission granted on September 20, 1994. On September 30, 1994, the Commission issued an Order Setting a Prehearing Conference on November 1, 1994. On that date, a prehearing conference was held as scheduled, at which time it was indicated that a tentative resolution of the

concerns raised by the intervenor Indian Point had been reached. On November 17, 1994, Foxfire filed an amended application, which contained a revised legal description of the proposed service area, attached to the amended application as Revised Exhibit No. 2, and an updated calculation of the proposed water and sewer rates, attached to the amended application as Exhibit No. 8. The amended application also clarified that Foxfire's proposed certificated area lies within the limits of Indian Point. On December 9, 1994, Indian Point filed a letter through its counsel, indicating that it was withdrawing its objection to Foxfire's application. On January 5, 1995, the Staff of the Missouri Public Service Commission (Staff) filed a memorandum containing its recommendation and on January 6, 1995, the Office of the Public Counsel (Public Counsel) filed a statement of its position, stating that it recommended that water and sewer certificates of convenience and necessity be granted, and that it would not oppose the water and sewer rate structure proposed by Staff.

Foxfire is a Missouri corporation duly organized and existing under the laws of the State of Missouri, with its principal office and place of business located at 312 Lafayette, P.O. Box 7017, Jefferson City, Missouri 65102. Foxfire seeks the issuance of certificates of convenience and necessity for a service area corresponding to the area described in the Revised Exhibit No. 2. There are presently no other public utilities or governmental entities rendering water and sewer service within the area proposed to be served, which according to Foxfire is rapidly being developed into a condominium development immediately south of the Silver Dollar City theme and crafts park. Thus, Foxfire states that there is a need for the services which it proposes to provide. In its feasibility study attached to its original application as Exhibit No. 4, Foxfire indicates that the developers of the condominium development considered

the alternative of a condominium association to ensure the provision of essential water and sewer services, but because of the poor performance historically of such associations, the developers sought to cooperate with Foxfire in the formation of an investor-owned regulated utility. To that end, Foxfire states in its amended application that the developer of this area has agreed to loan Foxfire up to \$400,000 for a period of 10 years with an interest rate of not more than 2% over the Chase Manhattan National Bank prime rate, to be secured by a deed of trust and security agreement on Foxfire's machinery, furniture, fixtures, accounts receivables, and inventory. The proceeds of the loan would be used to purchase, construct, and install part of the water and sewer plant. Staff's memorandum indicates that Foxfire's application was reviewed by the Accounting Department, Water and Sewer Department, and Financial Analysis Department. Staff notes that Foxfire seeks to provide water and sewer operations at the Lantern Bay Condominiums, formerly called the Silvermine Condominiums, near Branson, Missouri, and that the condominium project is being developed by one of the stockholders of Foxfire.

Staff computed a recommended revenue requirement of \$75,529 and \$150,426 respectively for water and sewer operations, based on Foxfire's feasibility study and supporting records, and responses to Staff data requests. The calculations were based on a number of facts and assumptions which are briefly summarized as follows:

1. Plant and service investment levels of \$207,859 for water and \$482,639 for sewer, with additions to plant for full occupancy -- a second sewer lift station and various water meters -- to be paid for by the developer and treated as contributions.
2. The Financial Analysis Department proposed a capital structure based on a 12.75% return on equity and a 10.50% embedded cost of debt that was weighted 50/50 to produce a return on investment of 11.63%.

3. Full occupancy is assumed for the calculation of the revenue requirement.
4. Budgeted expenses are taken from the application and responses to data requests. Variable expenses were normalized assuming full occupancy. Depreciation expense and the Public Service Commission (PSC) assessment were added to the calculation, as both were originally overlooked by Foxfire.
5. Generic depreciation rates developed by the Water and Sewer Department were used, with the exception of the rate for meters, which was changed from 10% to 5% based on current experience.
6. The PSC assessment was annualized using the respective 1994-95 fiscal year assessment rates for water and sewer, with the annualization calculated to allow for the assessment on the portion of the revenue requirement generated by the assessment itself.
7. One half of a travel expense was eliminated from the sewer cost of service calculation because the costs should have been allocated to the water operations instead.
8. The estimated cost of electricity needed to operate the sewage treatment plant was increased from the previously budgeted \$6,822 annually to an annualized level of \$14,844.
9. The tax calculation assumes that book depreciation is equal to tax depreciation.

