BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of The Raytown Water Company's tariffs to provide for a permanent increase in rates for water service.	)))	Case No. WR-92-85

APPEARANCES

Ronald C. Spradley and Derron D. Gunderman, Spradley & Riesmeyer, 1500 Boatmen's Center, 920 Main Street, Kansas City, Missouri 64105, for The Raytown Water Company.

Jay D. Haden, Deputy County Counselor, Jackson County Courthouse, 415 East 12th Street, Kansas City, Missouri 64106, for Jackson County, Missouri.

Jeremiah D. Finnegan, Attorney at Law, 3100 Broadway, Suite 1200, Kansas City, Missouri 64111, for the City of Raytown, Missouri.

John B. Coffman, Assistant Public Counsel, Lewis R. Mills, Jr., First Assistant Public Counsel, and Douglas E. Micheel, Assistant Public Counsel, Office of Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of Public Counsel and the public.

William K. Haas, Assistant General Counsel, and Lee C. Tieman, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

HEARING EXAMINER: Edward C. Graham.

REPORT AND ORDER

On October 31, 1991, The Raytown Water Company (Company) filed with the Missouri Public Service Commission (Commission) revised permanent tariffs bearing an effective date of December 1, 1991. These revised tariffs were designed to increase the Company's rates for water service by an amount of $497,086, exclusive of gross receipts and sales tax. Also on October 31, 1991, the Company submitted similar revised tariffs to the Commission designed to increase Company's rates for water service by $497,086 *on an interim basis*. The proposed interim tariff was docketed as Case No. WR-92-88. On November 8, 1991, the Company filed an application for authority to issue $3 million of tax-exempt water facility revenue bonds under a program of the Missouri Environmental Improvement and Energy Resources Authority (EIERA). This application was docketed as Case No. WF-92-95.

On November 8, 1991, the Commission consolidated Cases No. WR-92-88 and WF-92-95, suspended the proposed interim tariff and established a procedural schedule for the consolidated cases. On November 27, 1991, the Commission suspended the Company's revised permanent tariffs filed herein until March 20, 1992. On December 24, 1991 the Commission's Report And Order in consolidated Cases No. WR-92-88 and WF-92-95 approved a Stipulation And Agreement and authorized the Company to issue the requested bonds and to file interim tariffs to produce additional gross annual revenues of $425,000, exclusive of gross receipts and sales tax, for service on and after January 1, 1992 and until permanent rate tariffs were approved in the case herein determined.

On January 3, 1992, the Commission issued its Suspension Order And Notice Of Proceedings which further suspended Company's revised permanent rate tariffs until September 20, 1992 and set a hearing for June 1 - June 5, 1992. Subsequent thereto, the Commission approved the applications to intervene filed by the City of Raytown, Missouri (City) and Jackson County, Missouri (County). On February 18, 1992 the Commission established the test year to be the twelve (12) months ending September 30, 1991, as updated through December 31, 1991. A local public hearing was conducted in the City of Raytown, Missouri on April 14, 1992. A prehearing conference began on May 4, 1992, resulting in a Nonunanimous Stipulation And Agreement between the Company and the Commission's Staff (Staff) being filed with the Commission on May 15, 1992. On May 20, 1992 a hearing was requested by the Office of the Public Counsel (Public Counsel). The Commission issued an order amending the procedural schedule on May 28, 1992 that set new dates for filing rebuttal testimony and surrebuttal testimony and rescheduled the start of the hearing to June 3, 1992. On May 29, 1992 the Public Counsel and City filed a Motion For Reconsideration Or Extension Of Procedural

Schedule. On June 2, 1992 the Commission issued an order resetting the procedural schedule, directing new filing dates for rebuttal testimony, surrebuttal testimony, amended hearing memorandum, amended case reconciliation, and setting the hearing for July 7 - July 10, 1992.

On July 6, 1992 the Company filed its Response To Amended Hearing Memorandum stating therein that it was withdrawing from the Nonunanimous Stipulation And Agreement it had previously entered into with the Staff and deemed it void.

The matters at issue in this case as set out in the Amended Hearing Memorandum, Exhibit 2, Staff's Addendum To Hearing Memorandum, Exhibit 5, and Company's Response To Hearing Memorandum, Exhibit 4, were heard at the hearing which convened on July 7, 1992 and continued through July 10, 1992. Pursuant to the briefing schedule, simultaneous briefs were filed on August 10, 1992 and simultaneous reply briefs were filed on August 18, 1992.

Background

The Raytown Water Company is a public utility corporation which provides water service subject to Commission jurisdiction in a service area comprised mainly of the City of Raytown, Missouri and consisting of approximately 6,600 customers. The Company is essentially owned and personally managed by Virginia Clevenger, Neal Clevenger, and Mark Clevenger. The Company buys the water it provides its customers from the City of Kansas City, Missouri (Kansas City). In June, 1991 the Company entered into a contract with Kansas City to purchase water. This contract is for twenty years and requires Company to build water storage of at least one million gallons within five years of the date of the contract. The contract allows Kansas City to curtail the supply of water to Company between the hours of 5:00 p.m. and 11:00 p.m.

As a result of these contract provisions, Company determined it would need to borrow up to $3,000,000 for construction of the additional storage it determined it needed, consisting of a two million gallon elevated storage tank and water line replacement totaling approximately $1,000,000. Based upon its accountants' audit of its operation, Company determined that it did not have sufficient cash flow to borrow the $3,000,000; and, thus, it submitted tariffs proposed to generate the cash flow needed on an interim basis, as well as on a permanent basis, to enable it to take advantage of tax-exempt revenue bond financing that was available through EIERA. The Company, Staff and Public Counsel entered into a Stipulation And Agreement which provided that the Company be authorized to issue the $3,000,000 EIERA bonds and to implement rates on an interim basis subject to refund which would increase revenues by $425,000, exclusive of gross receipts and sales tax. The increased revenue was to be obtained through a surcharge on all customer water bills. The bill for the average customer who used 6,000 gallons monthly would be increased 30 percent. The parties proposed that the revenues collected pursuant to the surcharge would be paid into an escrow account established with the trustee for the bonds and would be used only to pay interest, the annual letter of credit fee, income taxes applicable to the surcharge, any required principal payments on the EIERA bonds, and to satisfy debt coverage requirements for said bond issue. In addition, any amount not paid for those purposes would be treated as contribution in aid of construction. Additionally, Company agreed to file a new rate case within six months of the time the additional storage facilities were placed in service.

