

# MISSOURI PUBLIC SERVICE COMMISSION

## UTILITY SERVICES DIVISION

### COST OF SERVICE REPORT



#### LAKE REGION WATER & SEWER COMPANY

CASE NO. SR-2010-0110

Horseshoe Bend Sewer  
Shawnee Bend Sewer

&

CASE NO. WR-2010-0111

Shawnee Bend Water

*Jefferson City, Missouri  
January, 2010*

*Shawnee Bend Sewer* Exhibit No. 7  
Date 3-29-10 Reporter EF  
File No. SR-2010-0110  
WR-2010-0111

# TABLE OF CONTENTS

I. Background of the Lake Region Water & Sewer Company Rate Case Filings.....	3
II. Background of THE Lake Region Water & Sewer Company .....	4
III. Executive Summary .....	7
IV. Lake Region Water & Sewer Company's Rate Case Filing .....	9
A. Test Year .....	9
V. Rate of Return and Capital Structure.....	9
A. Summary .....	9
B. Background of Lake Region Operations, Ownership and Financing Arrangements.....	10
C. Capital Structure and Embedded Costs .....	12
D. Cost of Common Equity .....	14
E. Conclusion.....	15
VI. Rate Base.....	15
A. Plant in Service and Accumulated Depreciation Reserve .....	15
B. Contributions in Aid of Construction (CIAC).....	17
C. Materials and Supplies .....	19
VII. Income Statement – Revenues.....	19
A. Rate Revenues .....	19
VIII. Miscellaneous Revenues.....	22
IX. Income Statement – Expenses .....	23
A. Payroll .....	23
B. Management Fees.....	24
C. Other Non-Labor Adjustments.....	28
IX. Depreciation.....	37
X. Current and Deferred Income Tax.....	37
A. Current Income Tax .....	37
B. Deferred Income Tax.....	38
XI. Allocations of Costs Between the Operating Companies and Operating Systems.....	39
XII. Service Quality .....	40
A. Customer Service and Business Operations Review .....	40
B. Overview .....	42
C. Administrative Matters.....	44
D. Meter Reading.....	46
E. Customer Billing .....	48
F. Credit and Collections .....	50
G. Complaint and Inquiry Handling and Recording.....	55
H. Work Orders.....	56
I. Customer Communications .....	57
J. Document Storage.....	57

1 **I. BACKGROUND OF THE LAKE REGION WATER & SEWER COMPANY**  
2 **RATE CASE FILINGS**

3  
4 On October 7, 2009, the Company filed a general rate increase case for its water and  
5 sewer operation systems in the State of Missouri. The Commission assigned the filing Case Nos.  
6 SR-2010-0110 and WR-2010-0111. Lake Region Water & Sewer Company (Lake Region or  
7 Company) filed tariffs designed to implement an increase in its water rates, exclusive of  
8 applicable gross receipts, sales or franchise, corresponding to a revenue increase of \$331,223.  
9 This represents an overall 50% increase to existing Lake Region rates. The Company proposes a  
10 rate of return on equity of 10.51% applied to a 60% equity capital structure.

11 Lake Region's overall rate increase is further broken down between its three separate rate  
12 tariff structures of the Shawnee Bend water operations, Horseshoe Bend sewer operations and  
13 Shawnee Bend sewer operations. The original water increase in Case No. WR-2010-0111  
14 represents a revenue increase of \$46,800, or an increase over existing revenues of 28%. The  
15 original sewer rate increase for Horseshoe Bend represents an increase of \$160,600, or an  
16 increase over existing revenues of 51% and, for Shawnee Bend, an increase of \$123,822, or an  
17 increase over existing revenues of 70%.

18 Lake Region revised its original filed October 7, 2009 rate request on December 7, 2009.  
19 The revised amount of the rate increase is now \$215,622 from the original \$331,223 amount.  
20 This revised amount is broken down between the operating divisions with a comparison to the  
21 original amounts requested as follows:

Operating Division	Revised Amount submitted December 7th	Percentage Increase	Original Amount filed October 7th	Percentage Increase
Shawnee Bend Water	\$28,182	17%	\$46,800	28%
Horseshoe Bend Sewer	\$78,307	25%	\$160,600	51%
Shawnee Bend Sewer	\$109,133	61%	\$123,822	70%
Total	\$215,622	32%	\$331,223	50%

## II. BACKGROUND OF THE LAKE REGION WATER & SEWER COMPANY

The Company, originally named Four Seasons Lake Sites Water & Sewer Company (Four Seasons), applied for certificates of convenience and necessity to own and operate a water and sewer system to furnish water and sewer service to users in Camden County in the Lake of the Ozarks area. The Commission granted the Company this authority effective December 31, 1973, in Case No. 17,954, and amended the Company's certificate in Case No. 18,002 effective May 16, 1974, to expand its water service area immediately adjacent to the previously authorized certificated area.

Four Seasons expanded its sewer system in Case No. SA-89-135. In 1992, the Company sold its water system on Horseshoe Bend to the Ozark Shores Water Company (Ozark Shores), but continued to provide sewer service to the Horseshoe Bend area. The Company became known as Four Seasons Water and Sewer Company (Case No. SA-98-248) and eventually changed its name to Lake Region Water & Sewer Company (Lake Region) effective

1 March 18, 1999. Lake Region was granted certification to provide water and sewer service in  
2 the Shawnee Bend area on October 26, 1999 (Case No. SA-2000-295).

3 Lake Region is currently owned equally by RPS Properties, Inc. (RPS Properties) and  
4 Sally Stump, wife of Vernon Stump, the current President of the Company. RPS Properties is a  
5 partnership for the Schwermann family, with Robert Schwermann being the General Partner.  
6 Mr. Schwermann was president of the Company until September 2009 when one of the other  
7 owners, Vernon Stump, took over as president of Lake Region. These owners also own and  
8 operate another water company regulated by the Commission named Ozark Shores Water  
9 Company (Ozark Shores) which is an affiliate of Lake Region. Ozark Shores is wholly owned  
10 by North Suburban Public Utilities, Inc. which is owned 51.76% by RPS Properties and 48.24%  
11 by Sally Stump. North Suburban owns a small water system in northern Illinois, outside of  
12 Chicago.

13 In addition, the partnership of Robert Schwermann through RPS Properties and the  
14 Stump family also own equally a company called Northern Illinois Investment Group, Inc. (also  
15 referred to as "Fairhaven"). Another company called Lake Utility Availability Fees is a fictitious  
16 name registered by RPS Properties and Sally Stump. This entity was established as an entity to  
17 transfer fees paid by land owners for undeveloped lots within the service area of the Company  
18 and Ozark Shores.

19 The developers of the land lots originally installed water and sewer infrastructure and  
20 charged the related costs back to the land owners through the purchase price of the lots. When  
21 these land owners built houses and businesses, the utilities started providing water and sewer  
22 services and charged these customers for these services through tariffs regulated by the  
23 Commission. However, for undeveloped land sites, the owners of these sites agreed to pay the

1 original developers availability fees to partially reimburse the costs of the water and sewer  
2 infrastructure. As part of the purchase transaction of Lake Region, through agreement with the  
3 previous owner of the utility, RPS Property and the Stump family were assigned these  
4 availability fees. Lake Region or Ozark Shores receive no benefit of these fees as the  
5 infrastructure is not in service and the owners of the undeveloped land are not customers of  
6 either regulated utilities. While the plant infrastructure for the water and sewer lines is included  
7 in the plant accounts of both Lake Region and Ozark Shores, there is an offset to this investment  
8 in contributions in aid of construction.

9 Lake Region currently has approximately 600 water and sewer customers in its Shawnee  
10 Bend service area and approximately 140 sewer customers in its Horseshoe Bend service area.  
11 The Company estimated that about 70% of customers are seasonal; the remaining 30% are  
12 full-time residents. Lake Region's service territory is located in Camden County, with the  
13 exception of the eastern tip of Shawnee Bend, which is in Miller County. The number of  
14 customers increased significantly, approximately 70 customers yearly between 2004 and 2006,  
15 after completion of the toll bridge connecting the Horseshoe Bend area to the Shawnee Bend  
16 area. However, the Company stated that since 2007 new customer additions have slowed  
17 dramatically due to the economy.

18 Subdivisions serviced by Lake Region on Horseshoe Bend include Seasons Ridge,  
19 Country Club Estates 1 and 2, Black Hawk Estates, Country Club Cove, and other customers in  
20 unincorporated areas not located within a named subdivision. Large commercial accounts  
21 include the Lodge of the Four Seasons, the Country Club Hotel, the Racquet Club, and several  
22 condominium complexes.

1 Subdivisions serviced by Lake Region on Shawnee Bend include Porto Cima (Grand  
2 Point, Champion's Run, La Riva Estates, Eagles Cove, Fox Run Town Homes, and  
3 Heritage Isle), Thornwood, Magnolia Point, Bello Point, The Villages (Stone Bridge,  
4 Forest Ridge, and Sycamore Point), and Shawnee Bend 2, 3, and 4. Commercial accounts  
5 include two convenience stores, a bank, and Majestic Point Condominiums.

6 *Staff Witness: Nila S. Hagemeyer and V. William Harris*  
7  
8

9 **III. EXECUTIVE SUMMARY**

10  
11 James M. Russo, of the Commission's Utility Operations Division, and Cary G.  
12 Featherstone are the project coordinators of the Lake Region Water & Sewer Company (Lake  
13 Region) rate cases. Mr. Russo is the coordinator for these rate cases for the Utility Operations  
14 Division and I am the coordinator for the Utility Services Division. Mr. Featherstone is  
15 sponsoring Staff's Cost of Service Report in this proceeding that is being filed concurrently with  
16 the testimony. Staff's Cost of Service Report supports Staff's recommendation regarding the  
17 amount of rate increase that Staff expects will be needed in this case.

18 Mr. Featherstone presents an overview of the results of Staff's review into the general rate  
19 increase request made by Lake Region on October 7, 2009. Several members of the  
20 Commission's Staff conducted Staff's review by examining all relevant and material components  
21 making up the revenue requirement calculation. These components can be broadly defined as  
22 capital structure and return on investment, rate base investment and income statement results  
23 including revenues, operating and maintenance expenses, depreciation expense, and related  
24 taxes, including income taxes. Mr. Featherstone provides an overview of the Staff's work on  
25 each.

1 Staff recommends that Lake Region be permitted to increase its water and sewer rates to  
2 recover additional annual revenues based on the audit and review of the Company's operations as  
3 follows:

Lake Region Operating Entity	Annual Revenue Requirement at mid-point ROE of 8.5%	Rate Base at September 30, 2009
Shawnee Bend Water	\$49,503	\$1,213,426
Shawnee Bend Sewer	\$123,003	\$1,558,599
Horseshoe Bend Sewer	(\$55,814)	\$371,471

4 Source: Staff Exhibit Model System-- Schedule 5

5 A true-up is planned to reflect additional plant investment that is expected to be  
6 completed by March 2010. This plant addition relates to the installation of sewer lines and lift  
7 stations expected to be completed in time to be included in the true-up through March 31, 2010  
8 and will result in higher plant investment requiring increases in return, depreciation expenses and  
9 operating costs. Any other plant additions and retirements will be reflected through the time of  
10 the true-up in this case causing costs to increase. Other costs that will be examined will likely  
11 include payroll and payroll related benefits.

12 The following represent a non-exhaustive list of areas that make up Staff's filing:

- 13 • Rate of Return proposed by Staff
- 14 • Plant upgrades for sewer lines and lift stations
- 15 • Executive Management costs
- 16 • Operating Costs of the three Lake Region operating systems
- 17 • Public Service Commission Annual Assessment
- 18 • Billing dispute with one of Lake Region's major customers



1 Another Staff member, Martin L. Hummel of the Utility Operations Division's Water and  
2 Sewer Department, Bret G. Prenger of the Auditing Staff and I have been examining a situation  
3 with a customer of Lake Region that is involved in a billing dispute with the Company.  
4 Mr. Hummel is providing direct testimony on this topic.

5 *Staff Witness: Cary G. Featherstone*

6 **IV. LAKE REGION WATER & SEWER COMPANY'S RATE CASE FILING**

7 **A. Test Year**

8 The test year being used in this case is the 12 month period commencing January 1, 2008,  
9 through December 31, 2008. This period is updated for known and measurable changes through  
10 September 30, 2009. In addition, Lake Region has a construction project consisting of a lift  
11 station and an addition to the existing sewer collection lines that is scheduled to be in service by  
12 March 2010. Therefore, a true-up is necessary to include this project as well as any other  
13 material components to the revenue requirement through the end of March 31, 2010.

14  
15 **V. RATE OF RETURN AND CAPITAL STRUCTURE**

16 **A. Summary**

17 The Financial Analysis Staff (Shana Atkinson) recommends that the Commission  
18 authorize an overall Rate of Return (ROR) of 5.50 percent to 5.66 percent for Lake Region  
19 Water & Sewer Company (Lake Region or Company). This rate of return recommendation is  
20 based on a recommended return on common equity of 8.00 percent to 9.00 percent applied to  
21 Lake Region's September 30, 2009, common equity ratio of 16.36 percent and a 5.01 percent  
22 embedded cost of debt applied to a 83.64 percent debt ratio.

1 The Staff's embedded cost of debt is based on the cost of debt outstanding as of  
2 September 30, 2009 for debt incurred to acquire Lake Region and for debt issued at the Lake  
3 Region level. Staff relied on Lake Region's response to Staff Data Request No. 0060 to  
4 calculate the embedded cost of debt.

5 Staff's assumed September 30, 2009 Lake Region capital structure consists of  
6 83.64 percent debt and 16.36 percent common equity. Staff's recommendation assumes that the  
7 current value of equity invested in rate base is Staff's rate base recommendation of \$3,143,496  
8 less the outstanding balance of the acquisition debt and the debt issued at Lake Region of  
9 \$2,629,091. Due to the lack of financial information that may show the amount of equity truly  
10 invested in Lake Region, Staff believes this is the most appropriate approach given the  
11 information Staff was able to analyze. The lack of financial information is due to objections to  
12 Staff Data Request Nos. 0062 and 0063 in which Staff was attempting to determine the value of  
13 Lake Region assets as determined by its two shareholders.

14 **B. Background of Lake Region Operations, Ownership and Financing**  
15 **Arrangements**

16 Lake Region is engaged in providing public utility water and sewer service to residential  
17 and commercial customers in Camden County, Missouri. In response to Staff Data Request No.  
18 0041, Lake Region provided its organizational/ownership structure for Lake Region and its  
19 affiliates. The Company's organizational/ownership structure is as follows:

20 Lake Region is owned equally by RPS Properties, Inc. and Sally  
21 Stump. RPS Properties is a partnership for the Schwermann  
22 family and Robert Schwermann is the General Partner. Ozark  
23 Shores Water Company is wholly owned by North Suburban  
24 Public Utilities, Inc. which is owned 51.76% by Robert  
25 Schwermann and 48.24% by Sally Stump. Northern Illinois  
26 Investment Group, Inc. (also referred to as "Fairhaven") is owned  
27 equally by Robert Schwermann and Vern Stump. Lake Utility

1 Availability Fees is a fictitious name registered by RPS Properties,  
2 Inc. and Sally Stump.

3 In response to Staff Data Request No. 0044.1, Lake Region represented to Staff that  
4 Vernon Stump (current President of Lake Region), Robert Schwermann (former President of  
5 Lake Region) and Brian Schwermann control a majority of the management operations of the  
6 Company. Lake Region's response follows:

7 Vernon Stump, Robert Schwermann and Brian Schwermann  
8 control all budgeting process, including operational and capital  
9 projects, all money spent by the company, and all financing related  
10 to the operations of Lake Region Water & Sewer Company. The  
11 Lake Region Water & Sewer Company retains an operator to  
12 provide daily operational and maintenance services. Vernon  
13 Stump, Robert Schwermann and Brian Schwermann provide all  
14 financial organization, engineering direction, and management  
15 control. They negotiate annual contracts with the operator  
16 establish compensation levels, establish insurance coverage and  
17 benefits to be provided to the operator, and establish staff levels.  
18 They approve and develop capital projects and follow through to  
19 completion. They handle all corporate accounting functions and  
20 corporate funding.

21 The debt issued to fund the acquisition of Lake Region was specifically issued by RPS  
22 and Sally Stump. According to loan documents provided by Lake Region, this loan is primarily  
23 secured by the assignment of RPS' and Sally Stump's investment property/securities in Lake  
24 Region Water & Sewer Company. According to these same loan documents, certain RPS  
25 partners and Vernon Stump (Sally Stump's husband) provided personal guarantees for the loan.