In addition, the Water and Sewer Department developed pro-forma tariff rates for Foxfire using the above-mentioned revenue requirements. The pro-forma tariff rates were calculated based on a 3000 gallon average monthly use per customer. The minimum water rate charge based on meter size is \$9.57 for a 5/8" meter, which includes the first 2000 gallons of water. The commodity charge for water is \$3.08 per 1000 gallons of water over the minimum amount. Therefore a customer with a 5/8" meter using 3000 gallons of water per month would be charged \$12.65 per month. The minimum sewer rate charge based on meter size is \$16.78 for a 5/8" meter, which includes the first 2000 gallons of water. The

commodity charge for sewer service is \$8.39 per 1000 gallons of water over the minimum amount. Therefore a customer with a 5/8" meter using 3000 gallons of water per month would be charged \$25.17 per month. Staff also states that Foxfire will need to file complete tariffs for both water service and sewer service, and keep its books and records in accordance with the Uniform System of Accounts prescribed by the Commission. Staff anticipates that Foxfire's rates would be reviewed within 18 months to assure that they are reasonable, and that the record-keeping practices of Foxfire would also be reviewed at that time.

Ultimately, Staff recommends that the Commission issue an order granting a certificate of convenience and necessity to Foxfire for the provision of water and sewer service, subject to a number of caveats as follows:

1. That the services be subject to the tariffed rates shown on Appendices 5-1 and 6-1 attached to Staff's recommendation;
2. That the certificate be made effective on the effective date of the tariffs required to be filed by Foxfire;
3. That the Commission approve the depreciation rates shown on Appendices 3-1 and 4-1 attached to Staff's recommendation;
4. That the Commission approve up to \$400,000 in long term financing at an annual interest rate not exceeding 10.5% embedded costs;
5. That Foxfire be required to file a copy of journal entries reflecting the use and application of the proceeds from the financing approved in this case within 30 days of receipt of those loan proceeds;
6. That the Commission require Foxfire to keep its books and records in accordance with the Uniform System of Accounts;
7. That the Commission give notice to Foxfire that its books and records will be reviewed within 18 months of the effective date of the tariffs required to be filed by Foxfire;

8. That Foxfire be ordered to file complete tariffs for the provision of water service and sewer service consistent with the findings of the Commission, within 20 days of the effective date of the Commission's order.

The Commission has reviewed the application and exhibits attached thereto, the amended application and exhibits attached thereto, and the recommendation of Staff, and determines that Foxfire should be granted certificates of convenience and necessity to offer water service and sewer service in the service area proposed in the amended application. The Commission finds that there is a need for water service and sewer service in the area proposed to be certificated, which is being developed into condominium units. Based upon Staff's recommendation, the Commission further finds that the proposal to provide water service and sewer service is feasible, and that appropriate service may be rendered pursuant to Staff's pro-forma tariffed rates. In addition, the Commission is also of the opinion that the uses contemplated for the proceeds of the proposed financing are reasonable, and finds that the financing is reasonably required for the purposes specified in this order, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. The Commission finds that Foxfire's proposal to render water and sewer service will promote the public interest, subject to the caveats recommended by Staff, and thus the Commission will grant certificates of convenience and necessity to Foxfire for the provision of water and sewer service, and will approve up to \$400,000 in long term financing.

IT IS THEREFORE ORDERED:

1. That Foxfire Utility Company be and is hereby granted certificates of convenience and necessity authorizing it to construct, install, own, acquire, operate, control, manage, and maintain a water and sewer system for

the public located in an area of Stone County, Missouri, as legally described in Foxfire's Revised Exhibit No. 2, attached hereto and incorporated herein by reference as Attachment No. 1.

2. That Foxfire Utility Company be and is hereby ordered to file separate complete tariffs, with an effective date of thirty (30) days, for the provision of water service and sewer service consistent with this order, within twenty (20) days of the effective date of this order.

3. That the tariffs required to be filed pursuant to Ordered Paragraph No. 2 shall be required to contain the tariffed rates shown on Appendices 5-1 and 6-1 to Staff's memorandum, attached hereto and incorporated herein by reference as Attachment No. 2.

4. That the certificates of convenience and necessity referenced in Ordered Paragraph No. 1 shall become effective simultaneously with the effective date of the tariffs required to be filed and approved pursuant to Ordered Paragraph No. 2.

5. That Foxfire Utility Company be and is hereby ordered to adopt depreciation rates consistent with those shown on Appendices 3-1 and 4-1 to Staff's memorandum, attached hereto and incorporated herein by reference as Attachment No. 3.

6. That Foxfire Utility Company be and is hereby ordered to keep its books and records in accordance with the Uniform System of Accounts.

7. That the Staff of the Commission be and is hereby ordered to conduct a review of the books and records of Foxfire Utility Company within 18 months of the effective date of the tariffs required to be filed and approved pursuant to Ordered Paragraph No. 2.

8. That Foxfire Utility Company be and is hereby authorized to borrow an amount not to exceed \$400,000 in long term financing, at an annual interest rate not to exceed 10.5% embedded cost.