In its Report And Order in consolidated Case Nos. WR-92-88 and WF-92-95 effective December 24, 1991, the Commission approved the Stipulation And Agreement and authorized the Company to file and implement interim tariffs for service on and after January 1, 1992 and to issue the requested $3,000,000 EIERA bonds, all in accordance with the terms and conditions of the Stipulation And Agreement.

In making its Findings of Fact, the Commission found that an emergency existed under the historical standard as set out in ***Re: Missouri Public Service Company***, 20 Mo. P.S.C. (N.S.) 244, 250 (1975). Also, the Commission found there existed a threat to the Company providing safe and adequate service. The Commission pointed out that "[a]n interim rate increase is not a separate rate but only a temporary measure until permanent rates are set." ***State ex rel. Laclede Gas Co. v. P.S.C.***, 535 S.W.2d 561, 566-569 (Mo. App. 1976). The permanent rates to be determined herein in this case are contemplated to be in effect until the new construction is completed, tentatively scheduled by March 31, 1994. At that time, the said new facilities can be placed into the Company's rate base and traditional ratemaking treatment applied. The surcharge has been collected by the Company and utilized by it as dictated by the Stipulation And Agreement as approved in the interim Case No. WR-92-88. Thus, the Commission must determine the proposed use for the surcharge collected to date and must determine what is the proper ratemaking treatment to be afforded the Company from the effective date of this Report And Order until the next rate case, which will be decided using traditional ratemaking treatment with the Company's new construction being included in its rate base.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

I. Test Year

Company proposed a test year ending September 30, 1991, consisting of nine months actual and three months estimated financial data. Staff proposed a test year ending September 30, 1991, consisting of 12 months actual data, updated for known and measurable changes through December 31, 1991. On February 18, 1992, the Commission established the test year to be the 12 months ending September 30, 1991, as updated through December 31, 1991.

II. Revenue Requirement

A. Treatment of Surcharge

The salient point of fact in this case is that the Company is currently involved in a construction program necessary to provide safe and adequate service to its customers which, once completed, will increase the Company's rate base by more than 150 percent. The Company proposed and Staff concurred during the prehearing conference in Case No. WR-92-88 that the Company could not raise the necessary long term financing to complete the system improvements without some form of rate relief. The Staff also concluded during the prehearing conference that the Company could not meet the financial community's expected earnings requirements without collecting rates higher than those normally established through traditional ratemaking practices. Also, the Staff concluded that the Company would not produce the necessary funds for several years under traditional ratemaking. Normal ratemaking treatment in Missouri requires that the facilities be in service before the Company is allowed to earn a return on them. In this case the funds to be borrowed consisted of $3,000,000 from the issuance of EIERA bonds. The Company had not been able to recover its authorized rate of return in recent years and virtually had no money to help finance the construction.

Also, the Company did not believe it could raise any significant cash from issuance of common stock or preferred stock.

The financial community at large wants assurances that the Company will have adequate rates, in effect, to cover all scheduled interest and principal payments and adequate rates to enable the Company to meet debt service coverage requirements and provide necessary cash flows to operate the utility until the next rate proceeding.

With these financial constraints, the Company, Staff and Public Counsel agreed in the interim Case No. WR-92-88 to a surcharge tariff. The surcharge tariff allowed the Company to collect a preset level of funds to meet the financial requirements for the specific facility construction proposed. To put it succinctly, the surcharge was designed to meet the cash flow needs associated with the EIERA financing carrying costs until new rates from a future rate case would become effective. This case does not change the purpose and effect of the original interim Case No. WR-92-88. No principal payments on the $3,000,000 EIERA funds are due until 1995. The surcharge was intended by the parties in Case No. WR-92-88 to pay for the carrying costs of the borrowed funds. In addition to the surcharge calculation, it would be necessary for the Company to have adequate cash flows to meet debt service coverage requirements of the bond instruments themselves and adequate secondary cash flows to cover all needs other than the EIERA carrying costs. The use of a surcharge for these purposes is outside traditional ratemaking practices and the Company, Staff, and Public Counsel in entering into a Stipulation And Agreement in Case No. WR-92-88 ostensibly agreed that nontraditional ratemaking was required for this unique set of circumstances. Again, it must be emphasized that the main concern of the surcharge in Case No. WR-92-88 and the main concern of the Commission in this case is providing the Company with sufficient rates to pay the carrying costs of the EIERA bonds by means of a surcharge calculation and to meet the Company cash flow requirements under the bond instruments plus adequate secondary cash flows to cover the normal utility company needs until the new plant facilities under construction are placed in service and traditional ratemaking can be applied.

Normally, one of three methods is used for compensating a utility for its capital costs or carrying costs incurred during the period of construction. These include an adjustment in the overall rate of return, the inclusion of construction work in progress (CWIP) in the rate base, and the allowance for funds used during construction (AFUDC).

The rate of return allowance method has not been widely used in this state. Establishing an overall fair rate of return is very complex and complicating it with new construction capital costs just adds to the problem. Also, applying total revenue requirement without including the plant in service results in a very high equity return to provide for adequate cash flows. This method could provide a windfall for a company at the expense of the ratepayer, who is required to pay the rate of return.

The second method concentrates on rate base rather than rate of return. With CWIP, the company is allowed to place construction work in progress into rate base as it occurs. Thus, a fair rate of return is allowed on plant investment which is not yet performing public service. The traditional argument against CWIP is that present customers are burdened with costs incurred for the benefit of future customers. Missouri by statute does not allow CWIP for use in the construction of electric facilities.

The third method, AFUDC, assumes that the company is putting up the money for the carrying costs of the borrowed capital during construction. The idea is that the investors are entitled to that money back. AFUDC reflects these financing costs on a deferred basis. AFUDC allows for the total costs of financing to be paid, like any other expense, by adding the financing cost to the rate base when the plant is placed in service. Again, however, investors pay the financing during construction when AFUDC is employed; and, it is allowed to be capitalized when the plant is placed in service.

