

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 24th
day of November, 1992.

In the matter of the application of Missouri Utilities)
Company for permission, approval, and a certificate of)
convenience and necessity authorizing it to construct,) Case No. WA-92-291
install, own, operate, control, manage and maintain a)
water and sewer system for the public in Pettis County,)
Missouri.

ORDER GRANTING CERTIFICATE OF CONVENIENCE AND NECESSITY

On June 12, 1992, Missouri Utilities Company (MUC) filed an application pursuant to Section 393.190, RSMo seeking a certificate of convenience and necessity to own, operate, and maintain an existing water and sewer system located in a subdivision known as Elm Hills in Pettis County, Missouri. An Order and Notice was issued by the Commission on June 12, 1992 setting the deadline for intervention as July 13, 1992, directing notice of the application be sent to the appropriate parties, and directing Applicant to file a metes and bounds description of the proposed service area as a late-filed exhibit. No one has sought to intervene in this matter and the requested metes and bounds description and plat of the service area was filed by Applicant on November 3, 1992. Staff filed its recommendation in this matter on November 16, 1992. In its application, MUC also filed the following exhibits, incorporated herein by reference as if fully set out: Exhibit 1, Certificate of Incorporation and Articles of Incorporation of Missouri Utilities Company; Exhibit 2, Certificate of Good Standing of Missouri Utilities Company; Exhibits 3 and 4, as amended on November 3, 1992, include a metes and bounds description of the proposed service area and a plat map of the area together with the proposed rates and tariffs; Exhibit 5, Feasibility Study; Exhibit 6, Department of Natural Resources Permit of Approval; Exhibit 7, Department of Natural Resources Public Water Supply

Bacteriological Report; Exhibit 8, list of landowners in the service area; and Exhibit 9, Applicant's three-year projected service plan.

The Commission has determined that, as no hearing has been requested in this matter, one is not necessary.

In its recommendation of November 16, 1992, the Staff provided the following information and recommendation. The Elm Hills system (formerly Elm Hills Services, Inc.) was acquired by MUC from the original developer, Mr. Doyle Furnell, on March 1, 1992. Mr. Furnell operated the Elm Hills system as a non-profit corporation since 1972, avoiding regulation. While under his supervision, the sewer system began to exhibit problems which required additional maintenance expenditures and a new aeration system to be installed. The costs for the aeration system and the additional maintenance expense have been assumed by MUC as part of the purchase price. The consideration of \$9,049 paid by MUC includes the cost of the aeration equipment (\$7,016) and capital improvements to the well and well panel (\$2,033).

The land associated with the Elm Hills system is occupied by a lagoon and wellhouse. This land consists of easements and rights-of-way, and therefore has no value. MUC will acquire the rights to this property as long as it maintains the system. The rights revert to the owner of Elm Hills Golf Course, currently the Knights of Columbus, upon termination of service by MUC.

MUC, owned and operated by Pat Mitchell, proposes to serve 135 customers, with monthly billing. The former Elm Hills Services' operation is unmetered, but Mr. Mitchell proposes making improvements to the system, the first of these being the installation of a master meter, three flush valves, and a chlorinator. These items have been included in the Staff's revenue requirement, on the condition that the Commission order MUC to install this equipment within 60 days of the date of Commission approval of the application. Therefore, based on the test year ended December 31, 1991, the initial revenue requirement for

water and sewer for MUC has been estimated by the Staff at an annual level \$1,706 above the previous level of rates set by the Elm Hills system.

Staff has also reviewed the proposed capital structure submitted by MUC. Based on the information provided, this capital structure appears to be reasonable. The amount of long-term debt (\$8,209) is the remaining principal balance of a loan, originally in the amount of \$9,049. This amount was financed by the system's original owner. This loan is set up on a monthly installment basis with terms of 54 months at an annual percentage rate of 10 percent.

William P. Mitchell is the sole shareholder and officer of MUC. In the Economic Feasibility Study attached to the application it is stated that Mr. Mitchell intends to invest \$200 per month in MUC for three years to correct the major problems with the system. This investment will strengthen the equity portion of MUC's balance sheet.

Based on the analysis of the application presented by MUC and responses to data requests, Staff believes that the acquisition of the Elm Hills system by MUC should not be detrimental to the ratepayers on the system. It is Staff's opinion that the capital structure and financing as proposed by MUC are reasonable.

The system that MUC proposes to acquire has certain deficiencies, which include no service meters, no map showing the location of the mains and the service connections, no master meter at the well, no chlorinator, and no flush valves. MUC has agreed to install a chlorinator, three flush valves and a master meter as recommended by the Staff. MUC has also agreed to evaluate the system, locate the mains/service connections and develop a plan for service meter installation during the first year of operation.

Staff proposes as rates for water service and rates for sewer service, the rates as set out in Attachment A to this Order, incorporated herein by reference as if fully set out. These rates were determined after an audit by the

Staff's Accounting Department and after Staff's Financial Analysis Department recommended a rate of return on rate base. On October 14, 1992, MUC sent a letter to Staff agreeing to the Staff's proposed recommendations. The recommended rates take into consideration the actual costs and estimates of additional costs MUC will incur. The rate base used to make this determination included acquisition costs and costs for first year improvements that MUC has agreed to make.

In addition, Staff recommends MUC be ordered by the Commission to adopt the Uniform System of Accounts for bookkeeping and the recommended depreciation rates as set out in Attachment B to this Order, incorporated herein by reference as if fully set out.