26 Lake Region has presented to Staff that RPS is a limited partnership (in Lake Region's  
27 financial statements, RPS was labeled an LLC). Robert Schwermann is the general partner of  
28 RPS and the former President of Lake Region, but is still involved in Lake Region's operations.  
29 Members of the Schwermann family are the limited partners; one of those family members is  
30 Brian Schwermann who is also involved in the operations of Lake Region. Sally Stump is the  
31 wife of Vernon Stump. Vernon Stump is the current President of Lake Region and is involved in

1 the Company's operations. It is Staff's understanding that Sally Stump does not play a role in  
2 Lake Region other than attending board of directors meetings and her name being used on the  
3 loan. The loan documents do not identify any of Sally Stump's assets other than her ownership  
4 interest in Lake Region. In regards to her ownership interest, other than being named on the  
5 loan, Staff is unaware of Sally Stump making any other specific financial contribution.

6 According to audited financial statements for Lake Region, the utility is charged a  
7 management fee by RPS and Sally Stump, which includes a debt service charge. This debt  
8 service charge encompasses both the principal and interest payment of the loan that was issued  
9 by RPS and Sally Stump to purchase Lake Region. Lake Region is obligated to pay the  
10 management fee and it is evident in Lake Region's financial statements that this management fee  
11 has been charged as a general and administrative expense to Lake Region. Although Staff  
12 questions the appropriateness of deducting principle as an expense and including interest expense  
13 in general and administrative expenses, Staff believes the mere fact that the owners of Lake  
14 Region believe the debt service on the loan incurred to acquire Lake Region should be recorded  
15 as an expense provides support for Staff's position to recommend a ROR that includes the  
16 acquisition loan.

### 17 C. Capital Structure and Embedded Costs

18 Staff decided that the most appropriate recommendation at this time is to assume that  
19 Lake Region is financed by 83.64 percent debt and 16.36 percent equity. Staff determined the  
20 equity ratio by subtracting the long-term debt amount from the total capital amount (rate base)  
21 and then divided that equity amount by the total capital. (See Schedule 1 of Appendix 2) It is  
22 Staff's understanding that the owner's of Lake Region decided to issue debt at the partnership  
23 level rather than at the Lake Region level for their own personal reasons. If the owners had

1 issued this debt at Lake Region, then this debt would be clearly identifiable. However, if this  
2 debt had been issued by Lake Region, then this would cause the balance sheet to show a negative  
3 amount of equity (according to unaudited Lake Region Water & Sewer Company September 30,  
4 2009 financial statements & loan documents of RPS & Sally Stump:

5	Equity	\$1,638,626.06
6	Debt	<u>+ \$ 38,057.74</u>
7	Total Capital	\$1,676,683.80
8	Ownership loan	<u>-\$2,591,033.66</u>
9	Equity	- \$914,349

10 Staff's embedded cost of debt recommendation is 5.01 percent for debt associated with  
11 Lake Region, as of September 30, 2009. This cost of debt is based on the cost of the acquisition  
12 debt and a small amount of debt held at Lake Region. Staff calculated the 5.01 percent by  
13 dividing the total annual cost of the loans by the total outstanding balance of the loans as of  
14 September 30, 2009. The annual cost was determined by multiplying the 12-month ended  
15 weighted average interest rates as of September 30, 2009 for the outstanding loans (acquisition  
16 loan, loan for the Kenworth pump truck and loan for the GMC truck), by the amount outstanding  
17 for each of these loans as of September 30, 2009. The weighted average interest rates as of  
18 September 30, 2009 for the three outstanding loans were given in response to Staff Data Request  
19 No. 0060. The loan for the Kenworth pump truck has a maturity date of May 9, 2013 and its  
20 12-month weighted average interest rate as of September 30, 2009 was 6 percent. The  
21 outstanding balance of this loan was \$23,248.06 as of September 30, 2009. The loan for the  
22 GMC truck has a maturity date of September 17, 2012 and its 12-month weighted average  
23 interest rate as of September 30, 2009 was 6 percent. The outstanding balance of this loan was

1 \$14,809.68 as of September 30, 2009. The acquisition loan issued by RPS and Sally Stump was  
2 originally a one year loan with an origination date of October 8, 2004 for \$2,700,000. The loan  
3 was renewed on October 10, 2005 for \$2,876,281.29. The balance of this loan increased due to  
4 the need for new funds for equipment, legal fees and engineering. The loan was renewed again  
5 in 2006, 2008 and 2009. The balance on this loan has continued to be high due to the fact that  
6 the balloon payment due at maturity continues to be refinanced. The current loan has a maturity  
7 date of October 10, 2010 and the 12-month weighted average interest rate as of  
8 September 30, 2009 was 5 percent. The outstanding balance of this loan was \$2,591,033.66 as  
9 of the most recent loan date which was October 10, 2009. The loan documents for each of the  
10 outstanding loans were provided in response to Staff Data Request Nos. 0052 and 0061.

#### 11 D. Cost of Common Equity

12 Staff decided to estimate the cost of common equity in this case by adding a risk  
13 premium to the cost of debt given the fact that this cost of debt is based on a current cost rate.  
14 Although this is not Staff's usual methodology for estimating the cost of common equity, due to  
15 the uniqueness of this case, in which Staff had to impute a capital structure, Staff considers this  
16 simplistic approach to be appropriate for the circumstances.

17 According to the textbook *Analysis of Equity Investments: Valuation* (2002) by John D.  
18 Stowe, Thomas R. Robinson, Jerald E. Pinto and Dennis W. McLeavey (used as part of the  
19 curriculum in the Chartered Financial Analyst Program), a typical risk premium added to the  
20 yield-to-maturity (YTM) of a company's long-term debt is in the 3 to 4 percent range. Because  
21 utility stocks behave much like bonds, Staff believes a 3 percent risk premium is appropriate to  
22 arrive at an estimated cost of common equity. Adding a 3 percent risk premium to the current  
23 cost of debt of 5 percent indicates a cost of common equity of 8.00 percent. Considering this is a

1 relatively low estimated cost of common equity compared to Staff's estimates in other pending  
2 rate cases, Staff decided to add 100 basis points to this point estimate for a total estimated cost of  
3 common equity of 8.00 percent to 9.00 percent. Therefore, Staff's recommended return on  
4 equity is 8.00 percent to 9.00 percent with a midpoint of 8.50 percent.

#### 5 **E. Conclusion**

6 It is the Staff's responsibility to calculate and recommend a rate of return that should be  
7 authorized on the water utility rate base and sewer utility rate base of Lake Region. Under the  
8 cost of service ratemaking approach, a weighted cost of capital in the range of 5.50 to  
9 5.66 percent was developed for Lake Region's water and sewer utility operations (See  
10 Schedule 1 of Appendix 2). This rate was calculated by applying an embedded cost of long-term  
11 debt of 5.01 percent and a cost of common equity range of 8.00 percent to 9.00 percent, with a  
12 mid-point of 8.50 percent, to a capital structure consisting of 83.64 percent long-term debt and  
13 16.36 percent common equity. Therefore, from a financial perspective Staff is recommending to  
14 the Commission that Lake Region's water and sewer utility operations be allowed to earn a  
15 return on its original cost rate base in the range of 5.50 to 5.66 percent.

16 *Staff Witness: Shana Atkinson*

#### 17 **VI. RATE BASE**

##### 18 **A. Plant in Service and Accumulated Depreciation Reserve**

19 To ensure accuracy of the Company's plant in service and accumulated depreciation  
20 reserve, Staff examined plant levels, additions and retirements using the Company's General  
21 Ledgers from 1999 to 2009 for each of the three separate operating systems that Lake Region  
22 runs; Shawnee Bend water operations, Shawnee Bend sewer operations and Horseshoe Bend  
23 sewer operations. This process was used to determine the proper levels of plant in service that

1 should be included in the Company's rate base for the three separate water and sewer revenue  
2 requirements. In addition to the historical plant activity, Staff also identified what the authorized  
3 depreciation rates that should have been used to determine what the level of accumulated  
4 depreciation reserve (reserve) should be as of September 30, 2009. The historical plant and  
5 depreciation reserve activity was used to determine the proper plant and accumulated  
6 depreciation reserve as of September 30, 2009. This built out of plant and reserve included plant  
7 in service and accumulated depreciation reserve for each of the three operating systems of Lake  
8 Region--Shawnee Bend Water, Shawnee Bend Sewer and Horseshoe Bend Sewer. As a result  
9 of Staff's analysis, Staff found the Company's records for plant in service to be reliable. Based  
10 on the investigation, Staff is recommending the plant in service ("plant") balance based on the  
11 actual booked amounts as of the update period, September 30, 2009. This includes plant  
12 additions and retirements that have occurred since the test year ending December 31, 2008. On  
13 the other hand, Staff's investigation of accumulated depreciation reserve found the Company's  
14 booked accumulated depreciation reserve was inaccurate. Staff found the Company did not use  
15 Commission authorized depreciation rates to calculate its annual depreciation expense. Since  
16 incorrect depreciation rates were used by the Company the related depreciation reserve balances  
17 are also incorrect. As a result, Staff is recommending the depreciation reserve balance based on  
18 the results of the analysis referenced above. At the time of the true-up, adjustments to the plant  
19 will be updated to include plant additions placed in service during the period of  
20 September 30, 2009 through March 31, 2010, the true-up cut-off date. The depreciation reserve  
21 balances related to those additions and the other plant in service will be updated as of  
22 March 31, 2010. These additions must be providing service to the customers before the plant is  
23 reflected in rates. Staff also received plant data from the company a few days prior to direct



1 filing. Staff was unable to analyze the data prior to direct filing. As a result this material will be  
2 reviewed and discussed with the Company. The adjustments made to plant can be located on  
3 Schedule 10 of Staff's Accounting Schedule and Accumulated Depreciation Reserve to  
4 Schedule 12.

5 The following adjustments are made to plant to reflect additions made during the period  
6 through September 30, 2009.

7 Adjustment numbers:

8 Shawnee Bend Sewer: P-18, P-19, P-23 (SR-2010-0110)

9 Horseshoe Bend Sewer: P-18 and P-22 (SR-2010-0110)

10 Shawnee Bend Water: P-8, P-28, P-31 (WR-2010-0111)

11 The following adjustments were made to update accumulated depreciation during the  
12 period through September 30, 2009.

13 Adjustment numbers:

14 Shawnee Bend Sewer: R-8, R-11, R-12, R-17, R-19, R-23, R-24, R-26, R-27, R-30, R-31 thru  
15 R-37 (SR-2010-0110)

16 Horseshoe Bend Sewer: R-7 thru R-10, R-14, R-20, R-21, R-28, R-29-R-32, R-39 thru R-45  
17 (SR-2010-0110)

18 Shawnee Bend Water: R-7 thru R-10, R-14, R-20, R-21, R-28, R-29, R-30, R-31, R-32, R-38,  
19 R-39 thru R-45 (WR-2010-0111)

20 *Staff Witness: Karen Herrington*

21 **B. Contributions in Aid of Construction (CIAC)**

22 Contributions in Aid of Construction (CIAC) are funds received from developers or  
23 customers to finance a portion of the utility's plant investment. For example, a developer will  
24 pay a utility company a connection fee and will then install the lines and hook up to the system.  
25 The developer will then recover costs through the lot sales or price of the house. There are also  
26 situations when the developer donates lines to the utility at no cost to the utility. Customer  
27 contributions include connection fees that are associated with customers connecting to the  
28 existing utility lines. As such, since customers ultimately provide the investment in this portion

1 of the utility water and sewer infrastructures, utility companies do not have any investment in  
2 CIAC and are not entitled to earn a return on the property or a return of the CIAC property.  
3 CIAC is usually a significant source of financing for water and sewer utilities. As a result, a  
4 deduction must be made to rate base to account for these contributions to recognize that the  
5 utility does not have investment dollars in that portion of the water and sewer plant. While  
6 compiling an analysis of plant in service and accumulated depreciation reserve, Staff also  
7 performed a similar analysis with CIAC. Staff analyzed CIAC recorded in the Company's  
8 General Ledger's from 1999-2009 for Shawnee Bend Water, Shawnee Bend Sewer and  
9 Horseshoe Bend Sewer. Staff found the recording of CIAC was accurate for the test year  
10 December 31, 2008. In the same manner as was done with plant and depreciation reserve, Staff  
11 updated CIAC through September 30, 2009. The CIAC balance and the accumulated  
12 depreciation associated with the CIAC balance can be located on Staff's Accounting Schedule 7  
13 (Rate Base). As discussed previously, just as the wrong depreciation rates were used to  
14 determine the reserve these rates impacted CIAC. As such, Staff recalculated the CIAC balances  
15 using the correct Commission approved depreciation rates. Staff also made an adjustment to  
16 remove the depreciation expense associated with CIAC through the update period, September 30,  
17 2009. The adjustments can be located on Schedule 2 of Staff's Accounting Schedule.

18 The following adjustments are made to plant to reflect additions made during the period  
19 through September 30, 2009.

20 Adjustment numbers:

21 Shawnee Bend Sewer: S-49 (SR-2010-0110)

22 Horseshoe Bend Sewer: S-51 (SR-2010-0110)

23 Shawnee Bend Water: W-47 (WR-2010-0111)

24  
25 *Staff Witness: Karen Herrington*

1           **C.     Materials and Supplies**

2           Materials and Supplies (M&S) represents investments in inventory for items such as  
3 spare parts, meters and other miscellaneous items used to maintain and repair the water and  
4 sewer systems. Lake Region's general ledgers were used to analyze information to determine  
5 the M&S inventory levels to include in rate base. Based on the information examined Staff  
6 decided that a three year average for M&S would be appropriate. The inventory levels were  
7 allocated to all three entities using the plant allocation factor. The adjustment amount can be  
8 located on Rate Base Schedule 7.

9           *Staff Witness: Bret G. Prenger*  
10

11       **VII.   INCOME STATEMENT – REVENUES**

12           **A.     Rate Revenues**

13           This section describes how the Staff determined the level of Operating Revenues for  
14 Lake Region in Case Nos. SR-2010-0110 and WR-2010-0111. Since the largest component of  
15 Operating Revenues for customer charges and usage, or commodity charges under tariff rates  
16 charged to Lake Region's residential and commercial customers', Staff analyzed these two  
17 components separately. The Company has two rate classes for its water and sewer operations.  
18 Those particular classes are then further broken down into three specific smaller operating  
19 entities, Shawnee Bend Water, Shawnee Bend Sewer and Horseshoe Bend Sewer. For both  
20 sewer operations, based upon the last filed tariffs, there are currently 22 Rate Codes that are  
21 broken down between residential and commercial customers. The water class is broken down in  
22 a very similar nature based upon residential and commercial water meter sizes, resulting in a  
23 breakdown of 10 rate codes.

1 Shawnee Bend water customers on the residential side are required to pay a Tariff Rate  
2 for the first 3,000 gallons of water used during a usage period, and for every thousand gallons  
3 above that amount face an additional commodity charge. The Shawnee Bend sewer customers  
4 are handled in a very similar situation, paying a flat tariff rate as well as a gallon usage  
5 commodity charge. The main difference between the entities lies within Horseshoe Bend Sewer.  
6 This entity charges its commercial property a "Base" Rate based upon the prior year's highest  
7 monthly usage/1000 gallons. The customer is then charged that base rate on a monthly basis and  
8 pays a usage charge for each thousand gallons used over 6,000 gallons.

9 To determine the level of revenues necessary for Lake Region Water to provide safe and  
10 adequate service to Missouri ratepayers, the Staff examined the most recent billing data and prior  
11 billing data to create a revenue analysis. Staff obtained information from Lake Region's  
12 Billing/Accounting program, *Thoroughbred*, to analyze the flat rate revenues and the usage  
13 sensitive commodity rates. Using this system the Staff was able to pull the most recent customer  
14 numbers and billing data through the update period of September 2009. The Staff then  
15 annualized the flat rate tariff amounts with the most current customer roster.

16 A significant customer currently has an on-going billing dispute with Lake Region on its  
17 Horseshoe Bend sewer system. The Four Season's Racquet and Country Club Property Owners  
18 Association (Racquet Club or POA) has not paid its full usage rates billed from Lake Region for  
19 several billing periods. The Company continues to bill the Racquet Club at the tariff rates at  
20 what it believes is the proper usage levels. Lake Region began billing the Racquet Club for its  
21 sewer usage based on a meter that is called a flow meter. Staff expert Martin Hummel discusses  
22 this device and the reason for using it to determine the Racquet Club sewer usage in his direct  
23 testimony. Lake Region installed the flow meter in October 2008 and started using it for billing

1 | purposes in December 2008. The Racquet Club paid the monthly sewer bill in full until  
2 | June 2009. In September 2009, the Company sent a letter of notice to the Racquet Club  
3 | indicating that it had not paid its June, July and August bills and if the amounts were not paid the  
4 | Company would have to shut off the customer from sewer service. The Racquet Club responded  
5 | with a letter indicating that it disputed the monthly bills starting in June using the flow meter  
6 | device. In an agreement reached between the customer and Lake Region, the Racquet Club  
7 | agreed to continue to pay the amounts for the monthly bills based on the water usage using the  
8 | traditional water meter reading that had been used prior to the installation of the flow meter. The  
9 | customer also agreed to pay in full the amounts owed to Lake Region by March 1, 2010. This  
10 | billing dispute is an on-going one and resulted in the intervention of the Racquet Club in these  
11 | rate cases.