In rejecting all three of the traditional methods, the Company and Staff propose the use of the surcharge to pay for the carrying costs incurred by the Company during the construction period. The original concept of Company and Staff, both in the Stipulation And Agreement in the interim Case No. WR-92-88 as well as in their present proposal, was designed to "zero out" the cash flows of the surcharge for the period of time when construction takes place. No principal payments will be made on these bonds until 1995. Thus, ratepayers are paying for the carrying costs of the new construction and are not making a contribution towards the construction costs that involve material or labor. The general idea is to consider this period from January 1, 1992 to April 1, 1994 as a separate, isolated rate period for the Company. If the surcharge is correctly figured and the proper rate of return applied to the Company's plant facility other than that under construction, then the Company's revenue and costs, including EIERA carrying charges, during this period will essentially zero out. The ratepayers are paying for the carrying charges of plant and construction without getting the present use of it; however, the surcharge will not later go into the Company's rate base and rates will, thus, not be higher in the future for the ratepayers as it would be if AFUDC were applied. Also, because of the escrow requirement for the surcharge, the ratepayers and the purchasers of the EIERA bonds are assured that the money will be used only for payment of carrying costs. This allows for the lowest possible required debt service coverage. The escrow requirement also keeps a specific amount out of future rate base so that the ratepayer will not be paying for the carrying charges twice. This bifurcated ratemaking process assures the ratepayer of not being double-charged by the Company.

Public Counsel contends that all surcharge collections should be treated as contributions in aid of construction (CIAC), yet another nontraditional method of accounting for carrying costs for major construction. CIAC is normally an accounting tool peculiar to regulated industries. Utilities are mandated to supply reasonable and adequate service to all those who want such service and are willing to pay for it. Utilities thus have been provided with the opportunity to request advances from customers who demand the unusual or extraordinary and/or who are located in sparsely populated areas far from existing utility equipment. No future refund is anticipated when the customer makes a contribution in aid of construction. The property is deducted when calculating rate base for a company. Utilities have been allowed to include depreciation on contributed property as a legitimate operating expense. Contributions in aid of construction are taxable and are a liability on the Company's balance sheet. Thus, treating the surcharge collections as CIAC would have the effect of creating a liability on the Company's balance sheet and would require higher revenues for purposes of meeting the debt service coverage requirement and secondary cash flow requirements. To counteract this effect, Public Counsel is proposing that surcharge revenue be recorded as CIAC <u>for ratemaking purposes only</u>. Public Counsel states that the Company can record surcharge revenue as a source of income for book purposes and utilize AFUDC. The accounting process would consist of two steps. First, when the surcharge is billed, the Company would simply record it as revenue. Subsequently, when the Company records the monthly amount of AFUDC on the construction project, it would also record CIAC in an amount equal to the monthly amount of surcharge originally recorded as revenue in the first step. The Public Counsel essentially wants the surcharge collection to be counted as revenue instead of being treated as a liability.

The City has proposed an even different alternative for the surcharge. It suggests that the surcharge revenues serve as payments for a junior series of *no-cost or low-cost preferred stock or common stock. It also proposes that these* payments be included as contributions in aid of construction. It suggests that this equity mechanism would circumvent the provisions of the Internal Revenue Code whereby contributions in aid of construction are taxable income currently.

The Commission is of the opinion that the surcharge treatment as originally agreed to in the Stipulation And Agreement in Case No. WR-92-88 and as currently proposed by Staff and Company should be adopted. This treatment has already been approved by the Commission in Case No. WR-92-88. The EIERA bonds were issued and sold to purchasers who depended on the ratemaking treatment already afforded Company. The Commission does not want to appear fickle or send mixed messages to the financial community at large as to its position when it approves rates for a company. To do otherwise would, in all probability, adversely affect future financial transactions of regulated utilities, especially when rates were approved on an "interim" basis or "subject to refund" basis. Also, beyond that primary consideration, the Commission believes that there is a contractual legal effect to the Stipulation And Agreement that the Staff, Company, <u>and</u> Public Counsel entered into and which was ultimately approved in Case No. WR-92-88. While the Public Counsel therein retained the right to reconsider future ratemaking treatment, it full well knew that EIERA bonds would be issued and that purchasers of the bonds would rely on that agreement as approved by the Commission. In other words, the Commission does not believe that the Public Counsel can have it both ways. The Commission does not want to alter a form of ratemaking treatment on which bond purchasers relied.

Beyond the <u>reliance</u> considerations, the Commission is of the opinion, considering the unique circumstances of the Company, that the surcharge treatment as proposed by Company and Staff is the proper treatment. There is little doubt that the carrying costs for the new construction must be paid for by the ratepayer. Therefore, the Commission is of the opinion that the investors should not reap a benefit from the payments and that the ratepayer should be required to pay the minimum possible in this case. The only question is what mechanism affords the fairest and most reasonable treatment for the ratepayer and Company. In providing the money for the carrying costs, the ratepayer is not getting the benefit of any present use of the new construction. What the ratepayer does get is the surcharge clearly designated as carrying costs and eliminated from future rate base so that future rates do not include a double payment by the ratepayer. Also, the ratepayer, due to the surcharge being escrowed and the EIERA funding, benefits from a lower debt service coverage requirement and lower costs of capital that in effect allow for the lowest possible nonsurcharge rates. The fundamental problem with the Company's financial picture is that its last rate case was in 1982 and it has consistently failed to reach its allowed rate of return over the past ten years. Therefore, it has no equity built up to finance new construction, while, at the same time, it should be understood that the ratepayers have not had to pay higher rates over the past ten years. Thus, even though the ratepayer is being forced to pay the carrying costs during the construction period, the proposal put forth by Company and Staff is the best alternative for the ratepayer in the long run. There is a rate adjustment; but the carrying costs are essentially eliminated as a cost to the ratepayer after the surcharge is collected.

Public Counsel's proposal to consider CIAC treatment for all surcharge collections except those refunded is flawed for several reasons. The Company is obligated under its bond instruments to maintain adequate debt service coverage of a 1.5 ratio as set out in the bonds:

Additional Covenants

> (a) Debt Service Coverage: The Obligor will maintain a *minimum debt service coverage ratio of 1.5 to 1 during any* such time as: (a) the Debt Service Reserve Fund pursuant to the Indenture; or (b) a fund otherwise pledged to the Bank; does not equal a minimum of $150,000. If one such fund does equal at least said amount the Obligor will maintain a minimum debt service coverage ratio of 1 to 1, all as tested annually as of the end of each fiscal year. Said ratio shall be determined by dividing the sum of Net Income plus depreciation and interest expense by the amount of current maturities of long term debt including interest expense of the period.

