

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

In the Matter of Emerald Pointe Utility Company)
for a Certificate of Convenience and Necessity)
Authorizing it to Install, Own, Acquire, Construct,)
Operate, Control, Manage, and Maintain a Sewer)
System And Sewer Line in Taney County, Missouri)
Case No. SA-2012-0362

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and recommends, subject to the conditions contained herein, that the Missouri Public Service Commission (Commission) grant to Emerald Pointe Utility Company (Emerald Pointe or Company), Certificates of Convenience and Necessity (CCN) to provide regulated sewer services and sewer line in portions of Taney County, Missouri. In support of this *Recommendation*, Staff states as follows:

1. On May 1, 2012, Emerald Pointe filed an Application with the Commission, seeking a CCN for the authority to install, own, acquire, construct, operate, control, manage and maintain a sewer system and sewer line in Taney County, Missouri (*Application*). This *Application* was given Commission Case No. SA-2012-0362.
2. On May 2, 2012, the Commission issued an *Order Directing Notice and Setting Date for Submission of Intervention Requests* setting an intervention deadline of May 22, 2012. No parties intervened in this matter.
3. On May 23, 2012, the Commission issued an *Order Directing Staff to File a Recommendation*, directing Staff to file a status report or a recommendation regarding Emerald Pointe’s application no later than June 22, 2012. This filing complies with that Order.

4. Pursuant to Section 393.170, RSMo (2000), no water and/or sewer corporation shall provide service to consumers without first having obtained approval from the Commission. In determining whether or not to grant such approval the Commission has traditionally applied the five “Tartan Energy Criteria” established in *In the Matter of Tartan Energy Company, et al.*, 3 Mo. PSC 3d 173, 177 (1994). These criteria are further explained in the attached Staff Memorandum, Appendix A, and incorporated by reference herein.

5. As explained in Appendix A, Staff conducted an investigation into Emerald Pointe’s request including, but not limited to, a review of the feasibility studies provided by the Company and an evaluation of its estimated capital costs and proposed operating expenses. Based upon this review, Staff has determined that Emerald Pointe fulfills the requirements of the Tartan Energy Criteria.

6. Staff asserts that granting this CCN is for the public service and is not detrimental to the public interest.

WHEREFORE, Staff respectfully submits this *Staff Recommendation* for the Commission’s information and consideration and hereby requests the Commission issue an Order granting Emerald Pointe’s Certificates of Convenience and Necessity, Install, Own, Acquire, Construct, Operate, Control, Manage, and Maintain Sewer Systems and Sewer Line in Taney County, Missouri, subject to the conditions contained in Attachment A.

Respectfully submitted,

/s/ Rachel M. Lewis

Rachel M. Lewis Mo Bar No. 56073

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Missouri Public Service Commission
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or by electronic mail to all counsel of record on this 22nd day of June, 2012.

/s/ Rachel M. Lewis

Canyon developments. The Company originally obtained a CCN to provide water and sewer service in Case No. WA-96-96, and expanded service area for both water and sewer service in Case Nos. WA-2004-0581, SA-2004-0582, WA-2005-0306, and SA-2005-0307.

The sewer system presently consists of gravity collecting sewers, lift stations with force main sewers, and an extended aeration type treatment facility with a design flow capacity of 77,900 gallons per day, which along with disinfection and chemical treatment for phosphorus discharges directly into Table Rock Lake. The treatment facility is currently operating near its design capacity.

PLANT PROPOSED TO BE PLACED INTO SERVICE

The Company's primary purpose for seeking this CCN case is to expand its service area to include a lift station and a collecting sewer pipeline to transport sewage a total length of approximately two and one-half (2½) miles to the City of Hollister, Missouri for wholesale sewage treatment. This is referred to herein as the "Pipeline Project." There are three (3) distinct sections of the Pipeline Project, as follows:

1. A lift station that will be located at the site of, and will replace, the Company's existing sewage treatment facility, along with approximately 5,200¹ feet of force main located within the Company's existing service area, through which sewage will be pumped;
2. Approximately 2,300 feet of gravity sewer extending through private easements and across two (2) state highway rights-of-way, within the proposed service area requested by the Company; and
3. Approximately 6,300 feet of gravity sewer extending through an unrelated development called Table Rock Canyon, which EPUC will not own but is sharing in the cost of construction. This portion of pipeline is owned by the City of Hollister and is not within the service area being requested by EPUC.