12 |       Staff has included an amount of revenues for the Racquet Club based on the 12 months  
13 | ending September 30, 2009 for the customer charge and a three year average of the usage  
14 | measured by the flow meter to determine the monthly commodity charge. Using the most  
15 | current customer charge and a three year average for commodity (usage) charge normalizes  
16 | revenues to reflect an on-going level. It was necessary to normalize revenues for the Racquet  
17 | Club because of the higher than normal amount of rainfall that occurred in 2009. A three year  
18 | average for the Racquet Club usage was used to normalize the affects of this higher rainfall  
19 | amount. The commodity charges were added to the current customer charge of 12 months  
20 | ending September 30, 2009 to arrive at the annualized total Racquet Club revenues determined to  
21 | be appropriate in the development of the Horseshoe Bend sewer revenue requirement  
22 | calculation. The following adjustments are made to revenues during the period through  
23 | September 30, 2009.

Adjustment numbers:

Shawnee Bend Sewer: Rev-2 (SR-2010-0110)  
Horseshoe Bend Sewer: Rev-2 (SR-2010-0110)  
Shawnee Bend Water: Rev-2 (WR-2010-0111)

Staff Witness: Bret G. Prenger

**VIII. MISCELLANEOUS REVENUES**

The Staff examined the Company's other Miscellaneous Revenue accounts based on a review of these revenues for each of the three operating systems of Lake Region through an analysis from 2006-2009. Miscellaneous Revenues are generally for late payment fees made by Lake Region's water and sewer customers. Staff made adjustments to the following accounts; Account 470.1, 532.15, 580.15, and 474. The adjustments were developed using the amounts in the test year compared to amounts for the 12 months ending September 30, 2009 known and measureable period. The miscellaneous revenue amounts showed a constant increase. Thus the September 30, 2009 update period was determined to be the most appropriate amount for this revenue category.

<u>Account Number</u>	<u>Account Description</u>	<u>Methodology</u>
470.10	Late Charges- SB	Known and Measureable
532.15	Sewer Late Charges- HB	Known and Measureable
580.15	Other Wastewater Revenue- HB	Known and Measureable
474.00	Other Water Revenue	Known and Measureable

The following adjustments are made to miscellaneous revenues during the period through September 30, 2009.

Adjustment numbers:

Shawnee Bend Sewer: Rev-3 (SR-2010-0110)  
Horseshoe Bend Sewer: Rev-3 (SR-2010-0110)  
Shawnee Bend Water: Rev-3 (WR-2010-0111)

Staff Witness: Bret G. Prenger

1  
2 **IX. INCOME STATEMENT – EXPENSES**

3 **A. Payroll**

4 Lake Region and the Staff took similar approaches to calculating the Company payroll  
5 and payroll related benefits levels. All employees working on the Lake Region operations are  
6 actually employed by the Camden County Public Water Supply District Number Four (PWSD4  
7 or the Water District). We both used an “allocated approach,” where the payroll costs and  
8 payroll related benefits are split between three separate entities that each of the employees are  
9 responsible for— Lake Region, Ozark Shores Water Company (Ozark Shores) and the Water  
10 District. The Company allocated payroll and payroll related costs between the three entities  
11 using the following percentages: 18% for the Water District (rates not regulated by the  
12 Commission), 41% for Ozark Shores (rates are regulated by the Commission but not part of the  
13 two existing rate filings) and 41% for Lake Region.

14 The Staff used a similar approach. However, Staff based its allocation percentages for  
15 these three separate entities using time reports maintained by District employees. Staff obtained  
16 time reporting information in a data request from the Company, based on payroll charged to the  
17 various entities for both test year 2008 and through the September 2009 period. These  
18 documents are electronic timesheets of all the employees who charged time to Lake Region. The  
19 payroll charges show total hours worked by each employee, broken down into specific hours  
20 worked at each of the three entities. The Staff examined the hours worked specifically to Lake  
21 Region by each employee and divided that into the total hours worked for that period. That  
22 provided an allocation percentage for each employee, which was used to apply to each  
23 individual’s annual salary to determine the total annualized payroll and benefits. The Staff used

1 this approach/calculation method for each employee with the exception of the General Manager,  
2 whose time was determined to be evenly split between the three entities. His salary and benefits  
3 were allocated on the basis of 33 percent to each entity. The annualized payroll amount was  
4 allocated based on the split for each employee using only the Lake Region portion of payroll.  
5 The salary of each employee also contains all benefits received by each employee, so there will  
6 not be an individual adjustment representing benefits. After annualizing payroll the Staff broke  
7 down the Lake Region allocated amount by entity to show how much payroll was sent to  
8 Shawnee Bend water and sewer and Horseshoe Bend sewer operations.

9 Adjustment numbers:

10 Shawnee Bend Sewer: S-24 (SR-2010-0110)

11 Horseshoe Bend Sewer: S-24 (SR-2010-0110)

12 Shawnee Bend Water: W-22 (WR-2010-0111)

13  
14 *Staff Witness: Bret G. Prenger*

15 **B. Management Fees**

16 **1. Executive Management Oversight**

17  
18 Lake Region Water & Sewer Company (Lake Region or Company) does not have any  
19 employees. Lake Region contracts with the Public Water Supply District Number Four of  
20 Camden County (District) to operate and manage the day-to-day operations of the Company as  
21 well as an affiliate, Ozark Shores Water Company (Ozark Shores). The District staff performs  
22 normal day-to-day administrative and operational functions and consists of a General Manager,  
23 two accountant/administrative assistants and seven field operators.

24 The General Manger for the District oversees the day-to-day operations of both Lake  
25 Region and Ozark Shores and approves the payment of routine bills. He also recommends  
26 expenditures for the repair, maintenance, capital additions, and expansions of Lake Region and  
27 Ozark Shores plant and certificated service areas. The executive management group, serving



1 Lake Region and Ozark Shores, must then approve, amend or reject the proposed expenditures  
2 and expansions.

3 The executive management group, consisting of Vernon Stump, Robert Schwermann and  
4 Brian Schwermann, provides executive oversight. Mr. Stump is a professional engineer  
5 registered in the State of Missouri. He earned a PhD from the University of Missouri and has  
6 been actively involved in the water and sewer industries for the past 38 years. Robert  
7 Schwermann graduated from the University of Kansas-Wichita in 1964 with a BSBA degree and  
8 has been actively involved in the development and ongoing operations of utility systems for the  
9 past 45 years. Brian Schwermann graduated from Kansas State University with dual Bachelor of  
10 Science degrees in Finance and Accounting and has been involved in the water and sewer  
11 industries for the past 23 years.

12 The executive management group is generally responsible for the following:

- 13 • Preparation and participation of Board of Directors meetings of Lake Region and Ozark  
14 Shores.
- 15 • Budget development and approval for the operational activities and the capital  
16 improvements of Lake Region and Ozark Shores.
- 17 • Capital Improvement Projects – decision making regarding analysis of new capital  
18 improvements, identifying the engineering concepts to develop the capital improvements,  
19 working with engineering firm to identify the plans for these capital projects and the final  
20 engineering review and oversight of the capital projects, financing of capital projects and  
21 on-going operations, and approvals of construction projects. Oversight of the  
22 implementation and completion of the capital improvement projects.

23 Executive management attends the monthly meetings of the District to determine if there  
24 are issues affecting Lake Region and/or Ozark Shores. There are common facilities that are  
25 owned by either the District or Lake Region or Ozark Shores that are used by these three entities  
26 to provide each with respective utility services. The common facilities include vehicle  
27 equipment, wells for the water services and a water storage tank.  
28  
29  
30

1       The executive management group reviews the proposed labor contracts annually and  
2 determines appropriate costs for handling the workload at Lake Region and Ozark Shores.  
3 Executive management has significant input into the District's decisions on hiring, benefits and  
4 pay increases. For example, prior to 2008 the owners of Lake Region and Ozark Shores owned a  
5 third utility, the Meadows Water Company (Meadows). In 2008, Meadows was sold to the City  
6 of Willard, Missouri. Executive management informed the District they were canceling the labor  
7 contract and the District had to lay off two people as a result.

8       Executive management has been involved in ongoing discussions with the Four Seasons  
9 Racquet and Country Club Property Owner's Association (Racquet Club) regarding the inflow  
10 and infiltration (I&I) issue at the Racquet Club. One of the recent capital improvement projects  
11 on the Lake Region sewer system was that the Executive management had to develop and  
12 implement plans to install a new lift station and force main (presently under construction with a  
13 completion date of March 2010). Other major projects involving significant planning and costs  
14 include the implementation of a new automated meter reading system and the identification of  
15 solutions for water pressure issues. The management group also provides guidance and expertise  
16 on a variety of other technical issues that exist with the ongoing operations of the two regulated  
17 utilities.

18       Executive management maintains ongoing relationships with banks and lending  
19 institutions on financing matters and with the outside accountant on maintaining the books and  
20 records, tax matters and preparing the audited financial statements for the banks.

21       Executive management makes the regulatory decisions such as when to file a rate case  
22 and what issues to pursue. Robert Schwermann and Vernon Stump attended the Small Utility  
23 Meeting hosted by the MoPSC on December 14, 2009.

1 Staff has eliminated the entire amount of the Management Fee charged to Lake Region in  
2 the test year 2008. The Management Fee is intended to provide the owners with a form of  
3 compensation for their executive management oversight and to provide reimbursement for the  
4 debt service of the loan that was used to purchase Lake Region from its previous owner. The  
5 debt service amount is handled in the rate of return being recommended by Staff expert Shana  
6 Atkinson of the Commission's Financial Analysis Department.

7 Staff has replaced the portion of the Management Fee relating to the management  
8 compensation with an amount of costs for the executive oversight and management of the two  
9 regulated utilities, Lake Region and Ozark Shares. Staff has reviewed the duties and  
10 responsibilities of the executive management and has examined the costs that the Company  
11 proposed be included in cost of service for the executive management oversight. Staff has made  
12 adjustments to the proposed amounts based on two general functions of the executive  
13 management group (operational and accounting/tax/finance) and included costs for travel and  
14 office rental. Staff has allocated the executive management costs between Lake Region and  
15 Ozark Shores.

16 The following adjustments remove the Management Fee costs from the income statement  
17 for the three operating systems.

18 Adjustment numbers:

19 Shawnee Bend Sewer: S-35 (SR-2010-0110)

20 Horseshoe Bend Sewer: S-35 (SR-2010-0110)

21 Shawnee Bend Water: W-31 (WR-2010-0111)

22  
23 The following adjustments were included for the Executive Management oversight costs  
24 allocated to Lake Region based on the allocation factors used to allocate other payroll costs to  
25 the three operating systems.  
26

1 Adjustment numbers:

2 Shawnee Bend Sewer: S-36 (SR-2010-0110)

3 Horseshoe Bend Sewer: S-36 (SR-2010-0110)

4 Shawnee Bend Water: W-32 (WR-2010-0111)

5  
6 *Staff Witness: V. William Harris*

7 **C. Other Non-Labor Adjustments**

8 **1. Public Service Assessment Fee**

9  
10 The Public Service Commission assessment (PSC Assessment) is an annual amount  
11 billed to all regulated utilities operating under the jurisdiction of the Missouri Public Service  
12 Commission as an allocation of the Commission's operating costs for regulating those utilities.

13 The PSC Assessment for Lake Region was annualized using the latest assessment  
14 available for the current fiscal year (FY-2010) for both the water and sewer assessments. The  
15 PSC Assessment for fiscal year 2010 was compared to the test year assessment amount to form  
16 the basis for Staff's adjustment. The amount for the water operations of Lake Region was made  
17 to the water revenue requirement calculation. The amount of the assessment for the sewer  
18 operations was allocated between Shawnee Bend and Horseshoe Bend sewer operations. The  
19 adjustments can be located on Schedule 2 of Staff's Accounting Schedule.

20 The following adjustments are made to operating expenses of the water and two sewer operating  
21 systems to reflect the increase in the PSC Assessment.

22 Adjustment numbers:

23 Shawnee Bend Sewer: S-43 (SR-2010-0110)

24 Horseshoe Bend Sewer: S-45 (SR-2010-0110)

25 Shawnee Bend Water: W-43 (WR-2010-0111)

26  
27 *Staff Witness: Karen Herrington*

1                   **2.     Property Tax Expense**

2  
3           Lake Region is billed each year by each of the taxing authorities that have jurisdiction  
4 over the Company's property. Tax bills for the year are based (assessed) on the property the  
5 Company owns on the first day of that calendar year, and only on January 1st of each year. The  
6 property taxes assessed on January 1st of each year are typically not due to the taxing authorities  
7 until December 31st of that year. The test year being used in this case is the 12-month period  
8 ending December 31, 2008, updated through September 30, 2009. Since the update period in  
9 this case is September 30, 2009, Staff has determined the annualized property taxes based on the  
10 property the Company had in-service on January 1, 2008 which was paid in December of that  
11 year. A ratio was developed based on the 2008 assessment and payment applied to the  
12 January 1, 2009 plant values to calculate the annualized property tax amounts. The Company  
13 was assessed on January 1, 2009 for property had in service on that date. The taxes for this  
14 assessment are not paid until December 2009. For the true-up, Staff will review the amount paid  
15 in December 2009 to determine if an update to property taxes is necessary.

16           The following adjustments are made to operating expenses of the water and two sewer  
17 operating systems to reflect the increase for property taxes.

18 *Staff Expert: Karen Herrington*  
19

20                   **3.     Insurance Expense**

21           Insurance expense is the cost of protection obtained from third parties by utilities against  
22 the risk of financial loss associated with unanticipated events or occurrences. Utilities, like non-  
23 regulated entities, routinely take out insurance coverage in order to minimize their liability  
24

1 associated with unanticipated losses for property assets. Certain forms of insurance reduce  
2 ratepayer's exposure to risk. An annualized level of insurance expense is included in rates.

3 During the audit, Staff reviewed the Company's insurance policies for the following  
4 forms of insurance:

- 5 • Property;
- 6 • Auto Liability;
- 7 • General Liability; and
- 8 • Other Insurance

9 Staff reviewed the policies and verified the current insurance premiums for each  
10 insurance type. Staff had discussions with the Company to verify anticipated increases in the  
11 insurance premiums. The Company did not anticipate any increases until late 2010 which are  
12 beyond the March 31, 2010 true-up date. Since there was no anticipated change in the test year  
13 amount, Staff did not make an adjustment to Property Insurance, Auto Liability Insurance, and/or  
14 General Liability Insurance.

15 During Staff's investigation, Staff found the balance for Other Insurance consisted of  
16 personal health premiums for one of the owners of Lake Region. Staff believes these premiums  
17 should not be passed to the ratepayers as these are personal family costs. Therefore, Staff made  
18 an adjustment to remove the entire test year amount for Other Insurance relating to the personal  
19 expenses of the owners. The following adjustments are made to operating expenses of the water  
20 and two sewer operating systems to remove the costs of medical insurance for one of the owners.

21 Adjustment numbers:

22 Shawnee Bend Sewer: S-29 (SR-2010-0110)  
23 Horseshoe Bend Sewer: S-30 (SR-2010-0110)  
24 Shawnee Bend Water: W-27 (WR-2010-0111)

25  
26 *Staff Witness: Karen Herrington*

#### 4. Rate Case Expense

Rate case expenses are costs incurred by a company in preparation and performance of its filing for rate increases. In this case, Lake Region has incurred expenses in conjunction with legal and accounting fees in addition to other costs that the Company would not incur outside of the rate case filing. Staff treats rate case expense as a normalized recurring expense necessary to provide utility service. This treatment involves determining the cost to process a rate case on a normalized level and reflecting that cost in the cost of service. Staff used the rate case costs actually incurred to process this case. Staff is proposing that an on-going level of rate case costs be included in the cost of service based on a five year period. Since there are three operating systems, the amortized amount was allocated to each operating system equally.

Staff will examine the actual costs relating to the processing of the two rate cases filed by Lake Region in the true-up portion of these cases. It will include reasonable and prudent costs for these cases.

Since the Company's rate case costs have been small, Staff is recommending that the actual incurred costs be included in the rate structure in these cases at this time. However, Staff continues to support the use of the small company rate case procedures and strongly encourages utilities that qualify to use those procedures in the future. These procedures were developed by the Commission with the support of the small water and sewer utility companies to stream-line the rate case process and provide the companies an opportunity to avoid substantial rate case costs. These small informal rate case procedures allow the companies to request an increase in rates with the Staff performing the actual cost of service. This avoids, in large measure, legal costs and consulting services to develop a rate case by the company. Lake Region should understand that if it files formal rate cases in the future, Staff will examine closely the amounts

1 incurred and determine at that time if it is proper to include those costs in the rate structure of the  
2 company.