In addition, the Company is obligated to maintain adequate secondary cash flows to provide adequate levels of service. It is possible that a company could be showing a book profit and still be effectively bankrupt because of inadequate cash flows. The problem with Public Counsel's surcharge treatment proposal is that it effectively eliminates all the surcharge collections from consideration as revenue for cash flow purposes. Contributions in aid of construction are a liability on the balance sheet. The Commission does not believe that the Company should be required to maintain two sets of books as recommended by Public Counsel in this case. Treating the surcharge collections as CIAC causes the Company to have insufficient revenues for purposes of debt service coverage calculation as required by the bond instruments and for purposes of maintaining adequate secondary cash flow. Public Counsel is also proposing that the difference between the interim surcharge and the total revenue increase allowed Company be refunded to the ratepayer. The Public Counsel has failed to recognize the impact of a refund of the difference between interim rates and the total revenue increase allowed Company on the debt service coverage and secondary cash flows required of Company. Any refund to ratepayers would result in a reduction of revenues for debt service purposes and secondary cash flow purposes. The likelihood is that the overall rate of return under Public Counsel's surcharge treatment proposal would need to be much higher for the Company in order to counteract the effects of CIAC treatment of the surcharge and meet the debt service coverage requirements and secondary cash flow requirements that the Company is obligated to maintain under the EIERA bond instruments and the general requirement of the financial community that companies maintain adequate cash flows to provide safe and adequate service and not go bankrupt.

As far as the City's proposal, it has the same defect as Public Counsel's proposal in that it does not provide the Company with sufficient operating revenues for debt service coverage requirements and secondary cash flow requirements. The Commission believes, based upon testimony of Staff's witness, that the IRS would not support the City's proposal and would consider it a transaction developed to avoid income tax liability. Also, the proposal creates uncertainties as to proper Securities and Exchange Commission (SEC) treatment, not to even speculate whether the Commission has the authority to order a company to issue preferred stock or common stock in the first place.

To summarize, the Commission adopts the proposal of the Company and the Staff as to the treatment for the surcharge collections, which is essentially the same treatment as was set out in the Stipulation And Agreement that was approved in Case No. WR-92-88. Also, as per said Stipulation And Agreement, any difference between the total of interest expense, letter of credit fee, and income taxes applicable to the surcharge and the amount collected by the Company under the surcharge, will be treated as contribution in aid of construction (CIAC). This CIAC treatment is allowed because any such payments, although there should not be any if Staff's calculations are correct, are truly contributions that would be in addition to the the amounts necessary for carrying charges. In concept, such amounts could either be refunded or used by the Company for payment of principal or new construction and as such would be true contributions in aid of construction.

The Commission in adopting Staff and Company's surcharge treatment determines that the best balance is obtained. The Company does not capitalize carrying costs in future rate base; and, the ratepayer does not have to pay for carrying costs in the future by having them capitalized in the Company's rate base. Under the unique circumstances of this case, the Commission determines the surcharge treatment herein adopted to be the most fair and reasonable treatment for both Company and the ratepayer.

B. Surcharge Amount and Surcharge Refund

Staff estimates that the amount billed as interim surcharge through September 30, 1992 will total $293,951. It is expected that the new water storage tower and transmission mains will be placed in service no later than March 31, 1994. For the period ending March 31, 1994, Company will have EIERA bond interest payments of $387,620 and letter of credit fee payments of $80,888 for a total cost of $468,508. Revenues of $171,000 above the surcharge amounts billed through September 30, 1992 will be needed to pay the letter of credit fee and interest through March 31, 1994. These additional required revenues equate to $114,000 on an annual basis, which the Staff proposes as the amount of surcharge going forward. Staff proposes that these amounts collected under the surcharge and including the amounts previously collected be placed in escrow for interest and letter of credit fee payments as are incurred through March 31, 1994. Staff expects this escrow fund to zero out by March 31, 1994. Thus, Staff does not expect, under its position, that there would be any funds available for refund to the ratepayers or CIAC treatment.

The Commission in adopting Staff and Company's surcharge treatment necessarily must adopt the calculations as to the proper amount of surcharge. The Public Counsel and City have recommended surcharge amounts of $51,745 and $100,224, respectively, that are based on surcharge treatment not adopted by the Commission herein.

Therefore, the Commission determines that the surcharge amount going forward will be set at the amount of $114,000 on an annual basis as recalculated by Staff. To the extent that the surcharge collects more cash than estimated, CIAC treatment is allowed the ratepayer as to those funds to be used for construction purposes or retirement of principal. No refund to ratepayers is allowed as to any past or any future surcharge revenues.

C. <u>Base Rate Increase Reconciliation</u>

The Company's originally filed tariffs produced additional revenues of $497,086 on an annual basis. After updating its figures to convert previously projected figures for the last three months of the test year to reflect actual figures for a test year of 12 months ending September 30, 1991 and reflecting adjustments agreed to as part of the prehearing conference of early May 1992, Company's additional revenue requirement requests were reduced to $495,347, exclusive of gross receipts tax, on an annual basis. During the hearing, Company eliminated one issue by accepting the adjustment proposed by Public Counsel to include rental revenues on Company vehicles and equipment in test year revenues. This increased test year revenues by $1,793, reducing Company's request for additional revenues from $495,347 to $493,554.

The Staff presented testimony supporting a base rate increase of $304,056 (which had been adjusted downward from $304,355 during the hearing), and which along with the surcharge of $114,000 reached a total additional revenue requirement of $418,056 on an annual basis. This amount includes the $1,793 vehicle expense issue. As adjusted as per agreement of Company and Public Counsel, Staff's total additional revenue requirement is $416,263 on an annual basis.

The Public Counsel and City's position for reconciliation purposes adopted the Staff's starting point for base rate. The Case Reconciliation filed by Staff as Exhibit 3 is as follows:

	Public Counsel	City
Starting Point for Base Rate Increase: (1)	$304,355*	$304,355*
(A) Payroll Increases:		
1992 Nonmanagement Increase:	($2,488)	(2)
1991 Management Increase:	($5,103)	(2)
(B) Additional Field Employee:	(2)	($23,914)
(C) Vehicle Expense	($1,793)	(2)
(D) Rate of Return:	(2)	(3)
(E) Bulk Water Sales:	($379)	(2)
(G) Treatment of Interim Surcharge Revenues as CIAC:	($29,209)	(3)
(I) Rate Case Expense:	($44,847)	($44,847)
	$220,536	$235,594
Starting Point for Surcharge: (1)	$114,000	$114,000
(F) Surcharge Calculation:	($62,255)	($12,776)
(G) Treatment of Interim Surcharge Revenues as CIAC:	$25,792	(3)
	$77,537	$101,224
Total Revenue Increase:	$298,073	$336,818
(H) Refund of Interim Surcharge:	(4)	(2)

(1) As set forth in issue "J",** the parties support different total dollar starting points:

Company	$497,086
OPC/City	$418,355
Difference	$ 78,731

The Staff's position is that the Second Supplemental Direct Testimony of William A. Meyer, Jr. appropriately resolves all issues resulting in a total revenue requirement of $418,355

(2) Party has not stated a position on this issue.