The lift station and force main described in No. 1, above are in the design phase and are proposed to be constructed at some time in the future, possibly within the next year. The Company has begun construction of the portion of pipeline as noted in No. 2, above. The Company is simply sharing in the capital cost of the portion of the pipeline described in No. 3, above because it will use a portion of the pipeline capacity for sewage flow from its customers along with flow from users who are not the Company's customers. This portion is substantially complete. The Company's estimate of its total cost of construction is \$1,000,000.00.

¹ Distances in paragraphs 1,2, and 3 of this Section are the Staff's estimates taken from the maps the Company filed with its *Application*, and are not exact footages of the collecting sewer pipeline.

Significantly, the Pipeline Project will not benefit EPUC's existing customers until the planned lift station and force main are constructed and placed into service, as well as completion of the gravity sewer portion of the Pipeline Project. Therefore, Staff will not support any part of the Pipeline Project being included into rates until such time as the Pipeline Project is used and useful to the Company's customers.

ADDITIONAL REQUESTED SERVICE AREA

In addition to easements needed solely for construction of the portion of the Pipeline Project that is outside of its existing service area, the Company proposes adding additional service area adjacent to a portion of the Pipeline Project, in which future customers could be located. There are no stated plans for development at this time within this proposed service area. However Staff understands that, in obtaining easements through the properties within the requested new service area, the Company agreed to make sewer service available in the future if requested by the property owners or subsequent owners. Collecting sewers could be extended within the newly requested area by the Company's existing extension rule, as is customarily accomplished between sewer utilities and developers or other new individual customers. Therefore, Staff considers the request for new service area to be reasonable.

IMPACT UPON OPERATING EXPENSES AND MONTHLY RATES

This Pipeline Project will have an impact upon rates, because of the capital cost and because of the operating cost. Since this project will not be placed into service immediately after this CCN case however, any impact on monthly rates will not take place until the Company files a general rate case in the future.

The estimated capital cost of the Pipeline Project is \$1,000,000.00. Staff roughly estimates the increased capital cost that might be included in customers' rates in the future to be approximately \$24.12 per month. An alternative to undertaking the Pipeline Project would be to upgrade and expand, or simply replace, the existing treatment facility. There are several concerns about these alternatives, as follows:

- Continued use of the Company's existing site for sewage treatment is not desirable due to residential development in proximity, so an alternative site is desirable;
- The Company would ultimately require additional capacity for future growth;
- There is a need to address increasingly stringent water pollution prevention requirements.

Staff has observed treatment facilities that are required to meet stringent discharge standards to cost approximately between \$15 and \$20 per gallon. (The original cost for treatment capacity of the

existing sewage treatment facility, constructed in the mid 1990s, was approximately \$346,000, or \$4.44 per gallon based on Staff's estimate using EPUC's annual report for 2011.) EPUC's existing treatment facility has had a few problems meeting discharge limits for phosphorus, as have other treatment facilities discharging into Table Rock Lake. A new replacement treatment facility designed to reliably address the phosphorus discharge issue using biological treatment, as opposed to chemical treatment as EPUC does now, just to handle the same level of capacity of the existing treatment facility, would likely cost upwards of \$1,200,000. Additional capacity for future growth, which is necessary, would of course add to that cost. So, Staff concludes that the Pipeline Project is reasonable, and in fact cost effective from a capital cost standpoint.

However, a primary benefit of the Pipeline Project is elimination of the existing treatment facility operating near capacity, elimination of a need for any future treatment facility, and elimination of sewage treatment facility discharge into Table Rock Lake at the Emerald Pointe development. Instead, EPUC will be able to send sewage from its customer to the City of Hollister's larger regional sewage treatment facility that is designed to meet modern treatment and discharge specifications. The City of Hollister has a treatment facility of 3.2 million gallons per day, presently operating at approximately one-half of its capacity according to the current discharge permit as posted on the website of the Missouri Department of Natural Resources (DNR). Having been in communication with personnel at DNR, Staff understands that DNR is strongly supportive of the concept of EPUC eliminating its treatment facility and instead utilizing the available capacity of the City of Hollister's treatment facility.

Another benefit is that the Pipeline Project, and the City of Hollister's treatment facility, have additional capacity available for future customers, so there is a potential for a reduction in the "per customer" cost as future EPUC customers connect.