3 The following adjustments are made to operating expenses of the water and two sewer  
4 operating systems to include a normalized rate case expense.

5 Adjustment numbers:

6 Shawnee Bend Sewer: S-43 (SR-2010-0110)

7 Horseshoe Bend Sewer: S-43 (SR-2010-0110)

8 Shawnee Bend Water: W-39 (WR-2010-0111)

9  
10 *Staff Witness: Karen Herrington*  
11

12 **5. Bad Debt**  
13

14 Staff examined the write-offs for uncollectible (bad debts) for the three separate operating  
15 systems of Lake Region-- Shawnee Bend Water, Shawnee Bend Sewer and Horseshoe Bend  
16 Sewer. Based on the current write-offs over the past three years there have not been any  
17 significant write-offs for any of the three operating systems. The Staff determined the bad debt  
18 expense levels for the Test Year were appropriate amounts to include in the revenue requirement  
19 calculation for each of the three Lake Region operating systems.

20 It should be noted that the billing dispute referenced above between the Company and  
21 one of its larger commercial customers, the Racquet Club, has resulted in delinquent accounts  
22 but Lake Region has not determined the bad debt amounts to be uncollectible at this time. As  
23 such, the Company has not written off these delinquent revenue dollars and therefore, Staff has  
24 not considered this customer's monthly billing amounts in its bad debt analysis. The above  
25 discussion concerning bad debts does not include the payments beginning in June 2009 to current  
26 that are still owed by the Racquet Club.

27 *Staff Witness: Bret G. Prenger*  
28



1                   **5. Other Operating Expenses**

2  
3           The Staff completed an expense analysis based on the calendar years 2006 to 2008 and  
4 the 12 months ending September 30, 2009 periods to examine the costs by each of the Uniform  
5 System of Accounts (USOA) for operating costs that were not adjusted separately through  
6 annualization and normalization methodology. This analysis was performed by me and Staff  
7 member Karen Herrington for each of the three Lake Region operating systems: Shawnee Bend  
8 water and sewer operations and Horseshoe Bend sewer operations. Each of the amounts  
9 determined to be an on-going, representative level of operating costs for each USOA account  
10 were compared to the test year level of expenses resulting in the adjustments found in the  
11 revenue requirement model for the three separate operating entities. Staff obtained, from the  
12 Company, the General Ledgers for the three Lake Region entities for the period of 2006-2008  
13 and listed the expense levels by each individual expense account. Each year of expenses was  
14 compared to the test year and to the update period ending September 2009. Staff made  
15 adjustments to the individual accounts as necessary. Each adjustment for expenses is identified  
16 separately in the Cost of Service Report.

17  
18  
19  
20           *Continued on next page.*

For Shawnee Bend Water the following adjustments were made to expenses:

<u>Adjustment Number</u>	<u>Account Number</u>	<u>Account Description</u>	<u>Methodology</u>
W-2	615.10	Water Tower Power	Known and Measureable
W-3	615.20	Well Pump Power	Known and Measureable
W-4	618.00	Chemicals	Known and Measureable
W-5	619.00	Water Testing	Known and Measureable
W-8	620.00	Materials and Supplies	Known and Measureable
W-9	622.00	Tools and Shop Supplies	Known and Measureable
W-10	645.10	Maintenance of Well #1	Known and Measureable
W-11	645.11	Maintenance of Well #2	Known and Measureable
W-12	645.30	Maintenance of Mains	Included \$2000, more information needed
W-20	633.00	Contracted Legal Fees	Removed Test Year
W-21	733.00	Contracted Legal Fees for Shawnee Water and Sewer	Test Year Used
W-23	642.00	Building Rent	Test Year
W-24	642.10	Rent for Lake Region	Annualized Amount Included for Lake Office
W-29	921.00	Office Supplies	2-Year Average, 2007-2008
W-31	922.00	Management Fees	Removed Test Year
W-39	975.00	Other Miscellaneous Expenses	Known and Measureable
W-52	967.00	Other Taxes	Removed Test Year

1 For Horseshoe Bend Sewer the following adjustments to expenses were made:  
2

<u>EMS Adjustment</u>	<u>Account Number</u>	<u>Account Description</u>	<u>Methodology</u>
S-2	710.00	Purchased Wastewater Maintenance	2-Year Average 2006-2007
S-5	711.10	Sludge Removal	Known and Measureable
S-6	718.10	Chemicals	Known and Measureable
S-7	719.00	Wastewater Testing-Other	Known and Measureable
S-8	719.10	Effluent Testing Expenses	Known and Measureable
S-9	721.10	HB Sewer Operating Expenses	Known and Measureable
S-12	720.00	Supplies and Materials-Other	Known and Measureable
S-13	720.10	HB Sewer Supplies	Known and Measureable
S-14	720.20	SB Sewer Supplies	Known and Measureable
S-15	720.40	Lagoon Supplies	Remove Test Year
S-17	722.00	Tools and Shop Supplies-Sewer	Known and Measureable
S-19	745.90	HB Miscellaneous Operating Expense	Remove Test Year
S-23	733.00	Contracted Legal Fees	Known and Measureable
S-26	742.10	Rent Lake Region	Annualize Amount for Lake Office
S-33	921.00	Office Supplies	2-Year Average 2007-2008
S-35	922.00	Management Fee	Remove Test Year
S-43	975.00	Other Miscellaneous Expenses	Known and Measureable
S-48	779.00	License and Permits-Other	Remove Test Year
S-49	779.10	HB License and Permits	Known and Measureable
S-56	967.20	Other Taxes	Remove Test Year

For Shawnee Bend Sewer the following adjustments to expenses were made:

<u>EMS Adjustment</u>	<u>Account Number</u>	<u>Account Description</u>	<u>Methodology</u>
S-2	710.00	Purchased Wastewater Maintenance	2-Year Average 2006-2007
S-3	711.20	Sludge Removal	Known and Measureable
S-4	715.00	Power for Treatment Plants-Other	Known and Measureable
S-5	715.10	WWTP Power	Known and Measureable
S-6	718.20	Chemicals	Known and Measureable
S-8	719.10	Effluent Testing Expenses	Known and Measureable
S-9	721.20	SB Sewer Operating Expenses	Known and Measureable
S-12	720.00	Supplies and Materials-Other	Known and Measureable
S-13	720.10	HB Sewer Supplies	Known and Measureable
S-14	720.20	SB Sewer Supplies	Known and Measureable
S-15	720.40	Lagoon Supplies	Remove Test Year
S-17	722.00	Tools and Shop Supplies-Sewer	Known and Measureable
S-19	745.95	SB Miscellaneous Operating Expense	Known and Measureable
S-23	733.00	Contracted Legal Fees	Known and Measureable
S-26	742.10	Rent Lake Region	Annualize Amount for Lake Office
S-33	921.00	Office Supplies	2-Year Average 2007-2008
S-35	922.00	Management Fees	Remove Test Year
S-43	975.00	Other Miscellaneous Expenses	Known and Measureable
S-48	779.00	License and Permits-Other	Remove Test Year
S-49	779.00	SB License and Permits	Known and Measureable
S56	967.00	Other Taxes	Remove Test Year

Staff Witness: Bret G. Prenger and Karen Herrington

1  
2 **IX. DEPRECIATION**

3 Staff annualized depreciation expense based on the September 30, 2009 plant balances  
4 for each of the three operating systems of Lake Region using the current Commission authorized  
5 depreciation rates. Staff member David Williams, of the Engineering and Management Services  
6 Department has reviewed those depreciation rates and determined that existing rates are correct.  
7 Schedule 13, of Staff's Accounting Schedules, identifies the amount of depreciation expense that  
8 is reflected in the recommended revenue requirement calculations for Shawnee Bend Water and  
9 Sewer and Horseshoe Bend Sewer. Based on Mr. Williams's investigation of depreciation rates,  
10 no changes are recommended.

11  
12 **X. CURRENT AND DEFERRED INCOME TAX**

13 **A. Current Income Tax**

14 The revenue requirement computed using the Exhibit Model System (EMS) has a  
15 component for income taxes that is necessary to consider in the ratemaking process. The  
16 calculation of current income tax expense is necessary to include as part of the revenue  
17 requirement to ensure that any given dollar increase in revenues is actually collected in rates. In  
18 other words, because the Company has to pay some portion of its earnings as income taxes to the  
19 state and federal taxing authorities, a level of income tax expense has to be collected in rates. If  
20 income taxes were not considered in rates then the Company would not fully collect sufficient  
21 revenues to cover all its costs and would not have an opportunity to earn its authorized rate of  
22 return. For the utility to recover the full revenue increase, it has to collect a portion for income

1 taxes in its rate structure over the revenue amount determined by the Commission to be  
2 appropriate.

3 The EMS run is set up to apply the statutory state and federal tax rates to taxable income.  
4 Expenses, including the adjustments to expenses are deducted from revenues to arrive at the net  
5 operating income before income taxes. The adjustments to arrive at taxable income in the  
6 current rate case include depreciation and interest expense. After all the expenses and tax  
7 deductions are made, the resulting amount is the taxable income to which the income tax rates  
8 are applied. Interest is calculated using the interest synchronization method by applying the  
9 weighted cost of debt in the capital structure (that was determined by Staff Witness Shana  
10 Atkinson of the Commission Financial Analysis Department) to the rate base.

#### 11 **B. Deferred Income Tax**

12 When a tax timing difference is reflected for ratemaking purposes consistent with the  
13 timing used in determining taxable income for current income tax as the result of the Internal  
14 Revenue Code, the timing difference is given "flow-through" treatment. When a current year  
15 timing difference is deferred and recognized for ratemaking purposes consistent with the timing  
16 used in calculating pre-tax operating income in the financial statements, then that timing  
17 difference is given "normalization" treatment for ratemaking purposes. Deferred income tax  
18 expense for a regulated utility reflects the tax impact of "normalizing" tax timing differences for  
19 ratemaking purposes. IRS rules for regulated utilities require normalization treatment for the  
20 timing difference related to accelerated tax depreciation.

21 Lake Region's deferred income tax reserve represents, in effect, a prepayment of income  
22 taxes by the Company's customers. As an example, because Lake Region is allowed to deduct  
23 depreciation expense on an accelerated basis for income tax purposes, depreciation expense used

1 for income taxes is significantly higher than depreciation expense used for financial reporting  
2 (book purposes) and for ratemaking purposes. This results in what is referred to as "book-tax"  
3 timing difference, and creates a deferral, or future liability of income taxes, to be paid in the  
4 future. The net credit balance in the deferred tax reserve represents a source of cost-free funds to  
5 Lake Region. Therefore, Lake Region's rate base is reduced by the deferred tax reserve balance  
6 to avoid having customers pay a return on funds that are provided cost-free to the Company.  
7 Staff allocated Lake Region's deferred tax reserve balance as of December 31, 2008 between  
8 Shawnee Bend water, Shawnee Bend sewer and Horseshoe Bend sewer. For the true-up period  
9 ending March 31, 2010, Staff will allocate Lake Region's deferred tax reserve balance as of  
10 December 31, 2009.

11 *Staff Witness: V. William Harris*  
12

13 **XI. ALLOCATIONS OF COSTS BETWEEN THE OPERATING COMPANIES AND**  
14 **OPERATING SYSTEMS**

15  
16 Lake Region is one of three operating utilities. Lake Region has an affiliated company,  
17 Ozark Shores and a non-affiliate company, Camden Public Water District # 4, a non-regulated  
18 utility which it shares common facilities and cost structures. Public Water District # 4 provides  
19 management oversight and operational support to Ozark Shores and Lake Region with various  
20 services that are needed to run each company. These services include but are not limited to  
21 management oversight, labor, meter reading and billing and collection functions, customer  
22 service needs, use of heavy equipment, and trucks for operator use. Because of the  
23 interrelationship that exists between the three operating companies, it is necessary to allocate  
24 common costs between each entity. Some of the costs for the operating companies are  
25 specifically identified and assigned directly. No allocation of these costs is necessary.

In addition to the need to allocate costs among the Companies, the District and Ozark Shores, Lake Region also must allocate common costs among its three operating systems. The Lake Region operating systems are Shawnee Bend Water System, Shawnee Bend Sewer System, and Horseshoe Bend Sewer System. Each operating system has specific costs that are directly assigned requiring no allocation. However, there are common costs among these three systems that require the costs to be allocated. Staff used several allocation factors to determine the appropriate cost for each operating system. The allocation factors include revenue, plant, customer count, and in some cases a hybrid allocation between revenues and customer counts.

The following table lists the allocation factors used by Staff:

	HB Sewer	SB Sewer	SB Water	Total
<b>Revenues</b>				
Water and Sewer	47.68%	26.79%	25.52%	100.00%
HB and SB Sewer	64.02%	35.98%		100.00%
SB Water and Sewer		51.21%	48.79%	100.00%
<b>Customer Count</b>				
Water and Sewer	10.56%	43.84%	45.60%	100.00%
HB and SB Sewer	19.40%		80.60%	100.00%
<b>Blended Customer Count and Revenues</b>				
HB and SB Sewer	41.71%	58.29%		100.00%
<b>Plant</b>				
Water and Sewer	20.90%	39.82%	39.28%	100.00%
HB and SB Sewer	34.42%	65.58%		100.00%

[HB stands for Horseshoe Bend and SB stands for Shawnee Bend]

*Staff Witness: Karen Herrington and Bret G. Prenger*

## **XII. SERVICE QUALITY**

### **A. Customer Service and Business Operations Review**

The Engineering and Management Services Department (EMSD) staff initiated a review of the customer service processes, procedures and practices of Lake Region Water & Sewer Company (Lake Region or Company) in Lake Ozark, Missouri, on November 23, 2009. The



1 review was performed in conjunction with Lake Region's rate increase request submitted by the  
2 Company on October 7, 2009, designated Case Nos. SR-2010-0110 and WR-2010-0111. The  
3 Company's rate increase request for annual sewer system operating revenues was \$160,600 or  
4 51% for Horseshoe Bend and \$123,822 or 70% for Shawnee Bend. The Company's rate  
5 increase request for annual water system operating revenues was \$46,800 or 28% for Shawnee  
6 Bend. The total of all increases requested was \$331,223 or 50%. In the course of its review, the  
7 EMSD staff made an on-site visit to the Company's headquarters and conducted interviews with  
8 Company personnel, as well as examined Company tariffs, Annual Reports for the past three  
9 years, Missouri Public Service Commission (Commission) complaint and inquiry records, and  
10 documentation provided by the Company in relation to its customer service operations.

11 The purpose of the EMSD is to promote and encourage efficient and effective utility  
12 management. This purpose contributes to the Commission's overall mission to ensure that  
13 customers receive safe and adequate service at a reasonable cost, while providing utilities the  
14 opportunity to earn a fair return on their investment.

15 The objectives of the EMSD staff's review were to document and analyze the  
16 management control processes, procedures, and practices used by the Company to ensure that its  
17 customers' service needs are met, and also to make recommendations, where appropriate, by  
18 which the Company may improve the quality of service provided to its customers. The findings  
19 of this review will provide the Commission with information regarding the Company's customer  
20 service operations.

21 The scope of this review focused on processes, procedures, and practices related to:

- 22 • Administrative Matters;
- 23 • Meter Reading;

- 1 • Customer Billing;
- 2 • Credit and Collections;
- 3 • Complaint and Inquiry Handling and Recording;
- 4 • Work Orders;
- 5 • Customer Communications; and
- 6 • Document Storage.

7 This section of the Cost of Service Report contains the results of the EMSD staff's review.

## 8 **B. Overview**

9 Lake Region has no employees, but is operated under contract by employees of the non-  
10 regulated Camden County Public Water Supply District Number Four (PWSD#4 or the District).  
11 The General Manager is responsible for the financial and operational management of the  
12 Company. Five field operators report to a field supervisor and/or a field superintendent, who in  
13 turn, reports to the General Manager. The field employees perform general maintenance, make  
14 repairs, and read meters. A billing clerk maintains customer account records, performs customer  
15 billing, and responds to customer complaints and inquiries, while an account clerk is responsible  
16 for accounts receivable and accounts payable. The employees divide their time among three  
17 companies: Camden County PWSD#4, Lake Region, and Ozark Shores.

18 In addition, three employees spend approximately eight hours per quarter on duties  
19 pertaining to Fair Haven Subdivision in Glendale, Illinois, also owned by the owners of Lake  
20 Region and Ozark Shores. The billing clerk performs quarterly billing services for 87 customers  
21 in Fair Haven, the account clerk writes 6-10 checks per month, and the General Manager signs  
22 the checks and completes Fair Haven's Annual Report.