(3) Amount is not contained in prefiled testimony.

(4) Refund would be $425,000 interim rate increase less the total revenue increase approved in this case.

* (Staff adjusted its starting point from $304,355 to $304,056 during the hearing.)

** Refers to Exhibit 2, Amended Hearing Memorandum, and Issue "J" therein which is entitled - Reconciliation Issue.

Since Company withdrew from the Nonunanimous Stipulation, the Commission hereby adopts Company's revenue requirement as the starting point for base rate increase for further examination and findings herein and specifically rejects Public Counsel's methodology for overall revenue requirement for the Company.

Public Counsel submits that Company's necessary revenues should be computed on a <u>total company basis</u> with no bifurcated treatment. Public Counsel essentially rejects the Staff concept of surcharge and calls surcharge the minimum additional revenue above the revenue that must be produced by base rates in order to meet the EIERA bond coverage ratio requirements. On this basis, Public Counsel's surcharge recommendation is $51,745. Public Counsel alleges numerous defects in Staff's secondary cash flow analysis, which it finds unnecessary in the first place. Secondary cash flow would be that amount required above the debt service coverage ratio of 1.5 as previously set out herein in the Company's bond instruments, which is needed by the Company in order for it to survive and provide safe and adequate service. Staff believes such secondary cash flows are necessary and that the Company should not be required to exist on a marginal basis as Public Counsel suggests. The defects Public Counsel attributes to Staff's secondary cash flow analysis are as follows: (1) reliance on unaudited data, (2) inclusion of a working capital loss repayment for general operating expenses, (3) inclusion of preferred and common dividend payments, (4) inclusion of nonessential construction projects during an emergency situation, and (5) too high rate case expense. Public Counsel also believes that the surcharge collected to date should be partially refunded, being the difference of net interim surcharge revenue and the total revenue increase granted herein.

The Commission determines that Public Counsel's methodology for secondary cash flow analysis is incorrect in that Mercantile Bank, which issued the letter of credit to the Company, in calculating the debt service coverage ratio will use the actual Company results and not normalized earnings. Also, the Commission finds that the Company cannot cut its operation to Public Counsel's proposed level and remain a viable business. The Company is required to make certain cash outlays including working capital loan repayment, preferred and common dividend payments, deferred rate case expense, and undertake normal construction other than the construction with the EIERA funds. While these expenditures can be tightly budgeted in emergency times, they cannot be ignored or completely eliminated. Staff has estimated a negative cash flow of $61,898 for 1992 and a positive cash flow of $36,762 for 1993. These amounts are estimates and while not adopting them to control all the issues decided in this case by the Commission, the Commission finds that they reasonably reflect the financial condition of the Company.

The Commission determines the starting point for considering the base rate increase to be Company's request of $379,554 ($495,347 Company's total revenue request - $114,000 surcharge - $1,793 vehicle expense adjustment).

D. Operating Expenses

(1) Payroll Increase

(a) Management

Staff has recommended an annualized management salary level of $111,520. Public Counsel has recommended an adjustment to Staff's position of $5,103 for a pay increase granted to management on January 4, 1991, amounting to $6,465.

Staff and Company have taken the position that the Company's emergency situation did not arise until after January 4, 1991 when the management pay raises were given. Prior to that date, on October 23, 1990, a letter was received by Company from the City of Kansas City regarding the Company's wholesale water contract. The letter included a first draft of a proposed contract. A meeting took place between the Company and Kansas City on December 3, 1990. This first draft contained language which required the Company to build additional storage and allowed Kansas City to cut off service during certain peak hours. The January 4, 1991 management pay raises were a result of the same October 23, 1990 Board of Director's meeting.

The Commission determines that the Company was well aware of the potential financial emergency on January 4, 1991, and, therefore, granting management salary increases was inappropriate. The contract with the City of Kansas City was entered into in June of 1991. Even at that date the appropriate action for the Company would have been to eliminate the management salary increases. It bears repeating that this Company is basically "family" owned and operated. The owners/managers should bear as much risk as the ratepayers when a financial emergency arises. At the least, any management salary increases should be forgone. The Commission therefore determines that the management salary increases given on January 4, 1991 by the Company should not have been granted.

The Public Counsel's adjustment of $5,103 is hereby allowed.

(b) Nonmanagement

In January of 1992 the Company granted a four percent wage increase for nonmanagement employees totaling $3,152. Public Counsel advocates a freeze on all salary and wage increases until the next rate case due to the emergency financial condition of the Company and an adjustment of $2,488.

The Commission finds that the wage increase was reasonable and warranted. Staff's analysis indicates that Company's nonmanagement employees are not overpaid and in fact, a comparison of salaries with similar water companies or departments shows that these employees of the Company are paid less. The

Commission determines that retaining experienced employees is very important for a company's viability and that wage increases that are reasonable should be granted. The wage increases do not appreciably affect the Company's finances.

Public Counsel's adjustment is disallowed.

2. **Third Management Position**

The Company has three top management positions which have a total annualized salary level of $147,808. The Company's position is that these three management positions are necessary for the operation of the Company and that the salary levels are justified. The Staff has not stated a position as to the number of management positions that the Company should have, but it has stated that the annualized management salary level should be $111,520 for all top management regardless of the number of managers. The Commission rejects the Company's recommendation as to the third management position issue. Essentially, Staff has proposed to adjust the Company's payroll expense by eliminating the salary and related payroll costs of one of the three management employees of the Company. The Staff's analysis shows that Company has a cost for top and middle management of $27.00 per customer, compared to $17.79 for the City of Independence, Missouri water system, $16.17 for St. Joseph, and $12.23 for Water District #2, Jackson County, Missouri, which are valid comparisons. Also, the ratio of top management to customers for Company is 1 to 2,200 while the other companies range from 1 to 6,400 to 1 to 9,667. The Commission thus finds it is clear that there are too many management positions at Company and that Staff's recommendation that Company be run by fewer management employees is more reasonable, and that Staff's annualized figure of $111,520 for top management level salaries is reasonable.