The Staff therefore recommends the Commission approve the application subject to the following matters:

- (1) Missouri Utilities Company shall file a complete set of rates and rules (tariffs) within 20 days of the issue date of the Commission's Order;
- (2) grant a certificate of convenience and necessity to Missouri Utilities Company to be effective upon the effective date of the tariff to be filed in accordance with recommendation (1) above;
- (3) the Commission's Staff shall review the rates within 18 months of the effective date of the Commission's Order to determine whether or not the rates are reasonable based on the operational data from this new company;
- (4) Missouri Utilities Company shall submit a plan to the Commission's Water and Sewer Department on the installation of service meters for all customers within one year of the effective date of the Commission's Order;

- (5) provide that Missouri Utilities Company keep its books and records according to the Uniform System of Accounts as is required by Commission regulations;
- (6) approve the depreciation rates as shown on Attachments 1 and 2 of the Water and Sewer Department's recommendation. These proposed depreciation rates are identical to those commonly recommended for small water and sewer companies;
- (7) approve rates and charges as shown on pages 2 and 3 of the Water and Sewer Department's recommendation; and
- (8) Missouri Utilities Company install a master meter, three flush valves, and a chlorinator within 60 days of the date of the Commission's certification approval.

After review of the application, all exhibits, and Staff's recommendation, the Commission finds that, as a result of the various problems associated with the management and operation of the Elm Hills system, and in order to ensure safe and adequate water service to the Elm Hills area, the sale of the system to MUC is in the public interest. In addition, the Commission finds the rates and tariffs contained in Attachment A of this Order are just and reasonable, although the Commission makes no finding in regard to the appropriateness or prudence of installing and metering individual end-users, as proposed by MUC. In this regard, the Commission will consider the individual metering plan separately and only after submission to the Commission. Finally, the Commission finds that the various Staff recommendations contained in this Order and designed to allow Staff to properly monitor the operation of MUC to ensure accountability, financial stability and safe, adequate and reliable service, are reasonable and should be adopted as part of this Order.

IT IS THEREFORE ORDERED:

1. That Missouri Utilities Company is hereby granted a certificate of convenience and necessity to construct, install, own, operate, control, manage and maintain a water and sewer system for the public within the area as set out in Exhibits 3 and 4 of the application, as amended.

2. That Missouri Utilities Company shall file a complete set of rates and rules (tariffs) within twenty (20) days of the issue date of this Order in accordance with those rates and charges as set out in Attachment A of this Order, for service on and after the effective date of this Order.

3. That the Commission's Staff shall review the rates within eighteen (18) months of the effective date of this Order to determine whether or not the rates are reasonable based on the operational data from Missouri Utilities Company.

4. That Missouri Utilities Company shall submit a plan to the Commission's Water and Sewer Department on the installation of service meters for all customers within one (1) year of the effective date of this Order.

5. That Missouri Utilities Company shall keep its books and records according to the Uniform System of Accounts as is required by Commission regulations.

6. That Missouri Utilities Company will adopt the depreciation rates as shown in Attachment B of this Order.

7. That Missouri Utilities Company will install a master meter, three (3) flush valves, and a chlorinator within sixty (60) days of the date of the tariffs ordered in ordered paragraph 2 become effective.

8. That this Order shall become effective on the 24th day of December,
1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

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

Rates and Tariffs

Flat rates for unmetered customers

Sewer - Mobile homes in parks and apartments.....	\$6.05/month
Single family units.....	\$7.51/month
Commercial.....	\$13.33/month
Water - Mobile homes in parks and apartments.....	\$6.26/month
Single family units.....	\$7.82/month
Commercial.....	\$14.06/month

and metered rates as follows:

Sewer - Based on water usage during January, February, and March the monthly charge would be calculated according to:

A minimum (to include 4500 gal./mo.) of....	\$6.05/month
plus a usage rate per 1000 gallons of.....	\$.97/thousand

Water - Minimum plus the usage charge:

5/8-inch meter minimum (to include 4500 gal.)	\$6.26
3/4-inch meter minimum (to include 6000 gal.)	\$7.82
1-inch meter minimum (to include 12000 gal.)	\$14.06

plus a usage charge of \$1.04/thousand over the minimum.

The service connection charge (water only):

Materials only, customer does installation/excavation	\$175.00
or	
Materials and company does installation/excavation	\$325.00

The construction inspection charge per connection (water or sewer) \$ 75.00

Billing Comparison:

Water and Sewer Combined Monthly Rate

<u>As currently listed</u>	<u>Existing</u>	<u>Proposed*</u>
Single family homes and 3 bedroom units	\$ 22.50	\$ 15.33
2 bedroom units	13.50	12.31
Trailers on pads (in mobile home parks)	3.50	12.31
Golf course	22.50	27.39**
Truck line (office and maintenance)	25.50	27.39**

* will be separated between water and sewer, combined here for comparison

** commercial rate

Recommended Depreciation Rates for Missouri Utilities Company
on water utility plant

PSC Water and Sewer Department

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate Percent</u>
311	Structures & Improvements	2.5
314	Wells & Springs	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 (20 yr, -5% salv)	5.3
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	Meters - Bronze (35 yr, +5% salv)	2.7
347	Meters - Plastic	10.0
348	Hydrants	2.5
349	Other Transmission & Distribution Plant	3.3
390	Structures & Improvements	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

Recommended DEPRECIATION RATES for Missouri Utilities Company
on sewer utility plant

PSC Water and Sewer 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	6.7
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