1 The District employees identify time spent on each of the water and sewer systems using  
2 a time reporting mechanism. This reporting is used to assign costs to the three entities -- Lake  
3 Region, Ozark Shores, and the District. Time sheets are completed every two weeks by the field  
4 superintendent, field supervisor, field operators, billing clerk, and account clerk. The General  
5 Manager does not complete time sheets. Field personnel code their time according to the  
6 appropriate company. Office personnel do not code their time according to the individual  
7 companies, citing the requirement of constantly moving among the companies, depending on  
8 inquiries from customers in the three companies served.

9 The vast majority of the Company's water meters are read electronically using an  
10 automatic meter reading device. The Company plans to convert the remaining 60 water meters  
11 on Shawnee Bend to radio reads during 2010.

12 According to Lake Region's 2008 Annual Report to the Commission, the Company has  
13 the following wastewater treatment plants:

Plant	Gallons Per Day (gpd) Capacity
Lodge	326,500 gpd
Racquet Club	292,500 gpd
Charleston Condominiums	24,000 gpd
Shawnee Bend	100,000 gpd

14 *Source: Lake Region's 2008 Annual Report*

15 Included in the above table is Lake Region's 100,000 gallons-per-day wastewater  
16 treatment plant on Shawnee Bend. In a settlement agreement with the Attorney General in 2001,  
17 when the daily flow of this plant reached 75,000 gallons-per-day, the Company was to submit an  
18 expansion plan to the Department of Natural Resources (DNR). The Company will begin  
19 working on an expansion plan for their wastewater treatment plant since it reached the 75,000  
20 gallons-per-day flow in July 2009.

1 In addition to the above-noted wastewater treatment plants, the Company has begun the  
2 process to build a lift station and collection line on Horseshoe Bend to service the Duckhead  
3 Road area. The Company stated that the lift station and collection line from the Duckhead Road  
4 area to the Company's Racquet Club Treatment Plant are expected to be completed in March  
5 2010. The Company also plans to rehab six to eight lift stations on Shawnee Bend.

6 The Company noted that most of its water lines are less than 10 years old, so they should  
7 be adequate for many years (average service life is 50 years). The Company's long-term plans  
8 include increasing its water storage capacity in the 5-10 year timeframe.

### 9 C. Administrative Matters

10 Commission rules 4 CSR 240-13 (Chapter 13) pertains to electric, gas, and water utilities,  
11 while 4 CSR 240-60 and 61 (Chapters 60 and 61) relate to sewer utilities. A current copy of  
12 Chapter 13 rules was available at the Company's office, but copies of Chapters 60 and 61 were  
13 not available. EMSD staff provided the most recent copy of Chapters 60 and 61 rules to the  
14 Company for its review.

15 Contracts that the Company has with various businesses are current. The contract with  
16 Camden County District for labor cost is signed annually, but the contract for equipment rental,  
17 signed in February 2006, rolls over every year. The equipment contract is for the use of various  
18 pieces of equipment owned by the District for both Lake Region and Ozark Shores. The labor  
19 contract with Camden County District was signed January 13, 2009, and expires January 3, 2010,  
20 and the Company plans to renew the labor contract. The Company signed a bid on  
21 November 23, 2009, with Cooper Siteworks Inc. for the construction project near Duckhead  
22 Road. The Company also signed a contract on November 19, 2009, with Kansas Counselors of  
23 Kansas City and Wichita for account collection services. That contract became effective with

1 Kansas Counselors' signature on November 25, 2009, and will be in effect for one year with  
2 automatic one-year extensions unless cancelled by either party with written notice 30 days prior  
3 to the anniversary date.

4 According to the Company, water samples are taken by employees of Camden County  
5 District working under contract for Lake Region. Personnel have the following licenses:

Title	Water Operator's License	Wastewater Operator's License
General Manager		Class D
Field Superintendent	Class C	Class D
Field Supervisor	Class C	Class A
Field Operator		Class A
Field Operator		Class C

6 Source: Operators' Licenses Table Provided by the Company.

7  
8 All system operators are required to complete 30 hours of training every three years for  
9 water and wastewater to maintain their operators' licenses. The training is provided through the  
10 Missouri Rural Water Association and DNR. The field superintendent and field supervisor  
11 provide technical advice to the field operators. In the event additional technical assistance is  
12 needed in the field, the Company contacts Krehbiel Engineering.

13 Testing for both water and wastewater is performed by Water Pollution Control Services  
14 of Lake Ozark. Testing reports are then submitted to DNR. DNR returns the testing results to  
15 Lake Region and reports are maintained in the Company's office.

16 Testing is done according to permit requirements; some tests are performed monthly,  
17 some weekly, and others quarterly. Routine water samples were taken October 27, 2009, and  
18 wastewater treatment samples were taken October 7, 2009. Lake Region also daily tests chlorine  
19 residuals at one location on the system on Shawnee Bend. Consumer Confidence Reports  
20 (CCR), the Company's annual water quality reports, are created in-house at Lake Region and  
21 published annually in the *Lake Sun Leader* newspaper in late June or early July.

1 New customers complete an Application for Service before service is rendered. New  
2 customers are able to initiate service via the telephone or in person at the Company's office. If  
3 the customer contacts the Company by telephone to begin service, the Company mails the  
4 appropriate application for service to the customer, requesting that it be returned either by mail  
5 or by fax. The EMSD staff viewed various completed Application for Service forms while  
6 on-site at the Company's offices.

#### 7 **D. Meter Reading**

8 Meters are read as close as possible to the 25<sup>th</sup> day of each month and are generally  
9 completed in two days, including the re-reads. Collection of radio reads takes approximately  
10 three to four hours. The Company strives to complete the meter reading process and mail bills  
11 by the last day of the month. All meters are read, including meters of customers that appear to  
12 be seasonal and premises where the water has been shut off.

13 The Company stated that 550 of the 635 water meters and 30 sewer meters are read via  
14 radio equipment. The remaining water meters and sewer meters are read manually. The billing  
15 clerk downloads the meter information for the radio reads into a laptop computer and prints route  
16 sheets for the meter readers to manually read those that are not equipped for radio reads. Radio  
17 reads are collected from as far away as ½ mile via the Hersey™ STREET MACHINE™, a  
18 vehicle-based automatic meter reading (AMR) receiver, as the meter reader drives along the  
19 roads at posted speed limits. During the process, the operator can view route progress screens  
20 including the number of meters remaining to be read, collected meter readings, and meter status  
21 data.

22 When the meter reader finishes the route, the data is downloaded to the EZ Reader™  
23 route management software and uploaded to the Company's *Thoroughbred* billing system.

1 Reports can be created in EZ Reader™, including the number of meters read, the number of  
2 meters not read, zero consumption meters, high consumption (the Company uses the system  
3 defaults), low consumption, or x data, which runs continuously indicating a leak. The "Unread  
4 Report" shows the meters the Company needs to add to the manual read list. The Company  
5 stated that it averages about four to five meters per month not read via radio read that require a  
6 manual read. The Company indicated that high consumption may indicate a leak on the  
7 customer side, a water softener problem, or an irrigation system on the customer's premises.

8 The Company uses a separate sheet to manually read 13 flow meters on commercial  
9 accounts on Horseshoe Bend. After these reads are manually entered into the system, the billing  
10 clerk runs a "Pre-billing Report" and reviews it for a test of reasonableness prior to printing the  
11 actual bills. If discrepancies exist, a meter reader returns to the field to recheck the read. The  
12 correct read is then entered into the system. The Company also reads hour meters in the lift  
13 stations. Hour meter data must be converted as follows: For example, 10 gallons per minute is  
14 equal to 600 gallons per hour. At 6 hours per month, this calculates to 3,600 gallons used per  
15 month. The Company produces bills from three types of reads: regular water meters, flow  
16 meters, and hour meters.

17 Lake Region rarely estimates reads. In the event it becomes necessary to estimate reads  
18 due to water inside the meter pit or for any other reason, the billing clerk makes a notation in the  
19 *Thoroughbred* billing system on the memo page of the customer's account and also places a  
20 check mark in the box for "Estimate" on the customer record screen. The check mark triggers  
21 the system to print an "E" for estimate beside the estimated number for the read on the printed  
22 bill. The Company stated there have been no estimated reads for 2009.

1 Lake Region has master meters on its wells. The reads on the master meters are  
2 generally compared to customer usage on a monthly basis, although the Company sometimes  
3 runs the comparison calculations two or three months at a time.

4 The Company stated that Lake Region has not detected any incidents of theft of service,  
5 other than nonpayment. However, field operators continue to check for diversion as they read  
6 meters or perform work.

#### 7 E. Customer Billing

8 Customers are billed on a monthly basis after service has been received using a post card  
9 billing method. Shown below is a table of current charges for both water and sewer rates.

<b>Residential Water Rates: Sheet 4 of the Company's tariff</b>	
5/8" meter (includes 3,000 gallons/mo.)	\$11.29
3/4" meter (includes 4,500 gallons/mo.)	\$14.53
1" meter (includes 7,500 gallons/mo.)	\$21.01
1.5" meter (includes 15,000 gallons/mo.)	\$37.21
2" meter (includes 24,000 gallons/mo.)	\$56.65
Commodity charge	\$2.16 per 1,000 gallons over the minimum
Cost of meter installation	\$610.00
<b>Commercial/Industrial Water Rates: Sheets 5 and 7 of the Company's tariff</b>	
5/8" meter (includes 3,000 gallons/mo.)	\$11.29
3/4" meter (includes 4,500 gallons/mo.)	\$14.53
1" meter (includes 7,500 gallons/mo.)	\$21.01
1.5" meter (includes 15,000 gallons/mo.)	\$37.21
2" meter (includes 24,000 gallons/mo.)	\$56.65
4" meter (includes 75,000 gallons/mo.)	\$166.81
6" meter (includes 150,000 gallons/mo.)	\$328.81
Commodity charge	\$2.16 per 1,000 gallons over the minimum
Cost of meter installation	\$610.00



<b>Sewer Rates for Shawnee Bend: Sheet 6 of the Company's tariff</b>	
Residential: Single Family Rate	\$21.96 per month
Multi-unit Rate	\$21.96 per month + \$3.66 per 1,000 gallons used over 6,000 gallons/month
Commercial	\$21.96 per month + \$3.66 per 1,000 gallons used over 6,000 gallons/month
Connection Charges	\$280.00 – does not include collection tank or effluent pump
<b>Sewer Rates for Horseshoe Bend: Sheet 7 of the Company's tariff</b>	
Residential Flat Rate	\$25.54 per month
Commercial	\$0.55 per 1,000 gallons base charge
Commercial	\$3.57 per 1,000 gallons usage charge (monthly charge based on sewer or water use during the billing period)
Connection Charges	\$150.00; however, all non-residential or multi-family service connections shall be at actual cost incurred by the Company.

Source: Lake Region's Water & Sewer Tariff Sheets.

For example, the bill for a Shawnee Bend residential water (5/8" meter) and sewer customer using 6,000 gallons of water in one month would calculate to \$39.73 as follows:

Minimum charge including 3,000 gallons of water	\$11.29
Usage (\$2.16 x 3) for the additional 3,000 gallons used over the minimum	\$6.48
Total charge for water	\$17.77
Flat rate for sewer	\$21.96
Total charge for both water and sewer	\$39.73

Source: EMSD staff calculation.

The above amounts do not include taxes, primacy fees, or any applicable prior charges or late fees that may be included in customers' bills. A random check of customer accounts showed that customers are currently being billed the correct amounts in accordance with the Company's tariffs.

As noted previously, the Company stated that it strives to mail customer postcard bills by the last day of each month and payments are due upon receipt. Customers are given 21 days to

1 pay before the late fee is assessed as required by Commission Rule 4 CSR 240-13.020(7).  
2 According to the billing clerk, the "Amt Due After: (date)" is set in the *Thoroughbred* billing  
3 system so that it automatically calculates the date 21 days from the date bills will be mailed.  
4 Customers who have not paid by 21 days after rendition of the bill are considered delinquent and  
5 must include the \$6.50 late fee. Customers who fail to include the late fee with their payment  
6 after the delinquent date will be billed the late fee on the following bill. At the time of the  
7 EMSD staff's visit on November 23, the Company stated it mailed the most recent bills on  
8 November 2nd. The EMSD staff verified the "Amt Due After: 11/23/09" was noted on copies of  
9 customers' bills with the required late fee in accordance with Company tariffs.

10 The Company's billing statements adhere to Commission Rule 4 CSR 240-13.020(9).  
11 Each bill for service contains the Company name, mailing address, office telephone number,  
12 meter read date, statement date, previous and present meter readings, gallons of water used,  
13 description and amount of charges, the amount of late fee (if applicable), and total amount due.  
14 The right section of the bill contains a remittance stub to be returned with the customer's  
15 payment noting the words "Now DUE" and the amount, and "After month/23<sup>rd</sup>" and the amount  
16 including late fees, the customer's service address, account number, the customer's name and  
17 mailing address.

#### 18 F. Credit and Collections

19 The billing clerk stated that payment options are communicated to customers when they  
20 complete an Application for Service or telephone the Company to initiate service. The following  
21 table shows the Company's estimate of the percentages of customers utilizing the various  
22 payment options:  
23

Percentage	Methods of Payment
90%	Mail-ins to the Company's Post Office Box
5%	Walk-ins to the Company's Office or Drop-box
5%	Automatic Clearing House (ACH)

Source: Company Personnel Estimate.

As noted in the above table, the vast majority of customers pay by mail. Payments received via mail and the overnight drop-box is normally posted to the customers' accounts on the day received. Walk-in payments received after payments have been posted are held for posting until the next day. Payments received during the billing process may be held for one or two days, but are posted prior to generating bills, so that the customer is billed accurately. The Company began offering the ACH payment option in January 2009, and customers were notified via the Property Owners' Association. Currently, 35 customers are paying their bills through the ACH. Customers paying by ACH continue to receive postcard bills to alert them to the amount being deducted from their bank account.

To ensure that customer payments are posted accurately, the billing clerk photocopies customer checks and prints a report of postings from the *Thoroughbred* billing system. Copies of the checks are compared to the postings report, and maintained in the fireproof safe for at least two years. Bank deposits are usually made daily at Central Bank of the Lake of the Ozarks. On days when the Company receives very few payments, the payments are locked into a cash box and combined with the next day's receipts for deposit.

Customer accounts are considered delinquent when payment has not been received after the 21<sup>st</sup> day from rendition of the bill. The *Thoroughbred* billing system is set to automatically calculate the 21-day payment period, and the appropriate date after which the late fee must be added is noted on the bill. Current water and sewer tariffs contain a late payment charge and a bad check charge.

1 Customer accounts are reviewed monthly. When the customer is delinquent in paying  
2 and/or has failed to add the \$6.50 late fee to the amount paid, the previous balance, as well as  
3 any late fee due is added to the next bill. Customers' accounts that are 60 days past due are  
4 noted for collection action. A letter is mailed with a due date in 10 days requesting the customer  
5 to make full payment of the past due balance to avoid disconnection. The Company does not  
6 generally collect payments in the field. Customers facing disconnection of service due to  
7 nonpayment are advised to make payments at the Company's office. If customers contact the  
8 Company, the Company works with them on a case-by-case basis. If the customer has not paid  
9 or contacted the Company, field operators deliver a shut-off notice to the premise location  
10 24 hours prior to shut-off. The shut-off notice contains the Company name, address, and  
11 telephone number, as well as the date the notice was delivered, the account number, and the  
12 customer's last name. The shut-off notice also contains the following language:

13 NOTICE: Your water is scheduled to be turned off for non-  
14 payment. To avoid interruption of service, past due payment of  
15 \$ \_\_\_\_\_ must be in our office by 8 am on (date). If your water is  
16 turned off, a \$31 charge will be applied to turn it back on during  
17 normal business hours. The fee will be \$70 if requested after  
18 normal business hours. Please contact us immediately to avoid  
19 interruption of service.  
20

21 If payment is not received by the due date, field operators again deliver a shut-off notice  
22 and discontinue service. The amount due on the notice is adjusted to include the applicable  
23 reconnection fee. Disconnects are generally performed on Mondays and Tuesdays, giving  
24 customers the opportunity to have service reconnected the same day or the following day once  
25 actual payment or a payment arrangement is made. The Company has performed fewer than 50  
26 disconnects in the last three years. According to the Company's work order log made available

1 to the EMSD staff during its on-site visit, six "shut-off & padlock" orders were completed  
2 during 2009.

3 The Company's account documentation showed that the following account balances were  
4 in arrears as of November 23, 2009:

Over 90 Days Past Due		60 to 90 Days Past Due		30 to 60 Days Past Due	
# of Accts.	Dollar Amount	# of Accts.	Dollar Amount	# of Accts.	Dollar Amount
16	\$1,162.63	11	\$2,221.60	21	\$1,739.29
1 <sup>1</sup>	\$36,278.32	1	\$14,629.22	1	\$12,855.33
Total	<u>\$37,440.95</u>	Total	<u>\$16,850.82</u>	Total	<u>\$14,594.62</u>

5 Source: Lake Region's 30-90 Day Aged Receivables report dated 11/23/09.

6  
7 Of the customer account balances in arrears, the above table shows that one large  
8 commercial account is responsible for the majority of arrearages. This particular account  
9 involves an ongoing dispute regarding the flow meter reading and subsequent billing. Staff from  
10 the Commission's Water and Sewer Department is in the process of investigating issues  
11 surrounding the flow meter. In addition, the Company stated that a very small percentage of  
12 seasonal customers pay the total balance three months behind along with added late fees.