9. That Foxfire Utility Company be and is hereby authorized to give as security for the financing authorized in Ordered Paragraph No. 8 a deed of trust and security agreement on Foxfire's machinery, equipment, furniture, fixtures, accounts receivables, and inventory.

10. That Foxfire Utility Company be authorized hereby to execute, deliver, and perform the necessary agreements relative to the financing authorized herein.

11. That Foxfire Utility Company be authorized hereby to do all things not contrary to law or to the rules and regulations of the Missouri Public Service Commission, necessary to the performance of the act specifically authorized in this order, including the execution of such agreements and documents as are reasonably necessary to the furtherance of the financing authorized herein.

12. That Foxfire Utility Company be directed hereby to submit to the Missouri Public Service Commission the final terms and conditions relating to the financing authorized herein, within 30 days of the information becoming available to Foxfire.

13. That Foxfire Utility Company be directed hereby to submit to the Missouri Public Service Commission's Internal Accounting Department a report verified by an appropriate official of Foxfire Utility Company reflecting the journal entries recorded relating to the use and application of the proceeds from the financing authorized herein, within 30 days of receipt of the loan proceeds.

14. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the expenditures herein involved, the value for ratemaking purposes of the properties herein involved, or as an acquiescence in the value placed upon such properties by Foxfire Utility Company. Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded this financing transaction, and its resulting cost of capital, in any later proceeding.

15. That the order shall become effective on March 28, 1995.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

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

LEGAL DESCRIPTION OF SERVICE AREA

A PART OF STONE COUNTY, Missouri more particularly described as follows:

Beginning at an existing stone at the southeast corner of the Southeast Quarter of Section 30, Township 23 North, Range 22 West; thence North 02 Degrees 33 Minutes 28 Seconds East along the East line of said Section 30, 1,644.12 feet to an existing iron pin; thence North 87 Degrees, 42 Minutes, 13 Seconds West, 1,311.99 feet to an existing iron pin; thence South 02 Degrees 14 Minutes 20 Seconds West, 176.83 feet to an existing Corp Monument # 219-3; thence South 88 Degrees 05 Minutes 47 Seconds East, 31.96 feet to an existing Corp Monument # 219-2C; thence South 88 Degrees 08 Minutes 40 Seconds East, 163.58 feet to an existing Corp Monument # 219-2B; thence South 88 Degrees 09 Minutes 55 Seconds East, 300.31 feet to an existing Corp Monument # 219-2A; thence South 88 Degrees 11 Minutes 34 Seconds East, 150.85 feet to an existing Corp Monument # 219-2, thence South 44 Degrees 09 Minutes 11 Seconds West, 109.61 feet to an existing Corp Monument # 219-1H; thence South 44 Degrees 11 Minutes 55 Seconds West, 159.88 feet to an existing Corp Monument # 219-1G; thence South 44 Degrees 14 Minutes 33 Seconds West, 234.91 feet to an existing Corp Monument # 219-1F; thence South 44 Degrees 12 Minutes 25 Seconds West, 592.66 feet to an existing Corp Monument # 219-1D; thence South 44 Degrees 14 Minutes 05 Seconds West, 330.72 feet to an existing Corp Monument # 219-1C; thence South 44 Degrees 13 Minutes 03 Seconds West, 198.51 feet to an existing Corp Monument # 219-1B; thence South 44 Degrees 14 Minutes 26 Seconds West, 119.60 feet to an existing Corp Monument # 219-1A; thence South 44 Degrees 15 Minutes 53 Seconds West, 249.07 feet to an existing Corp Monument # 219-1; thence South 87 Degrees 56 Minutes 09 Seconds East, 291.80 feet to an existing Corp Monument # 217-8A; thence South 87 Degrees 58 Minutes 59 Seconds East, 372.22 feet to an existing Corp Monument # 217-8; thence South 88 Degrees 05 Minutes 05 Seconds East, 1,326.64 feet to the point of beginning; said tract containing 50.18 acres and being subject to any easements or right-of-way of record; all in Stone County, Missouri.