EPUC's operating costs will likely increase, primarily as a result of the cost of treatment that the City of Hollister will charge to EPUC. Staff understands through its investigation that the City of Hollister will charge \$2.52 per 1,000 gallons for sewage treatment. The Company is likely to have a considerable electric expense to pump the sewage using the proposed lift station, however considering elimination of the costs of operating the existing treatment facility including electric for aeration, repairs, sludge hauling, chemical treatment, effluent testing, and operations labor, Staff estimates the impact to operating costs would be an increase of approximately \$1.63 per 1,000 gallons. So, for a customer using 6,000 gallons per month, the total operations cost impact per month is estimated to be \$9.76, which along with the capital cost impact would be an estimated total impact of \$33.89. These estimates are based on costs from the Company's annual report and Staff's judgment in estimating certain costs, and not on audited information. Other factors with respect to financing cost, contributed funds, taxes, and other costs evaluated in an audit would impact these and other expenses used to calculate rates in a future rate case.

New Contribution In Aid of Construction (CIAC) Charge

There will also be an additional cost to future customers, which is a capacity charge of \$1,000 that will be paid by future customers to the Company and in turn paid to the City of Hollister as a one-time charge paid at the time a new connection is made. This does not impact existing customers, nor new customers who connect to EPUC's sewer system prior to the Pipeline Project being placed into service. Staff anticipates that this charge could be added into EPUC's tariff in the context of its next general rate case.

DEPRECIATION

Staff proposes to update the Company's depreciation schedule for its sewer utility plant items. The Commission's Engineering and Management Service Unit's recommended revised depreciation schedule is included with this memorandum as Attachment A, and incorporated herein by reference. Specifically, Staff recommends updating the depreciation schedule by adding depreciation rates for the following accounts and percentages: 354 (flow measuring devices 3.3%), 362 (Receiving wells 4.0%), and 391.1 (Office Electronic and Computer Equipment 14.3%).

THE TARTAN ENERGY CRITERIA

As is customary with most cases involving a CCN, the Staff is using criteria similar to that which was studied by the Commission in a past CCN case that was filed by the Tartan Energy Company to justify granting a CCN, as follows:

Is there a need for service?

Yes. There is a need for service, in that the Company's existing sewage treatment facility is operating near capacity and will need to be expanded or replaced at some time. However, it is desirable to eliminate the facility in favor of regional sewage treatment using an available large treatment facility operated by the City of Hollister.

Is the Company qualified to provide the service?

Yes. Emerald Pointe Utility Company is already providing safe and adequate service to its customers. This proposed Pipeline Project and additional service area would improve the Company's ability to provide service to existing and future customers.

Does the Company have the financial ability to provide the service?

Yes. The Company has demonstrated that it has financial resources to undertake this project in that it has plans in place and has already begun acting on that plan by proceeding with portions of the Pipeline Project.

Is the Company's proposal economically feasible?

Yes. The proposal is economically feasible, based on Staff's overall evaluation of system operations, although there will be a cost impact to customers in the future, which Staff expects will be a significant but reasonable level of impact.

Does the Company's proposal promote the public interest?

Yes. The Company's proposal to continue sewer service operations using this project improves its existing service area by eliminating a sewage treatment facility, which also improves the impact to another area closeby, Table Rock Lake, and provides sewage treatment availability to future customers.

Could the service be provided by another entity?

There are, at present, no other entities readily available to provide the service presently provided by and proposed to be provided by the Company.

OTHER MATTERS

EMCU will need to modify its tariff for sewer service to reflect the additional service area and a portion of the route of the pipeline. Such tariff sheets should be filed within twenty (20) days after the effective date of an order issued by the Commission granting a CCN.

EMCU is current on its assessments through fiscal year 2012, and has submitted annual reports through calendar year 2011.

Conclusion

Staff recommends that EPUC be granted the additional service area as requested. There is no request, nor recommendation, to change any rates or service charges in this case, although EPUC included in its feasibility study a need for increased rates, and Staff fully expects EPUC to file a rate case in the future to include the cost of the Pipeline Project, and to include a new one-time capacity charge to be paid to the Company by future customers and, in turn, to be paid by the Company to the City of Hollister. Further, while Staff expects a cost impact as a result of the Pipeline Project proposed by the Company to be constructed in the proposed new service area, Staff makes no recommendation at this time of the reasonableness of any cost or charge, and recommends that the Commission make no finding in this case with respect to any such cost or charge to be included in rates or charges.