13 The Company does not maintain a separate log of insufficient funds checks. The billing  
14 clerk stated that the Company receives less than five insufficient funds checks per year. When  
15 the Company receives an insufficient funds notification from the bank, the billing clerk reverses  
16 the payment in the *Thoroughbred* billing system. The returned check is also noted on the memo  
17 page on the customer's account in *Thoroughbred*, along with the date and time. The customer is  
18 then mailed a letter informing them that their check was returned by the bank and noting the total  
19 amount due, including the \$15 returned check fee allowed by the Company's tariff. Enclosed

---

<sup>1</sup> This account is currently in dispute.

1 with the letter is an updated statement reflecting the current amount due. A copy of the letter  
2 notifying the customer of the returned check is also placed in the customer's individual file.

3 It is a good business practice to maintain a log of insufficient funds checks. This log will  
4 enable the Company to determine the frequency in which customers are issuing bad checks and  
5 if payment by cash in lieu of checks, should be required.

6 **THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

7 *Develop and monitor on a monthly basis a report that tracks the insufficient funds*  
8 *checks, including the customer name, the premise address where service was rendered,*  
9 *the mailing address, dollar amount, date received, and when and if the amount of the*  
10 *check was finally collected.*

11  
12 Lake Region does not require security deposits. The Company does not want to maintain  
13 the deposits and be responsible for returning them to the customer along with 6 percent interest  
14 required by the Company's tariff.

15 Lake Region has not utilized the services of a collection agency, but signed a contract  
16 with Kansas Counselors on November 19, 2009, to provide collection services. The following  
17 table shows bad-debt write-offs since 2006:

Bad Debt Write-Offs		
Year	Water	Sewer
2009	\$0	\$0
2008	\$147	\$555
2007	\$0	\$0
2006	\$5,120	\$19,770

18 *Source: Lake Region's Annual Reports filed with the Commission.*

19 The Company explained that the amount of write-offs in 2006 were not for water and  
20 sewer service, but were expenses from shared office space that was settled in a lawsuit in 2005,  
21 with settlement details being finalized in 2006.

1       The Company has never denied service to a customer. However, if a customer returns to  
2 the service territory with an outstanding bill, the customer is required to pay the outstanding bill  
3 prior to the Company connecting service.

#### 4       **G.    Complaint and Inquiry Handling and Recording**

5       Customers have access to the Company personnel 24 hours a day, seven days a week.  
6 The Company's P.O. Box and office telephone number appear on each customer's bill. The  
7 business office is open 8:00 a.m. to 4:00 p.m. Monday through Friday, except for legal holidays.  
8 During business hours, the billing clerk responds to customer complaints and inquiries, referring  
9 complex service-related concerns to the General Manager or field superintendent. After hours,  
10 customers may call the Company office number to leave a message or page the on-call field  
11 operator for emergency service. Four of the six field personnel rotate on-call duties and have  
12 either cell phones or pagers. The Company assigns primary and secondary field personnel for  
13 on-call duties. The primary and/or secondary personnel respond to after-hours calls, but notify  
14 the General Manager if an emergency is critical. The General Manager stated that on-call  
15 personnel handle 99 percent of the situations.

16       The billing clerk notes customer requests for assistance and complaints on the memo  
17 page to the customer's account in the *Thoroughbred* billing system and also logs requests into a  
18 "Work Order" Excel spreadsheet. The billing clerk notes work orders in red on the spreadsheet  
19 and changes them to blue when field operators notify her that the work has been completed.  
20 Color coding appears to be an effective way to track jobs that still need to be worked.

21       The Commission's Electronic Filing and Information System (EFIS) contain one  
22 informal complaint received from a Lake Region customer since 2003. The complaint involved

1 a disputed meter reading and subsequent billing issue. The Company stated that the complaint  
2 has been resolved, and EFIS records indicate that is correct.

### 3 H. Work Orders

4 As noted earlier, employees of the Camden County District also perform work for Lake  
5 Region and Ozark Shores. The Company can easily track yet-to-be completed work orders, as  
6 they are noted in red print on the work order log. The Company is currently awaiting parts or  
7 supplies for the non-completed items on the work order list, or the customer has requested a hold  
8 on the work to be done.

9 When prioritizing work orders among the three companies, the Company stated that  
10 emergency calls take precedence. The Company attempts to minimize the number of times  
11 employees have to cross the toll bridge between Lake Region's Horseshoe Bend and Shawnee  
12 Bend service territories. To gain efficiencies, work orders are generally assigned to employees  
13 already working in the area.

14 Customers may find it difficult to identify field operators. Camden County District  
15 trucks are marked, but there are no logos on Lake Region trucks. Field operators are provided  
16 with Company-labeled T-shirts and sweatshirts for identification purposes; however, operators  
17 do not wear them every day. Company employees carry no badges or cards identifying them as  
18 employees of the three companies served. In order to promote the safety and security of  
19 employees and customers, Lake Region field operators should carry and be able to produce upon  
20 request Company identification badges or cards with their photo, name, and Company logo.



1 **THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

2 *Develop a photo identification badge or card for each employee designating that*  
3 *person as an employee of all three companies: Camden County PWSD#4, Lake*  
4 *Region, and Ozark Shores. Ensure that each employee carries a photo*  
5 *identification badge or card while on duty and be prepared to present such*  
6 *identification upon request.*  
7

8 **I. Customer Communications**

9 The Company stated it has not sent any mass mailings to customers under the current  
10 ownership. The notice regarding the availability of the annual CCR is printed on the reverse side  
11 of the customers' bills. The Company plans to have the notice regarding the rate increase  
12 request printed and mailed by a local print shop.

13 No customer surveys have been performed. Other than the customer calls to the General  
14 Manager, no indication of the customers' satisfaction level with their service has been  
15 determined.

16 At the time of the EMSD staff's visit, no customer brochure was available explaining the  
17 rights and responsibilities of the utility and its customers as required by 4 CSR 240-13.040(3).  
18 The EMSD staff provided samples of customer brochures to the Company. On December 30,  
19 2009, the billing clerk submitted an e-mail to the EMSD staff containing the Company's newly  
20 created customer brochure that meets the requirements of 4 CSR 240-13.040(3). The Company  
21 intends to provide a copy of the brochure to new customers when they apply for service and also  
22 make the brochure available in the office for current customers.

23 **J. Document Storage**

24 Company records are maintained at the Company's office at 62 Bittersweet Road, Lake  
25 Ozark, MO. Customer records are maintained in separate file cabinets according to the  
26 appropriate Company, e.g., Lake Region, Ozark Shores, or Camden County District, and then are

1 | filed within the specific cabinet according to premise location. Detailed billing records are  
2 | maintained at the Company's office in a fireproof safe. In addition, the billing clerk stated that  
3 | either she or the account clerk takes a back-up copy of customer account records home each  
4 | evening. Certain corporate records are kept by the corporate office in Overland Park, KS.

5 |       This concludes the EMSD staff's section of the Cost of Service Report.

6 | *Staff Witness: Nila S. Hagemeyer*  
7 |  
8 |  
9 |

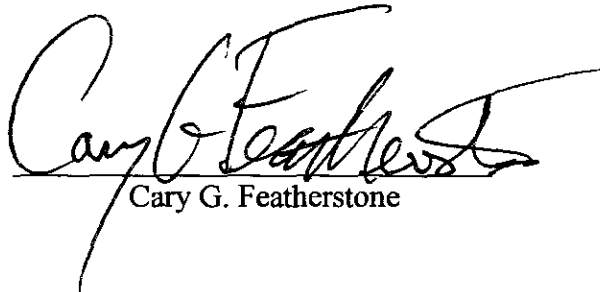
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & ) SR-2010-0110  
Sewer Company's Application to )  
Implement a General Rate Increase in ) Case No. AND  
Water and Sewer Service. )  
) WR-2010-0111

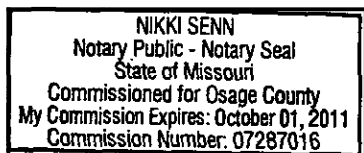
AFFIDAVIT OF CARY FEATHERSTONE

STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

Cary Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 7-9; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

  
Cary G. Featherstone

Subscribed and sworn to before me this 13<sup>th</sup> day of January, 2010.



  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer	)		SR-2010-0110
Company's Application to Implement a	)		
General Rate Increase in Water and Sewer	)	Case No.	AND
Service.	)		
	)		WR-2010-0111

# AFFIDAVIT OF KAREN HERRINGTON

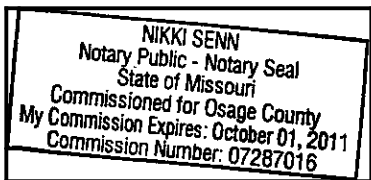
STATE OF MISSOURI            )  
  )  
COUNTY OF COLE            )            SS.

Karen Herrington, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 15-18, 28-32, 33-36, 39-40; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Karen Herrington  
Karen Herrington

Subscribed and sworn to before me this 13<sup>th</sup> day of January, 2010.

Rikka Serrin  
Notary Public



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

In the Matter of Lake Region Water & Sewer )		SR-2010-0110
Company's Application to Implement a )		
General Rate Increase in Water and Sewer )	Case No.	AND
Service. )		
)		WR-2010-0111

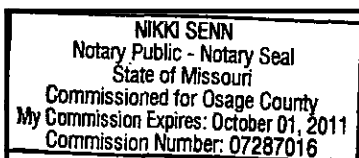
AFFIDAVIT OF SHANA ATKINSON

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Shana Atkinson, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 9-15; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

  
\_\_\_\_\_  
Shana Atkinson

Subscribed and sworn to before me this 13<sup>th</sup> day of January, 2010.



  
\_\_\_\_\_  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

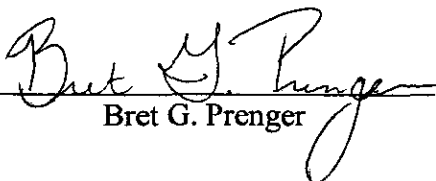
**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer ) SR-2010-0110  
Company's Application to Implement a )  
General Rate Increase in Water and Sewer ) Case No. AND  
Service. )  
) WR-2010-0111

**AFFIDAVIT OF BRET G. PRENGER**

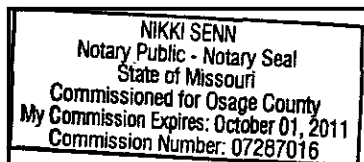
STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

Bret G. Prenger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 19-24, 32-36, 39-40; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

  
Bret G. Prenger

Subscribed and sworn to before me this 13<sup>th</sup> day of January, 2010.

  
Nikki Senn  
Notary Public



**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer ) SR-2010-0110  
Company's Application to Implement a )  
General Rate Increase in Water and Sewer ) Case No. AND  
Service. )  
) WR-2010-0111

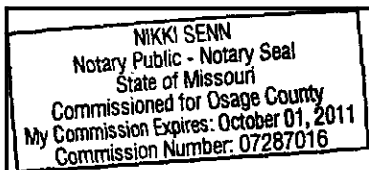
**AFFIDAVIT OF V. WILLIAM HARRIS**

STATE OF MISSOURI )  
) ss.  
COUNTY OF COLE )

V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 3-7, 24-28, 37-39; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

V. William Harris  
V. William Harris

Subscribed and sworn to before me this 13<sup>th</sup> day of January, 2010.



Nikki Senn  
Notary Public

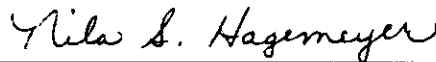
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a ) Case Nos. SR-2010-0110  
General Rate Increase in Water and Sewer ) and  
Service. ) WR-2010-0111

AFFIDAVIT OF NILA S. HAGEMEYER

STATE OF MISSOURI       )  
                                  )       ss.  
COUNTY OF COLE       )

Nila S. Hagemeyer, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 3-7, 40-58; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

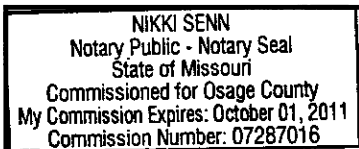


Nila S. Hagemeyer

Subscribed and sworn to before me this 4<sup>th</sup> day of January, 2010.



Notary Public





**MISSOURI PUBLIC SERVICE COMMISSION**

**STAFF REPORT  
COST OF SERVICE  
APPENDICES**

**LAKE REGION WATER & SEWER COMPANY**

**CASE NO. SR-2010-0110  
&  
CASE NO. WR-2010-0111**

*Jefferson City, Missouri  
January 2010*

**MISSOURI PUBLIC SERVICE COMMISSION**

**STAFF REPORT**

**COST OF SERVICE**

**APPENDIX 1**

**Staff Credentials**

**LAKE REGION WATER & SEWER COMPANY**

**CASE NO. SR-2010-0110**

**&**

**CASE NO. WR-2010-0111**

*Jefferson City, Missouri  
January 2010*

# **APPENDIX 1**

## **STAFF CREDENTIALS TABLE OF CONTENTS**

<b>Atkinson, Shana .....</b>	<b>1</b>
<b>Featherstone, Cary .....</b>	<b>2</b>
<b>Hagemeyer, Nila.....</b>	<b>15</b>
<b>Harris, V. William .....</b>	<b>18</b>
<b>Herrington, Karen .....</b>	<b>24</b>
<b>Prenger, Bret .....</b>	<b>25</b>

## **SHANA ATKINSON**

### **Educational and Employment Background and Credentials**

I am currently employed as a Utility Regulatory Auditor I for the Missouri Public Service Commission (Commission). I accepted the position of Utility Regulatory Auditor I in December 2008.

In May 2007, I earned a Bachelor of Science in Accountancy and a Master of Accountancy degree from the University of Missouri-Columbia. My accounting degree required an understanding of financial concepts, including the cost of capital.

I sponsored the Rate of Return section of the Cost of Service Report in the Empire District Gas rate case, Case No. GR-2009-0434. I assisted with the preparation of schedules in the Missouri Gas Energy rate case, Case No. GR-2009-0355. I sponsored recommendations in two finance cases, Case Nos. GF-2009-0331 and EF-2009-0266. I have developed rate of return recommendations for numerous small water and sewer rate cases and have assisted as needed in small water and sewer certificate cases.

## **CARY G. FEATHERSTONE**

### **Education and Employment Background and Credentials**

I graduated from the University of Missouri-Kansas City in December 1978 with a Bachelor of Arts degree in Economics. My course work included study in the field of Accounting and Auditing.

Currently, I am a Utility Regulatory Auditor with the Missouri Public Service Commission (Commission). I have assisted, conducted, and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and telecommunication companies. I have been involved in cases concerning proposed rate increases, earnings investigations, complaint cases, and cases relating to mergers and acquisitions and certification cases. Schedule 1 to this testimony is a list of rate cases in which I have submitted testimony. In addition, I also identify in Schedule 1 other cases where I directly supervised and assisted Commission Staff in audits of public utilities, but where I did not testify.

I have acquired knowledge of the ratemaking and regulatory process through my employment with the Commission. I have participated in numerous rate cases, complaint cases, merger cases and certificate cases, and filed testimony on a variety of topics. I have also acquired knowledge of these topics through review of work papers from prior rate cases filed before this Commission relating to Lake Region and its water and sewer operations. I have previously examined the operations of other water and sewer companies. I have also been involved in numerous other rate cases and merger cases involving electric, natural gas, steam and telecommunication companies. I have previously examined generation and generation-related topics; conducted and participated in several construction audits involving plant and construction records, specifically the costs of construction projects relating to power plants. I have been involved in the fuel and fuel-related areas for power plant production, and purchased power and off-system sales on numerous occasions.