Staff's adjustment of $36,288 is hereby allowed.

3. Additional Employee

Testimony was presented that the Company needed an additional field employee in order to perform daily maintenance and service requirements and to implement new construction and testing programs. The Company estimated a payroll expense of $28,080 plus payroll taxes and fringe benefits. The Staff recommended the hiring of the additional employee at a salary of $23,914, to which Company agreed. The City objects to the employment of an additional person and the Public Counsel has no position.

The Commission finds that an additional employee is required by the Company to implement new programs and that $23,914 is a proper salary as recommended by Staff. Staff offered detailed testimony of the additional work it was requiring of Company that would result in the need for 2,799 additional man-hours. The additional work involved meter testing, backflow device work, detector checks, valve exercising, valve box work, lead and copper sampling, and new construction work. The unrefuted testimony also pointed out that after adding another employee the Company's field employees relative to number of customers and feet of pipe is comparable to the level of field employees working service jobs at other similar water utility companies. As of the date of the hearing, the employee's salary is a known and measurable expense and it is a legitimate need of the Company and the Company can hire the employee at any time.

City's adjustment is disallowed.

4. Bulk Water Sales

This issue involves the treatment of $379 of bulk water sales. Public Counsel proposes an adjustment of $379 to Company's revenue requirement and a requirement that Company file a tariff regulating bulk water sales.

The Commission finds that this issue reflects the obvious lack of cooperation of the parties as to many aspects of this case. Considerable rate case expense has been incurred by the Company and City and considerable time has been incurred by Public Counsel and Staff. Unfortunately, the ratepayers suffer. Public Counsel has proposed that the Company buy a coin-operated machine which charges $.75 for the first 100 gallons of water and $.25 for each additional 100 gallons of water. Such a machine (if it exists) would cost $4,000, according to Staff, as opposed to the $2,000 machine Staff proposes Company buy, which charges $.25 per 100 gallons and likely exists. Company has agreed to Staff's proposal. The Commission can only say that common sense dictates supporting Staff and not deducting the $379 from the revenue requirement. Staff's proposed bulk water sale rate will recover the cost of the water the customers are purchasing. Any machine purchased can be considered in the next rate case for rate base purposes.

Public Counsel's adjustment is disallowed.

5. <u>Purchased Water Expense</u>

This issue involves unaccounted-for water loss suffered by the Company since all the water the Company sells is purchased from the City of Kansas City, Missouri. Since the Company's last rate case in 1982, unaccounted-for water loss has been calculated at 3.53 percent. The Staff has recommended that this figure should be updated to reflect more accurately a normal level of unaccounted-for water loss. Staff has calculated unaccounted-for water loss at 10.49 percent, deriving its figure by applying unaccounted-for water to the amount of water sold, upon average, from 10 of 14 recent years. The Company method applies unaccounted-for water loss to the amount of water purchased by the Company. Company, using its technique, is seeking a percentage of 13.5. Converting this figure to a percentage of sales establishes a percentage of 15.54 for the Company. Company uses a three-year average. The Company claims an adverse impact on revenue requirement of $32,548.

The Commission finds that Staff's analysis is more reasonable and more accurately depicts the normalized unaccounted-for water loss. The Staff excluded four years out of the last 14 years considered for averaging because of their abnormality. The data essentially stated that the Company lost nearly 40 percent of its water during those years. Such an enormous loss of water would have drastically moved the Company's net income line. This inevitable result did not occur. The Company should have had net losses for 1981, 1982, and 1985, but it did not happen. No overall trend occurs in examining the 10 years used by Staff. The water loss factors go up and down. Use of averages is a better technique when there is no distinct trend. The Company arbitrarily chooses three years (1987, 1988, and 1989) for its averaging. The Commission determines that a longer period of averaging will result in a more accurate normalization. Therefore, the Staff's unaccounted-for water loss percentage of 10.49 is adopted.

The Commission also agrees with Staff that unaccounted-for water loss should be contained and therefore orders that Staff's recommendation of a meter being installed for flushing of the water system be adopted by Company.

The Staff's adjustment of $32,548 is hereby allowed.

6. <u>Vehicle Expense</u>

During the hearing, Company accepted Public Counsel's proposed adjustment of $1,793 vehicle expense, which the Commission adopts.

7. <u>Rate Case Expense</u>

This issue concerns the amount of rate case expense that the Company will be allowed to recover as an expense and the length of the period for which recovery will be amortized.

Staff has proposed a bifurcated treatment of rate case expense with part of that expense to be capitalized as a cost of the tower construction and with the remainder to be used to calculate a normal level of rate case expense. Staff proposed an 18-month recovery period. Staff believes that, as a result of the tower construction and financing, it is appropriate to assign part of the costs of this rate case to the cost of the tower. Staff states that $59,080 is the appropriate amount to capitalize. This amount is the difference between the original estimated total of $116,191 and Staff's original estimated reasonable rate case expense of $57,111. The Company concurs in Staff's proposal.

The Public Counsel and City advocate the amount of rate case expense originally calculated by Staff, which is $28,556 on an annual basis.

The Commission finds that the total rate case expense of $169,184, as calculated by Staff, is reasonable under the circumstances of the case and in view of a full hearing being conducted. This amount consists of $114,588 for permanent case expense and $54,596 for interim case expense. These amounts are basically unrefuted by any testimony and are accepted by the Commission as reasonably incurred rate case expense. Staff's original figure was based upon costs of $79,191 incurred through January 1992, plus an estimate of $37,000 to complete the case. Staff recalculated its proposed level of rate case expense based upon updated information. These figures all became known and measurable prior to the hearing and Staff's recalculated expense figure is determined to be an appropriate amount for total rate case expense.

The Public Counsel has argued that the interim rate case is a nonrecurring expense and should be disallowed in rate consideration as an unlikely event to occur in the future, and that to allow it would constitute retroactive ratemaking.

The Commission rejects these arguments. In fact, an interim case is not a separate case but is, in fact, merged into the permanent rate case; thus, there is no retroactive ratemaking. Also, for the reason that an interim rate case is an extraordinary nonrecurring expense, the Company would normally be allowed to recover those expenses by amortizating them over a period of time. In fact, this argument is mooted by the finding of the Commission that an equivalent to those interim expenses should not be expensed out but capitalized. The amount of rate case expense ($59,080) which Staff proposes to capitalize is in fact greater than the interim expense ($54,596).