FOXFIRE UTILITY COMPANY
 WA-95-31
 METERED WATER RATES

12/14/94

Rates based on the following:

498 customers
 3,000 average monthly use per customer

Expenses	total	customer	commodity
plant operator	\$16,848	\$4,212	\$12,636
Mgt-supervision	6,000	6,000	0
electric	8,496	0	8,496
materials	1,200	300	900
pro services	600	600	0
repairs-outside	996	0	996
sampling-testing	1,169	1,169	0
Mgt travel	900	900	0
vehicle	2,040	510	1,530
insurance	500	500	0
telephone	600	600	0
billing	2,988	2,988	0
PSC	717	717	0
depreciation	4,999	291	4,708
income tax exp	3,302	193	3,109
return	\$24,174	1,409	22,765
totals	\$75,529	\$20,389	\$55,140

WATER RATES - metered

Minimum charge - Based on Meter size	Monthly charge
5/8" Includes 2,000 gallons	\$9.57
3/4" Includes 3,000 gallons	\$14.36
1" Includes 5,000 gallons	\$23.93
1 1/2" Includes 10,000 gallons	\$47.86

Commodity (over minimum amount) \$3.08 /1,000 gal

Revenue check - based on 5/8" meters on all customers

498 customers	\$9.57 x 12 months	\$57,190.32
498 Kgal x	\$3.08 x 12 months	\$18,406.08

Revenue	\$75,596.40
design revenue	\$75,529.00

difference \$67.40

SEWER RATES -- BASED ON METERED WATER USE

Rates based on the following: 498 customers
3000 average monthly use per customer

Expenses	total
plant operator	\$16,848
Mgt-supervision	6,000
sludge disp	10848
electric	14,844
materials	1,200
pro services	600
repairs-outside	3,000
sampling-testing	1,090
Mgt travel	900
vehicle	2,040
insurance	500
telephone	600
PSC	6,508
depreciation	21,649
income tax exp	7,668
return	\$56,131

total	\$150,426

SEWER RATES - based on water use

Minimum charge - Based on Water Meter size			Monthly charge
5/8"	Includes	2,000 gallons	\$16.78
3/4"	Includes	3,000 gallons	\$25.17
1"	Includes	5,000 gallons	\$41.95
1 1/2"	Includes	10,000 gallons	\$83.90
Commodity (over minimum amount)			\$8.39 /1,000 gal

Revenue check - based on 5/8" meters on all customers		
498 customers	\$16.78 x 12 months	\$100,277.28
498 Kgal	x \$8.39 x 12 months	\$50,138.64

Revenue		\$150,415.92
design revenue		\$150,426.00

difference		(\$10.08)

FOXFIRE UTILITY COMPANY

**Depreciation Rates for
Water Company**

PSC Depreciation Department

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate Percent</u>
311	Structures & Improvements	2.5
312	Collecting & Impounding Reservoirs	2.0
313	Lake, River & Other Intakes	2.5
314	Wells & Springs	2.0
315	Infiltration Galleries & Tunnels	2.0
316	Supply Mains	2.0
317	Other Water Source Plant	2.0
321	Structures & Improvements	2.5
323	Other Power Production Equipment	4.0
325	Electric Pumping Equipment	10.0
326	Diesel Pumping Equipment (35 yr, +5% salv)	2.7
327	Hydraulic Pumping Equipment	2.5
328	Other Pumping Equipment	5.0
331	Structures & Improvements	2.5
332	Water Treatment Equipment	2.9
341	Structures & Improvements	2.5
342	Distribution Reservoirs & Standpipes	2.5
343	Transmission & Distribution Mains	2.0
344	Fire Mains	2.0
345	Services	2.9
346.1	Meters - Bronze (35 yr, +5% salv)	2.7
346.2	Meters - Plastic	5.0
347	Meter Installations	2.9
348	Hydrants	2.5
349	Other Transmission & Distribution Plant	3.3
390	Structures & Improvemtns	2.9
391	Office Furniture & Equipment	5.0
392	Transportation Equipment (7 yr, +10% salv)	13.0
393	Stores Equipment	4.0
394	Tools, Shop, Garage Equipment	5.0
395	Laboratory Equipment	5.0
396	Power Operated Equipment	6.7
397	Communication Equipment	6.7
398	Miscellaneous Equipment	5.0

FOXFIRE UTILITY COMPANY

Depreciation Rates for
Sewer Company

PSC Depreciation Department

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate Percent</u>
311	Structures & Improvements	3.0
352.1	Collection Sewers (Force)	2.0
352.2	Collection Sewers (Gravity)	2.0
353	Other Collection Plant	4.0
354	Services to Customers	2.0
355	Flow Measurement Devices	3.3
362	Receiving Wells & Pump Pits	5.0
363	Pumping Equipment	10.0
372	Oxidation Lagoons	4.0
373	Treatment & Disposal Facilities	4.5
374	Plant Sewers	4.5
375	Outfall Sewers	2.0
376	Other Treatment & Disposal Plant	5.0
391	Office Furniture & Equipment	5.0
392	Transportation Equipment	14.2
393	Other General Equipment	10.0
394	Tools, Shop, Garage Equipment	5.0
395	Laboratory Equipment	5.0
396	Power Operated Equipment	6.7
397	Communication Equipment	6.7
398	Miscellaneous Equipment	5.0