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1980	Case No. ER-80-53	St. Joseph Light & Power Company (electric rate increase)	Direct	Stipulated
1980	Case No. OR-80-54	St. Joseph Light & Power Company (transit rate increase)	Direct	Stipulated
1980	Case No. HR-80-55	St. Joseph Light & Power Company (industrial steam rate increase)	Direct	Stipulated
1980	Case No. GR-80-173	The Gas Service Company (natural gas rate increase)	Direct	Stipulated
1980	Case No. GR-80-249  Coordinated	Rich Hill-Hume Gas Company (natural gas rate increase)	No Testimony filed- revenues & rate base	Stipulated
1980	Case No. TR-80-235	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress Rebuttal	Contested
1981	Case No. ER-81-42	Kansas City Power & Light Company (electric rate increase)	Direct-payroll & payroll related benefits; cash working capital Rebuttal	Contested
1981	Case No. TR-81-208	Southwestern Bell Telephone Company (telephone rate increase)	Direct-cash working capital; construction work in progress; income taxes-flow- through Rebuttal Surrebuttal	Contested
1981	Case No. TR-81-302	United Telephone Company of Missouri (telephone rate increase)	Direct- construction work in progress	Stipulated
1981	Case No. TO-82-3	Investigation of Equal Life Group and Remaining Life Depreciation Rates (telephone-- depreciation case)	Direct- construction work in progress	Contested

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1982	Case Nos. ER-82-66 and HR-82-67	Kansas City Power & Light Company (electric & district steam heating rate increase)	Direct- fuel & purchased power; fuel inventories Rebuttal Surrebuttal	Contested
1982	Case No. TR-82-199	Southwestern Bell Telephone Company (telephone rate increase)	Direct- revenues & directory advertising	Contested
1983	Case No. EO-83-9	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1983	Case No. ER-83-49	Kansas City Power & Light Company (electric rate increase)	Direct- fuel & fuel inventories Rebuttal Surrebuttal	Contested
1983	Case No. TR-83-253	Southwestern Bell Telephone Company (telephone rate increase - ATT Divestiture Case)	Direct- revenues & directory advertising	Contested
1984	Case No. EO-84-4	Investigation and Audit of Forecasted Fuel Expense of Kansas City Power & Light Company (electric-- forecasted fuel true-up)	Direct	Contested
1985	Case Nos. ER-85-128 and EO-85-185  Coordinated	Kansas City Power & Light Company (electric rate increase- Wolf Creek Nuclear Generating Unit Case)	Direct- fuel inventories; coordinated construction audit	Contested
1987	Case No. HO-86-139  Coordinated	Kansas City Power & Light Company (district steam heating-- discontinuance of public utility and rate increase)	Direct- policy testimony on abandonment of steam service Rebuttal Surrebuttal	Contested

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1988	Case No. TC-89-14 Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory advertising Surrebuttal	Contested
1989	Case No. TR-89-182	GTE North, Incorporated (telephone rate increase)	Direct- directory advertising Rebuttal Surrebuttal	Contested
1990	Case No. GR-90-50 Coordinated	Kansas Power & Light - Gas Service Division (natural gas rate increase)	Direct- prudence review of natural gas explosions	Stipulated
1990	Case No. ER-90-101 Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric rate increase- Sibley Generating Station Life Extension Case)	Direct- Corporate Costs and Merger & Acquisition Costs Surrebuttal	Contested
1990	Case No. GR-90-198 Coordinated	UtiliCorp United, Inc., Missouri Public Service Division (natural gas rate increase)	Direct- Corporate Costs and Merger & Acquisition Costs	Stipulated
1990	Case No. GR-90-152	Associated Natural Gas Company (natural gas rate increase)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1991	Case No. EM-91-213	Kansas Power & Light - Gas Service Division (natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Contested
1991	Case Nos. EO-91-358 and EO-91-360  Coordinated	UtiliCorp United Inc., Missouri Public Service Division (electric-- accounting authority orders)	Rebuttal- plant construction cost deferral recovery; purchased power cost recovery deferral	Contested



# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1991	Case No. GO-91-359  Coordinated	UtiliCorp United Inc., Missouri Public Service Division (natural gas-- accounting authority order)	Memorandum Recommendation- Service Line Replacement Program cost recovery deferral	Stipulated
1993	Case Nos. TC-93-224 and TO-93-192  Coordinated Directory	Southwestern Bell Telephone Company (telephone-- rate complaint case)	Direct- directory advertising Rebuttal Surrebuttal	Contested
1993	Case No. TR-93-181	United Telephone Company of Missouri (telephone rate increase)	Direct- directory advertising Surrebuttal	Contested
1993	Case No. GM-94-40	Western Resources, Inc. and Southern Union Company (natural gas-- sale of Missouri property)	Rebuttal- acquisition adjustment; merger costs/savings tracking	Stipulated
1994	Case No. GM-94-252  Coordinated	UtiliCorp United Inc., acquisition of Missouri Gas Company and Missouri Pipeline Company (natural gas--acquisition case)	Rebuttal- acquisition of assets case	Contested
1994	Case No. GA-94-325  Coordinated	UtiliCorp United Inc., expansion of natural gas to City of Rolla, MO (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1995	Case No. GR-95-160  Coordinated	United Cities Gas Company (natural gas rate increase)	Direct- affiliated transactions; plant	Contested

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1995	Case No. ER-95-279 Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel & purchased power; fuel inventories	Stipulated
1996	Case No. GA-96-130	UtiliCorp United, Inc./Missouri Pipeline Company (natural gas-- certificate case)	Rebuttal- natural gas expansion	Contested
1996	Case No. EM-96-149 Coordinated	Union Electric Company merger with CIPSCO Incorporated (electric and natural gas-- acquisition/merger case)	Rebuttal- acquisition adjustment; merger costs/savings	Stipulated
1996	Case No. GR-96-285 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Direct- merger savings recovery; property taxes Rebuttal Surrebuttal	Contested
1996	Case No. ER-97-82	Empire District Electric Company (electric-- interim rate increase case)	Rebuttal- fuel & purchased power	Contested
1997	Case No. GA-97-132	UtiliCorp United Inc./Missouri Public Service Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1997	Case No. GA-97-133	Missouri Gas Company (natural gas—certificate case)	Rebuttal- natural gas expansion	Contested
1997	Case Nos. EC-97-362 and EO-97-144	UtiliCorp United Inc./Missouri Public Service (electric rate complaint case)	Direct- - fuel & purchased power; fuel inventories Verified Statement	Contested Commission Denied Motion
1997	Case Nos. ER-97-394 and EC-98-126  Coordinated	UtiliCorp United Inc./Missouri Public Service (electric rate increase and rate complaint case)	Direct- fuel & purchased power; fuel inventories; re- organizational costs Rebuttal Surrebuttal	Contested

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
1997	Case No. EM-97-395	UtiliCorp United Inc./Missouri Public Service (electric-application to spin-off generating assets to EWG subsidiary)	Rebuttal- plant assets & purchased power agreements	Withdrawn
1998	Case No. GR-98-140 Coordinated	Missouri Gas Energy Division of Southern Union Company (natural gas rate increase)	Testimony in Support of Stipulation And Agreement	Contested
1999	Case No. EM-97-515 Coordinated	Kansas City Power & Light Company merger with Western Resources, Inc. (electric acquisition/ merger case)	Rebuttal-acquisition adjustment; merger costs/savings tracking	Stipulated (Merger eventually terminated)
2000	Case No. EM-2000-292 Coordinated	UtiliCorp United Inc. merger with St. Joseph Light & Power Company (electric, natural gas and industrial steam acquisition/ merger case)	Rebuttal-acquisition adjustment; merger costs/savings tracking	Contested (Merger closed)
2000	Case No. EM-2000-369 Coordinated	UtiliCorp United Inc. merger with Empire District Electric Company (electric acquisition/ merger case)	Rebuttal-acquisition adjustment; merger costs/savings tracking	Contested (Merger eventually terminated)
2001	Case No. ER-2001-299 Coordinated	Empire District Electric Company (electric rate increase)	Direct- income taxes; cost of removal; plant construction costs; fuel- interim energy charge Surrebuttal True-Up Direct	Contested

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2001	Case Nos. ER-2001-672 and EC-2002-265  Coordinated	UtiliCorp United Inc./Missouri Public Service Company (electric rate increase)	Verified Statement Direct- capacity purchased power agreement; plant recovery Rebuttal Surrebuttal	Stipulated
2002	Case No. ER-2002-424  Coordinated	Empire District Electric Company (electric rate increase)	Direct- fuel-interim energy charge Surrebuttal	Stipulated
2003	Case Nos. ER-2004-0034 and HR-2004-0024 (Consolidated)  Coordinated	Aquila, Inc., (formerly UtiliCorp United Inc) d/b/a Aquila Networks-MPS and Aquila Networks-L&P (electric & industrial steam rate increases)	Direct- acquisition adjustment; merger savings tracking Rebuttal Surrebuttal	Stipulated
2004	Case No. GR-2004-0072  Coordinated	Aquila, Inc., d/b/a Aquila Networks-MPS and Aquila Networks-L&P (natural gas rate increase)	Direct- acquisition adjustment; merger savings tracking  Rebuttal	Stipulated
2005	Case No. HC-2005- 0331  Coordinated	Trigen Kansas City Energy [Jackson County Complaint relocation of plant for Sprint Arena] (steam complaint case)	Cross examination- relocation of plant assets	Contested
2005	Case No. EO-2005-0156  Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS (electric- South Harper Generating Station asset valuation case)	Rebuttal- plant valuation Surrebuttal	Stipulated

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2005	Case No. ER-2005-0436  Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct- interim energy charge; fuel; plant construction; capacity planning Rebuttal Surrebuttal	Stipulated
2005	Case No. HR-2005-0450  Coordinated	Aquila, Inc., d/b/a Aquila Networks- L&P (industrial steam rate increase)	Direct	Stipulated
2006	Case No. ER-2006-0314  Coordinated	Kansas City Power & Light Company (electric rate increase)	Direct-construction audits Rebuttal- allocations Surrebuttal- allocations	Contested
2006	Case No. WR-2006-0425  Coordinated	Algonquin Water Resources (water & sewer rate increases)	Rebuttal- unrecorded plant; contributions in aid of construction Surrebuttal unrecorded plant; contributions in aid of construction	Contested
2007	Case No. ER-2007-0004  Coordinated	Aquila, Inc., d/b/a Aquila Networks- MPS and Aquila Networks- L&P (electric rate increase)	Direct-fuel clause, fuel, capacity planning Rebuttal Surrebuttal	Contested
2007	Case No. HO-2007-0419  Coordinated	Trigen Kansas City Energy [sale of coal purchase contract] (steam)	Recommendation Memorandum	Stipulated

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony/Issue</u>	<u>Case</u>
2007	Case Nos. HR-2007-0028, HR-2007-0399 and HR-2008-0340	Aquila, Inc., d/b/a Aquila Networks- L&P [Industrial Steam Fuel Clause Review] (industrial steam fuel clause review)		Pending
2008	Case No. HR-2008-0300  Coordinated	Trigen Kansas City Energy (steam rate increase)	Direct - sponsor Utility Services portion of the Cost of Service Report, overview of rate case, plant review and plant additions, fuel and income taxes	Stipulated
2009	Case No. ER-2009-089	Kansas City Power & Light Company (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report, Additional Amortizations and plant construction Rebuttal- allocations Surrebuttal- allocations	Stipulated
2009	Case No. ER-2009-090	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (electric rate increase)	Direct- sponsor Utility Services Cost of Service Report Surrebuttal- capacity planning	Stipulated
2009	Case No. HR-2009-092	KCPL Greater Missouri Operations Company (former Aquila, Inc. Missouri electric properties) (industrial steam rate increase)	Direct- sponsor Utility Services Cost of Service Report	Stipulated

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

### CASES SUPERVISED AND ASSISTED:

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	<u>Case Disposition</u>
1986	Case No. TR-86-14 Coordinated	ALLTEL Missouri, Inc. (telephone rate increase)		Stipulated
1986	Case No. TR-86-55 Coordinated	Continental Telephone Company of Missouri (telephone rate increase)		Stipulated
1986	Case No. TR-86-55 Coordinated	Continental Telephone Company of Missouri (telephone rate increase)		Stipulated
1986	Case No. TR-86-63 Coordinated	Webster County Telephone Company (telephone rate increase)		Stipulated
1986	Case No. GR-86-76 Coordinated	KPL-Gas Service Company (natural gas rate increase)		Withdrawn
1986	Case No. TR-86-117 Coordinated	United Telephone Company of Missouri (telephone rate increase)	Withdrawn prior to filing	Withdrawn
1988	Case No. GR-88-115 Coordinated	St. Joseph Light & Power Company (natural gas rate increase)	Deposition	Stipulated
1988	Case No. HR-88-116	St. Joseph Light & Power Company (industrial steam rate increase)	Deposition	Stipulated

# CARY G. FEATHERSTONE

## SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	<u>Case Disposition</u>
1994	Case No. ER-94-194	Empire District Electric Company (electric rate increase)		
2003	QW-2003-016 QS-2003-015	Tandy County (water & sewer informal rate increase)	Recommendation Memorandum	Stipulated
2004	Case No. HM-2004-0618  Coordinated	Trigen- Kansas City Energy purchase by Thermal North America (steam - sale of assets)		Stipulated
2005	Case No. GM-2005-0136  Coordinated	Partnership interest of DTE Enterprises, Inc. and DTE Ozark, Inc in Southern Gas Company purchase by Sendero SMGC LP (natural gas -- sale of assets)	Recommendation Memorandum	Stipulated
2005	Case No. WO-2005-0206  Coordinated	Silverleaf sale to Algonquin (water & sewer- sale of assets)		Stipulated
2006	Case No. WR-2006-0250	Hickory Hills (water & sewer- informal rate increase)	Recommendation Memorandum	Contested
2006	Case No. HA-2006-0294  Coordinated	Trigen Kansas City Energy (steam- expansion of service area)		Contested
2007	SR-2008-0080 QS-2007-0008	Timber Creek (sewer- informal rate increase)	Recommendation Memo	Stipulated



## CARY G. FEATHERSTONE

### SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	<u>Case Disposition</u>
2008	QW-2008-0003	Spokane Highlands Water Company (water- informal rate increase)	Recommendation Memorandum	Stipulated
2009	WR-2010-0139 SR-2010-0140	Valley Woods Water Company	Recommendation Memorandum	Pending

## **Nila S. Hagemeyer**

### **Educational and Employment Background**

I am employed as a Utility Management Analyst III for the Missouri Public Service Commission (Commission or PSC). I graduated from Columbia College, Columbia, Missouri, in 1998 with the degree of Bachelor of Science in Business Administration with emphases in Management and Marketing. I attended the Western Utility Rate School in San Diego, California in May 2002. I have also attended numerous seminars on utility and auditing issues.

I have been employed by the Commission since 1979 when I joined the General Counsel's Office as a Legal Secretary. In 1991, I began working as a Designated Principal Assistant to a Commissioner and Hearing Examiner (later known as a Regulatory Law Judge). In 1998, I became Manager of the Records Department (now known as the Data Center). In 2001, I was hired as a Utility Management Analyst II in the Engineering and Management Services Department (EMSD) and subsequently promoted in June 2006 to my present position as a Utility Management Analyst III within the same department.

As a Utility Management Analyst, my responsibilities include planning and performing reviews of management operating and control systems at utility companies under the Commission's jurisdiction and reviewing statistics reported by various utility companies. In addition to performing these reviews, I have assisted other EMSD staff in various audits of companies under the Commission's jurisdiction. Please see the attached table for a list of companies in which I have performed or assisted in various reviews.

## Nila S. Hagemeyer

Summary of Company Reviews		
Company Name	Case/Tracking Number	Type of Review
Steelville Telephone Exchange, Inc.		Assisted with Customer Service Operations
Atmos Energy Corporation	GR-2003-0219	Assisted with Customer Service and Gas Supply Operations
Mill Creek Sewers, Inc.	No Number – Report issued 6/17/02	Customer Service Operations
Rogue Creek Utilities, Inc.	WR-2003-0152 & SR-2003-0153 Report issued 8/30/02	Customer Service Operations
AquaSource/CU, Inc.	No Number – Report issued 9/5/02	Customer Service Operations
Laclede Gas Company	No Number – Report issued December 2003	Customer Service and Gas Supply Operations – Meter Reading
Noel Water Company	QW-2003-0022 – Report issued 4/7/03	Customer Service Operations
Timber Creek Sewer Company	QS-2004-0001 – Report issued 9/23/03	Customer Service Operations
Kansas City Power and Light Co.	BISR-2004-0019	Assisted with investigation regarding transfer of 400 employees to service company
Hickory Hills Water & Sewer Co., Inc.	QW-2004-0008 & QS-2004-0009 – Report issued 7/15/04	Customer Service Operations
The Empire District Electric Company	ER-2004-0570	Assisted with Customer Service Operations - Call Center
Aquila, Inc.	No Number – Report issued October 2005	Customer Service Process and Operations – Meter Reading
Evergreen Lake Water Company	QW-2005-0007 – Report issued 7/19/05	Customer Service Operations

**Nila S. Hagemeyer**

<b>Summary of Company Reviews</b>		
<b>Company Name</b>	<b>Case/Tracking Number</b>	<b>Type of Review</b>
Hickory Hills Water and Sewer Co., Inc.	QS-2006-0001 and QW-2006-0002 – Report issued 9/30/05	Customer Service Operations
Aquila, Inc.	EO-2006-0356 Report issued 10/31/06	Management Audit – Pensions, OPEBs, Employee Bonus Payments
Gladlo Water and Sewer Co., Inc.	QS-2007-0001 and QW-2007-0002 – Report issued 1/3/07	Customer Service and Business Operations
Timber Creek Sewer Co.	QS-2007-0008 – Report issued 8/16/07	Customer Service and Business Operations
Missouri-American Water Company	Informal complaint regarding main break in Clermont Estates	Investigation into Call Center, Meter Reading, Disconnect Process, and Damage Claims
Missouri Gas Energy	No Number – Report issued July 8, 2008	Customer Service Process and Operations – Meter Reading
Roy-L Utilities, Inc.	QS-2008-0001 and QW-2008-0002 – Report issued 4/15/08 under Case No. WR-2008-0304	Customer Service and Business Operations
The Empire District Electric Company	EO-2008-0215	Ice Storm Investigation – Call Center
Robert Hector v. AmerenUE	EC-2009-0112	Assisted with investigation of formal complaint
Terre Du Lac Utilities Corporation	WR-2009-0218 and SR-2009-0219	Customer Service and Business Operations
Port Perry Service Company, Inc.	SR-2009-0298 and WR-2009-0299	Customer Service and Business Operations
Missouri-American Water Company	WC-2010-0037	Investigation into Sales Tax Omission

## **V. WILLIAM HARRIS, CPA, CIA**

I graduated from Missouri Western State College at St. Joseph, Missouri in 1990, with a Bachelor of Science degree in Business Administration with a major in Accounting. I successfully completed the Uniform Certified Public Accountant (CPA) examination in 1991 and subsequently received the CPA certificate. I am currently licensed as a CPA in the state of Missouri. I also successfully completed the Uniform Certified Internal Auditor (CIA) examination in 1995 and am currently certified as a CIA by the Institute of Internal Auditors in Altamonte Springs, Florida.