STAFF'S RECOMMENDATIONS

Staff recommends the Commission approve EMCU's *Application* for a CCN for sewer service. Staff specifically recommends the Commission issue an order that includes the following:

1. Grants a Certificate of Convenience and Necessity to Emerald Pointe Utility Company for sewer service, for the additional service area requested in its application.
2. Requires Emerald Pointe Utility Company to file sewer tariff sheets as thirty (30) day filings, depicting the revised service areas as described in its application.
3. Requires Emerald Pointe Utility Company to apply the recommended revised depreciation schedule for sewer utility plant as shown in Attachment A, attached and incorporated by reference herein.
4. Requires Emerald Pointe Utility Company to maintain utility plant records and customer account records, and to keep all books and records, including plant property records, in accordance with the Uniform System of Accounts, version 1973 and revised in 1976 for water, and version 1976 for sewer.
5. Requires continued adherence by Emerald Pointe Utility Company to all Commission Rules regarding water system operation, sewer system operation, customer service and billing, and specifically including the timely submitting annual reports with the Commission, statements of revenue, and payment of annual assessments.
6. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the certificate, including future expenditures by Emerald Pointe Utility Company, in any later proceeding.

Attachment: A – Sewer Depreciation Schedule

Emerald Pointe Utility Company SEWER COMPANY
SCHEDULE of DEPRECIATION RATES
(SEWER)
SA-2010-0362

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
311	Structures & Improvements	3.0%	33	
COLLECTION PLANT				
352.1	Collection Sewers (Force)	2.0%	50	
352.2	Collection Sewers (Gravity)	2.0%	50	
353	Services (A & B)		NA	
354	Flow Measurement Devices	3.3%	30	
PUMPING PLANT				
361	Structures & Improvements		NA	
362	Receiving Wells	4.0%	25	
363	Electric Pumping Equipment	10.0%	10	
TREATMENT & DISPOSAL PLANT				
371	Structures & Improvements		NA	
373	Treatment & Disposal Facilities	4.5%	22	
375	Outfall Sewer Lines	2.0%	50	
GENERAL PLANT				
390	Structures & Improvements		NA	
391	Office Furniture & Equipment	5.0%	20	
391.1	Office Electronic & Computer Equip.	14.3%	7	
392	Transportation Equipment	13.0%	7	9%
393	Other General Equipment	10.0%	10	
394	Tools, Shop, and Garage Equipment	5.0%	20	
395	Laboratory Equipment	5.0%	20	
396	Power Operated Equipment	6.7%	13	13%
397	Communication Equipment	6.7%	15	
398	Miscellaneous Equipment	5.0%	20	

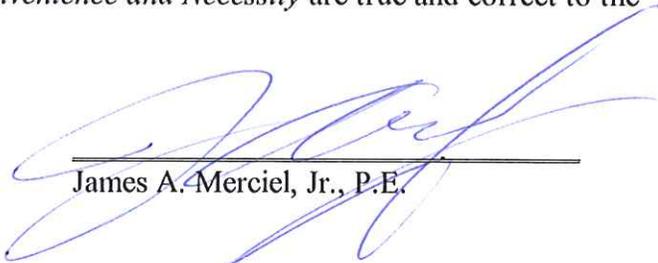
**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Emerald Pointe Utility)
Company for a Certificate of Convenience and)
Necessity Authorizing it to Install, Own,) File No. SA-2012-0362
Operate, Control, Manage and Maintain a)
Sewer System and Sewer Line in Taney)
County, Missouri.)

AFFIDAVIT OF JAMES A. MERCIEL, JR., P.E.

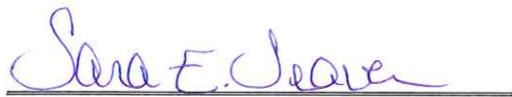
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Merciel, Jr., P.E., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Unit of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Staff Recommendation Regarding Certificate of Convenience and Necessity* in memorandum form; (3) that certain information in the *Staff Recommendation Regarding Certificate of Convenience and Necessity* were provided by him; (4) that he has knowledge of matters set forth in the *Staff Recommendation Regarding Certificate of Convenience and Necessity*; and (5) that such matters set forth in the *Staff Recommendation Regarding Certificate of Convenience and Necessity* are true and correct to the best of his knowledge, information and belief.



James A. Merciel, Jr., P.E.

Subscribed and sworn to before me this 22nd day of June 2012.



Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Emerald Pointe Utility)
Company for a Certificate of Convenience)
and Necessity Authorizing it to Construct,)
Install, Own, Operate, Control, Manage and)
Maintain a Sewer System and Sewer Line in)
Taney County, Missouri)

Case No. SA-2012-0362

AFFIDAVIT OF ARTHUR W. RICE, PE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

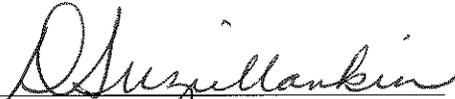
Arthur W. Rice, PE, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Arthur W. Rice, PE

Subscribed and sworn to before me this 22nd day of June, 2012.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071



Notary Public