The Commission finds that Company should be allowed a total of $110,104 for normalized rate case expense. The Commission adopts Staff's amortization period as reasonable in that it assumes a new rate case will be filed so that new rates will become effective on April 1, 1994, which is 18 months after the rates approved in this case are expected to become effective.

The Commission therefore adopts Staff's recommendation of an annualized amount of $73,403 for rate case expense. Public Counsel's and City's adjustments are disallowed.

As to the $59,080 rate case expense that is attributed to tower construction, the Commission determines that the amount should be capitalized by the Company when the new construction, consisting of the new storage tower and related water transmission mains, is placed into service, tentatively scheduled for no later than March 31, 1994. The Commission, therefore, will consider treatment of this amount in the next rate case filed by Company.

D. Depreciation

The Staff has recommended that the Commission approve its revised depreciation schedule for use by the Company and the Company has agreed. The Public Counsel and City have not contested any of those issues.

Therefore, the Commission determines that the revised depreciation schedules as set out in the schedules attached to the direct testimony of James A. Merciel, Jr. (Exhibit 31) should be used by the Company.

E. <u>Rate Base</u>

The Staff has recommended that the rate base for the Company as set out in the Revised Schedules submitted as attachments to the Second Supplemental Direct Testimony of William A. Meyer, Jr. (Exhibit 25) be approved by the Commission. No other party has contested the Company's rate base.

Therefore, the Commission determines that the Company's total rate base of $1,868,989 should be approved.

F. <u>Return on Equity</u>

The overall rate of return for a company is established by estimating its cost of common equity and combining it with its costs for debt and preferred stock. Staff used the discounted cash flow (DCF) method for estimating the cost of common equity. The purpose of the DCF analysis is to estimate the return on equity necessary to attract investors to a company given the future value of the stock based upon its projected price and expected dividend per share. The DCF model is a market-oriented approach that uses three variables to determine a cost of equity of a company. These variables are the expected dividend and the current stock price and growth factor. Under the formula for the DCF, the return on equity is obtained by dividing the expected dividend by the current stock price and adding a growth factor. Staff witness testified that Company is not a publicly traded company and information was difficult to obtain to apply the DCF model. There are only a handful of publicly traded water companies in the country, and they are all significantly larger than Company. Staff's witness employed the use of a proxy group in calculating figures for the model. Staff's calculation reached a mean dividend yield of 7.16 percent and an average historical growth rate in the range of 5.57 percent to 6.38 percent which are the averages of the historical earnings and dividend growth, respectively. Staff's calculation using the DCF model proposed a reasonable cost of equity for Company in the range of 12.73 percent to 13.13 percent. The Staff recommended 12.73 percent to 13.13 percent as the appropriate return on equity and used the 12.73 percent figure in calculating its base rate increase recommendation.

The Company accepted Staff's proposal for the appropriate range of return on equity being 12.73 percent to 13.13 percent. However, Company has recommended that the higher end of the range be applied, or 13.13 percent. This would result in an additional $8,455 in revenues from Staff's recommendation.

The Public Counsel and City have offered no competent and substantial evidence on rate of return on equity; but, have concluded that the rate of return on equity should be lower than Staff's recommendation. The City has argued extensively that the return on equity under Staff's argument is "more like 23 percent on a 73 percent equity ratio." The Commission rejects this capital structure viewpoint as unfounded. The parties agreed to, and the Commission adopted for use in this case, an historical capital structure which does not include the $3 million issuance of the EIERA bonds. Essentially, the Company is attempting to service the bond issue through returns generated on a rate base of approximately $1.8 million and a surcharge. If the bond issue were to be included in the Company's capital structure, as investors will view this debt, the Company's common equity ratio would be slashed from 73.15 percent to 30.47 percent. This 73.15 percent figure of the City represents the common equity ratio <u>before</u> the EIERA bonds were issued. This figure is now purely a hypothetical ratio.

The Commission determines that, while the use of the DCF model is appropriate, the Staff has not properly analyzed the variable risk factors that go into setting a reasonable rate of return on equity for this Company. This rate case has received bifurcated treatment through a surcharge mechanism in addition to traditional ratemaking. The Company has issued $3 million in EIERA bonds, and, thereby, has incurred a greater risk. Staff through its witness, Mark Caplinger, states: "The EIERA issue significantly increases the leverage risk of the Company, which would traditionally increase the risks borne by the shareholders which would in turn cause them to require a higher return on their investment (to compensate them for the additional risk)." However, Staff argues in recommending the lower half of the DCF model range that several factors <u>lessen</u> the Company's risk, mainly: (1) hands-on management by the Company's shareholders; (2) well-established customer base; (3) location of the Company; (4) current business environment; and (5) interest rate levels. It is important to remember that the surcharge treatment establishes an escrow arrangement specifically designed to assure the Company, ratepayers, and bond purchasers that the interest and other carrying costs of the EIERA bonds will be paid. Thus, this surcharge mechanism allows for de minimis risk on these bonds to the Company until the surcharge zeros out, which is projected to be March 31, 1994. At that time the Company is required to implement or be in the process of implementing a new rate case based upon traditional ratemaking which includes the new construction in rate base. After the March 31, 1994 date the Company's risk may indeed increase. The Commission is of the opinion that due to those reasons specified by Staff that lessen risk, the Company's risk is lower as compared to what might be the perceived risk for a similar water company that was <u>not</u> basically family owned and operated. The Commission determines that the Staff's analysis inappropriately weighted a risk factor on the EIERA bonds during the operation of the rates set in this case. The Commission, therefore, determines that a lower rate of return on equity than that proposed by Staff is appropriate. The Commission is well aware of the need for the Company to meet its debt service coverage requirements under the bond instruments. However, the ratepayers have incurred and will incur all the expense of the carrying costs on the EIERA bonds until the new construction becomes used and useful. The Commission determines that it is fair and reasonable that the Company and its investors share the burden with ratepayers and receive only the minimum necessary return on equity. The Company and its investors have the opportunity to earn a higher actual return on equity and to improve cash flow if they are able to identify and adopt additional actions to reduce management costs or other expenses.

The Commission, for the above reasons, determines that a just and reasonable return on equity for the Company is 11.73 percent which is one percent less than the rate of return on equity recommended by Staff and 1.4 percent less than the rate of return on equity requested by Company. This lower return on equity reflects the lower risk to Company's shareholders by having the ratepayers fund the debt service during the period of construction. The reduced risk should be reflected in a reduced revenue requirement to be recovered in rates from ratepayers.