From 1991 until I assumed my current position as a Regulatory Auditor with the Commission in 1994, I was employed as a Regulatory Auditor with the Federal Energy Regulatory Commission in Washington, DC. Prior to that, I was an Internal Auditor and Training Supervisor with Volume Shoe Corporation (d/b/a Payless ShoeSource).

Over the 15 plus years I have been employed by this Commission as a Regulatory Auditor, I have submitted testimony on revenue, expense, and rate base ratemaking matters several times before the Commission. I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings.

I have received continuous training at in-house and outside seminars on technical ratemaking matters since I began my employment with the Commission. My responsibilities of auditing the books and records of the utilities regulated by the Commission require that I review statutes applicable to the Commission or the utilities regulated by the Commission, the Commission's rules, utility tariffs, and contracts and other documents relating to the utilities regulated by the Commission. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1995 to the present, is attached as Schedule VWH-1.

**CASE PROCEEDING PARTICIPATION****V. WILLIAM HARRIS, CPA, CIA****Rate Cases**

<b>Date Filed</b>	<b>Case Number</b>	<b>Company Name</b>	<b>Exhibit</b>	<b>Issue</b>
9/1/1995	ER-95-279	Empire District Electric Company	Direct	Payroll, Payroll Taxes, Incentive Pay, 401K Retirement Plan
	GR-96-285	Missouri Gas Energy (Southern Union Company)	Direct	Plant In Service, Depreciation Expense, Depreciation Reserve, Service Line Replacement Program
	GR-96-285	Missouri Gas Energy (Southern Union Company)	Rebuttal	Service Line Replacement Program
	GR-96-285	Missouri Gas Energy (Southern Union Company)	Surrebuttal	Service Line Replacement Program
6/26/1997	GR-97-272	Associated Natural Gas Company and Division of Arkansas Western Gas Company	Direct	Revenues, Plant in Service, Customer Billing Expense, Normalized Bad Debt Expense, Depreciation Expense, Depreciation Reserve
10/8/1998	EC-98-573	St. Joseph Light and Power Company	Direct	Fuel Expense Adjustment, Miscellaneous Administrative and General Expenses, PSC Assessment, Capacity Demand Costs, Rate Case Expense, Fuel Inventory
12/16/1998	EC-98-573	St. Joseph Light and Power Company	Additional Direct	Fuel Expense Adjustment, Fuel Inventory, Insurance and Other Admin. Expenses
5/13/1999	ER-99-247 – EC-98-573	St. Joseph Light & Power Company	Direct	Purchased Power Demand Cost, Fuel Expense, Fuel Inventory, PSC Assessment, Rate Case Expense
5/13/1999	HR-99-245	St. Joseph Light & Power Company	Direct	Steam Revenues
6/10/1999	HR-99-245	St. Joseph Light & Power Company	Rebuttal	Fuel Inventories, Rate Case Expense
6/10/1999	GR-99-246	St. Joseph Light & Power Company	Rebuttal	Rate Case Expense
6/10/1999	ER-99-247 – EC-98-573	St. Joseph Light & Power Company	Rebuttal	Fuel Price, Fuel Inventories, Rate Case Expense
6/22/1999	HR-99-245	St. Joseph Light & Power Company	Surrebuttal	Fuel Inventory, Possible Loss on the Sale of No. 6 Fuel Oil, Rate Case Expense
6/22/1999	GR-99-246	St. Joseph Light & Power Company	Surrebuttal	Rate Case Expense
6/22/1999	ER-99-247 – EC-98-573	St. Joseph Light & Power Company	Surrebuttal	Fuel Price, Fuel Inventories, Possible Loss on the Sale of No. 6 Fuel Oil, Rate Case Expense

**CASE PROCEEDING PARTICIPATION****V. WILLIAM HARRIS, CPA, CIA**

<b>Date Filed</b>	<b>Case Number</b>	<b>Company Name</b>	<b>Exhibit</b>	<b>Issue</b>
5/2/2000	EM-2000-292	UtiliCorp United Inc. / St. Joseph Light and Power	Rebuttal	Merger Savings
6/21/2000	EM-2000-369	UtiliCorp United Inc. / Empire District Electric Company	Rebuttal	Merger Savings
10/11/2000	EO-2000-845	St. Joseph Light and Power Company	Rebuttal	Accounting Authority Order
10/23/2000	EO-2000-845	St. Joseph Light and Power Company	Revised Rebuttal	Accounting Authority Order
11/30/2000	TT-2001-115	Green Hills Telephone Corporation	Rebuttal	Revenue Requirements
2001	TC-2001-401	Green Hills Telephone Corporation	Direct	Revenue Requirement
4/3/2001	ER-2001-299	The Empire District Electric Company	Direct	Fuel Stock Inventory Levels
4/3/2001	ER-2001-299	The Empire District Electric Company	Direct	Fuel and Purchase Power Expenses
5/17/2001	ER-2001-299	The Empire District Electric Company	Surrebuttal	Fuel and Purchased Power
8/7/2001	ER-2001-299	The Empire District Electric Company	True-up Direct	Fuel and Purchased Power Expense
8/7/2001	ER-2001-299	The Empire District Electric Company	True-up Direct	Allowance for Funds Used During Construction
12/6/2001	ER-2001-672	UtiliCorp United Inc. d/b/a Missouri Public Service	Direct	Purchased Power Expense
1/8/2002	ER-2001-672/ EC-2002-265	UtiliCorp United Inc. d/b/a Missouri Public Service	Rebuttal	Purchase Power Expense, Fuel
1/22/2002	ER-2001-672/ EC-2002-265	UtiliCorp United Inc. d/b/a Missouri Public Service	Surrebuttal	Natural Gas Price
8/16/2002	ER-2002-424	The Empire District Electric Company	Direct	Rate Base, Plant in Service, Depreciation, Income Statement Adjustment, Income Taxes
12/9/2003	ER-2004-0034 HR-2004-0024	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks - L&P	Direct	Purchased Power Analysis, Off-System Interchange Sales, Income Tax Expense
1/6/2004	GR-2004-0072	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks - L&P	Direct	Revenue Annualization, Bad Debt Expense, Income Tax Expense

**CASE PROCEEDING PARTICIPATION****V. WILLIAM HARRIS, CPA, CIA**

<b>Date Filed</b>	<b>Case Number</b>	<b>Company Name</b>	<b>Exhibit</b>	<b>Issue</b>
2/13/2004	GR-2004-0072	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks – L&P	Rebuttal	Bad Debt Expense
3/11/2004	GR-2004-0072	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks – L&P	Surrebuttal	Bad Debt Expense
10/14/2005	ER-2005-0436	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks – L&P	Direct	Purchased Power Analysis, Off-System Interchange Sales, Income Tax Expense
10/14/2005	HR-2005-0450	Aquila, Inc. d/b/a Aquila Networks – L&P	Direct	Income Tax Expense
4/13/2006	HA-2006-0294	Trigen-Kansas City Energy Corporation	Rebuttal	Staff's Position on Expansion
8/8/2006	ER-2006-0314	Kansas City Power and Light	Direct	Incentive Compensation, Supplemental Executive Retirement (SERP), Other Executive Bonuses, Maintenance Expense, Regulatory Expense, Accumulated Deferred Income Taxes – Rate Base Offset
10/6/2006	ER-2006-0314	Kansas City Power and Light	Surrebuttal	Incentive Compensation, Maintenance Expense
1/18/2007	ER-2007-0004	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks – L&P	Direct	Purchased Power Analysis, Off-System Interchange Sales, Incentive Compensation
02/11/09	ER-2009-0089	Great Plains Energy, Inc. - Kansas City Power & Light Company	Direct	Fuel and Purchased Power costs, Fuel Inventories, Off-system Sales
	ER-2009-0090	Great Plains Energy, Inc. - Greater Missouri Operations Company	Direct	Fuel and Purchased Power costs, Fuel Inventories, Off-system Sales
03/11/09	ER-2009-0089	Great Plains Energy, Inc. - Kansas City Power & Light Company	Rebuttal	Off-system Sales Margin
03/13/09	ER-2009-0090	Great Plains Energy, Inc. - Greater Missouri Operations Company	Rebuttal	Off-system Sales Margin



## CASE PROCEEDING PARTICIPATION

V. WILLIAM HARRIS, CPA, CIA

### List of Informal Cases Processed Under the Commission Informal Rate Case Procedure

I was the Lead Auditor on all but U.S. Water/Lexington and Raytown Water.

<u>Company Name</u>	<u>Case No.</u>	<u>Other Auditors</u>
West 16 <sup>th</sup> Street Sewer Company	SR-2008-0389	Bret Prenger
WPC Sewer Company	SR-2008-0388	Bret Prenger
Spokane Highlands Water Company	WR-2008-0314	Karen Herrington Keith Majors
Timber Creek Sewer Company	SR-2008-0080	Graham Vesely (left) (then) Phil Williams
Timber Creek Sewer Company	SR-2004-0532	None
Taney County Utilities	WR-96-418 SR-96-418	David Mansfield David Mansfield
Ozark Mountain Water Company	WR-96-237	None
Hickory Hills Water and Sewer Co.	WR-95-432 SR-95-432	Robert O'Keefe Brett Peter
Raytown Water Company	WR-92-85	Phil Williams (Lead)
U.S. Water / Lexington	WR999	Phil Williams (Lead)

## CASE PROCEEDING PARTICIPATION

V. WILLIAM HARRIS, CPA, CIA

### Other Non-Rate Case Assignments

List of assigned cases in which I had primary responsibility for the Auditing Department scope of work, but for which testimony was not required. (NOTE: Cass County Telephone Company Case Nos. TO-2005-0237 and TC-2005-0357 were completed by several Staff auditors, including me.)

<u>Company Name</u>	<u>Case No.</u>	<u>Docket / Case Type</u>
Savannah Heights Industrial Treatment	SO-2008-0094	Sale
Aquila, Inc.	EO-2006-0309	Certificate
Missouri Gas Energy	GO-2006-0201	ISRS
Aquila, Inc.	EO-2006-0036	Sale
Missouri Gas Energy	GO-2005-0273	ISRS
Kansas City Power & Light	EO-2005-0270	Sale
Cass County Telephone Company	TC-2005-0357	Complaint
Cass County Telephone Company	TO-2005-0237	Investigation
Sendero SMGC	GM- 2005-0136	Acquisition
Missouri Gas Energy	GA-2005-0107	Certificate
Missouri Gas Energy	GA-2005-0053	Certificate
Missouri Gas Energy	GO-2005-0019	Acquisition
Trigen-Kansas City Energy Corp.	HM-2004-0618	Sale
Atmos Energy Corporation	GM-2004-0607	Acquisition
Emerald Pointe Utility Company	WA-2004-0582	Certificate
Emerald Pointe Utility Company	WA-2004-0581	Certificate
DOD-CO Enterprise / Shell Rock	WM-2004-0449	Sale (Water & Sewer)
Missouri Gas Energy	GA-2003-0492	Certificate
Wilden Heights Water Company	WO-2003-0086	Sale
Aquila, Inc.	EM-2003-0091	Sale
Missouri Public Service Company	EM-99-551	Sale
Savannah Heights Industrial Treatment	SA-98-294	Certificate
Kansas City Power & Light Co.	EM-97-305	Sale
Oregon Farmer's Mutual Telephone	TO-00-049	Investigation

**Educational and Employment Background and Credentials**  
**of**  
**Karen K. Herrington**

I am currently employed as a Utility Regulatory Auditor III for the Missouri Public Service Commission (Commission). I was employed by the Commission in April 2007. Previously, I was employed by AT&T as a Regulatory Complaint Manager from December 1999 to February 2007. In that capacity I was responsible for addressing consumer and business complaints filed with various state and federal regulatory agencies. I earned a Bachelor of Science degree in Management Accounting and a Masters in Business Administration from Park University.

As a Utility Regulatory Auditor, III perform rate audits and prepare miscellaneous filings as ordered by the Commission. In addition, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases I have been assigned are shown in the following table:

<b>Case/Tracking Number</b>	<b>Company Name - Issue</b>
QW-2008-0003	Spokane Highlands Water Company
GO-2008-0113	Missouri Gas Energy - Infrastructure Service Replacement Surcharge (ISRS).
ER-2008-0089	Kansas City Power and Light
ER-2008-0090 and HR-2008-0092	Kansas City Power and Light, Greater Missouri Operations
GR-2009-0355	Missouri Gas Energy

## **Bret G. Prenger**

### **Education and Employment Background and Credentials**

I am currently employed as a Utility Regulatory Auditor II for the Missouri Public Service Commission (Commission). I began my employment with the Commission on June 2<sup>nd</sup>, 2008. I earned a Bachelor of Science in Accounting from Missouri State University, in Springfield, MO in May 2008. In earning this degree I completed numerous core Accounting and business classes. I look forward to earning my Masters in Business Administration in the near future.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings as ordered by the Public Service Commission. In addition, I review all exhibits and testimony on my assigned issues, develop adjustments and issue positions which I then support by work papers and written testimony. For those cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Other cases I have been assigned to or participated are:

<b>Case Number</b>	<b>Company Name - Issue</b>
WR-2010-0111	Lake Region Water and Sewer Company (LRWS)
SR-2010-0110	Lake Region Water and Sewer Company (LRWS)
GR-2009-0355	Missouri Gas Energy (MGE), a Division of Southern Union (Electric)
HR-2009-0092	KCP&L Greater Missouri Operations Company (GMO) - L&P (Steam)
ER-2009-0090	KCP&L Greater Missouri Operations Company (GMO) - MPS and L&P (Electric)
ER-2009-0089	Kansas City Power & Light Company – Direct Report- Material and Supplies, Prepayments, Advertising and Rate Case Expenses
GO-2009-0009	Missouri Gas Energy (MGE) – Infrastructure Service Replacement Surcharge (ISRS)
SR-2008-0389	West 16 <sup>th</sup> Sewer Company
SR-2008-0388	WPC Sewer Company

**MISSOURI PUBLIC SERVICE COMMISSION**

**STAFF REPORT  
COST OF SERVICE**

**APPENDIX 2  
Support for Staff Cost  
of  
Capital Recommendations**

**LAKE REGION WATER & SEWER COMPANY**

**CASE NO. SR-2010-0110  
&  
CASE NO. WR-2010-0111**

*Jefferson City, Missouri  
January 2010*

**LAKE REGION WATER and SEWER COMPANY**  
**CASE NO. WR-2010-0111 and SR-2010-0110**

**Weighted Cost of Capital as of September 30, 2009**  
**for Lake Region Water & Sewer Company**

Weighted Cost of Capital Using  
Common Equity Return of:

<u>Capital Component</u>	<u>Amount</u>	<u>Percentage of Capital</u>	<u>Embedded Cost</u>	<u>8.00%</u>	<u>8.50%</u>	<u>9.00%</u>
Common Stock Equity	\$514,404.60	16.36%	-----	1.31%	1.39%	1.47%
Long-Term Debt	<u>\$2,629,091.40</u>	<u>83.64%</u>	5.01%	<u>4.19%</u>	<u>4.19%</u>	<u>4.19%</u>
Total Capital (Rate Base)	<u>\$3,143,496.00</u>	<u>100.00%</u>		<u>5.50%</u>	<u>5.58%</u>	<u>5.66%</u>

Sources:

Response to Staff DR Nos. 0052 and 0060