G. Overall Weighted Cost of Capital

The Commission has adopted Staff's capital structure other than return on equity and all other parties have concurred. (The capital structure does not include the $3 million EIERA bonds.) The short term debt is 2.33 percent of the total at a cost of 8.000 percent for a weighted cost of 0.19 percent. The long term debt is 12.85 percent of the total at a cost of 10.224 percent for a weighted cost of 1.31 percent. The preferred stock is 11.67 percent of the total at a cost of 10.000 percent for a weighted cost of 1.17 percent. The return on common equity is 73.15 percent of the total at a cost of 11.73 percent (as established by the Commission herein) for a weighted cost of 8.58 percent. The total weighted average cost of capital (WACC) is 11.25 percent. This is the amount to be applied to the rate base agreed to in this case.

III. RATE DESIGN

Rate design is the process by which a change in rates is distributed among the classes of customers taking Company's services, such as industrial, residential and commercial customers. The parties to this case have agreed to the Staff's recommendation as to the appropriate rate design to be applied to this rate increase and it is reflected in the schedules attached to the testimony of Staff witness Wess A. Henderson and marked as Exhibit 41.

The Commission determines the rate design to be applied to the Company to be fair and reasonable and should be adopted in this case.

IV. MANAGEMENT AUDIT

The City's initial brief in this case at page 8 requested that before the next rate case, within 18 months, the Commission should order a management audit of the Company. The Commission determines that enough questions have been raised during the course of these proceedings to justify the Commission Staff conducting a management audit of the Company. The Company has not previously been subject to a management audit by order of this Commission.

Since Company has not been subject to a management audit, the Commission determines that the City's recommendation is reasonable and will order a management audit of Company.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

Company is a public utility subject to the jurisdiction of the Commission pursuant to Chapters 386 and 393, R.S.Mo. 1986, as amended. Company's tariffs herein were suspended pursuant to authority vested in the Commission by Section 393.150, R.S.Mo. 1986, which places upon Company the burden of proof to show that the proposed increase in rates is just and reasonable.

Pursuant to Section 536.060, R.S.Mo. 1986, the Commission may approve a stipulation and agreement concluded between parties as to any issues in a contested case. The Commission has determined that the agreements among the parties as to the issues of vehicle expense, depreciation, rate base, capital structure other than return on equity, and rate design are reasonable, and, therefore, the Commission concludes that these stipulations should be approved.

The Commission must also determine what is a just and reasonable return on equity for the Company. In so doing the Commission ultimately relies on ***Federal Power Commission v. Hope Natural Gas Co.***, 320 U.S. 591, 602, 64 S. Ct. 281, 287, 88 L. Ed. 333 (1945), wherein the U.S. Supreme Court said: "It is not theory but the impact of the rate order which counts. If the total effect of the rate order cannot be said to be unjust and unreasonable, judicial inquiry ... is at an end. The fact that the method employed to reach that result may contain infirmities is not then important." The Commission in its determination also relies upon ***State ex rel. Mo. Public Service v. Pierce***, 604 S.W.2d 623 (Mo. App. 1980) wherein the Missouri Court of Appeals, Western District stated: "The considerations toward a fair rate structure and rate of return are too variable to be concluded by any single historical event or any single formula." In rejecting the argument in ***Pierce*** that the Commission arrived at its decision seemingly apart from the competent and substantial evidence, the Court further stated, "The contention that the data of actual cost of capital must always weigh decisively against an hypothetical 'ideal' return on equity to insure the integrity of the administrative determination, is a notion also dispelled." The court in *Pierce* made specific reference to the findings of the Commission in that case that provide support for the Commission's determination herein: "The earnings stability -- and hence a diminished investment risk -- augured by the improvement was stated as the basis for the 14.0% rate of return determination." Based upon its findings herein and the conclusions of law as herein set forth, the Commission finds and concludes that the return on equity as herein set out is just and reasonable.

Based upon the Commission's findings in this case, the Commission concludes that just and reasonable revised tariffs should be filed by Company designed to increase its total revenues exclusive of gross receipts and sales tax by $389,798 or 29.438 percent on an annual basis. The Commission also determines that since the rate increase approved herein exceeds seven percent, the provisions of Section 393.275, R.S.Mo. 1986, apply.

IT IS THEREFORE ORDERED:

1. That pursuant to the findings and conclusions of law in this Report And Order, the proposed tariffs filed by The Raytown Water Company in this case are hereby disapproved; and, that The Raytown Water Company be authorized hereby to file in lieu thereof, and in lieu of interim rates, for the approval of the Commission, tariffs designed to increase gross revenues exclusive of gross receipts and sales tax by the amount of $389,798 on an annual basis over the rates in effect prior to the interim rates.

2. That the tariffs to be filed pursuant to this Report And Order shall become effective for service rendered on and after September 20, 1992.

3. That the stipulations concluded among the parties as to vehicle expense, depreciation, rate base, capital structure other than return on equity, and rate design as herein set out are hereby approved.

4. That late-filed Exhibit 53 be received hereby into evidence. Late-filed Exhibit 53 is a Request For Reconciliation Based On Scenario dated September 2, 1992 from Examiner Graham requesting an updated reconciliation based upon a hypothetical set of decisions on the issues in this case. Late-filed Exhibit 54 is the response of the parties to late-filed Exhibit 53.

4. That The Raytown Water Company, pursuant to Section 393.275, R.S.Mo. 1986, shall file with the Commission a list of the city(s) and/or county(s) that impose a business license tax on them and shall therein estimate the annual increase in gross receipts resulting to the city(s) and/or county(s) from the revenue increase. Tariffs will not be approved until all the information is received.

5. That any objections not heretofore ruled upon be overruled hereby and any outstanding motions be denied hereby.

6. That The Raytown Water Company shall file revised tariffs creating a new rate case in time to utilize a test year in which the new construction to be paid for by the proceeds of the EIERA bond issue will be placed in service. This filing will be made not later than six (6) months after the new construction has been placed in service.

7. That the Commission's Staff shall file a request in a new case requesting an order authorizing a management audit of The Raytown Water Company.

8. That this Report And Order shall become effective on the 20th day of September, 1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch, Perkins and Kincheloe, CC., concur and certify compliance with the provisions of Section 536.080, R.S.Mo. 1986.

Dated at Jefferson City, Missouri, on this 8th day of September, 1992.