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April 5, 2001

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General Counsel

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. WA-2001-53

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Cliff E. Snodgrass
Senior Counsel
(573) 751-3966
(573) 751-9285 (Fax)

CES:sw
Enclosure
cc: Counsel of Record

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

FILED²
APR 5 2001
Missouri Public
Service Commission

In the Matter of the Application of Foxfire)
Utility Company for a Certificate of)
Convenience and Necessity Authorizing it)
to Construct, Install, Own, Operate,)
Control, Manage and Maintain a Water)
System for the Public in an)
Unincorporated Area of Benton County,)
Missouri.)

Case No. WA-2001-53

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff) by and through one of its attorneys, and for its Recommendation states:


1. On July 26, 2000, Foxfire Utility Company (Foxfire) submitted an Application for a Certificate of Convenience and Necessity (CCN) to serve an unincorporated area of Benton County, Missouri.
2. §393.170 (3) RSMo 2000 provides, among other things, that the Commission may issue a CCN if it is "necessary or convenient for the public service." See also State ex rel. Intercon Gas v. Public Service Commission of Missouri, 848 S. W. 2d 593, 597 (Mo. App., W.D. 1993), wherein the Court of Appeals set forth five criteria which must be met before a Certificate may be issued.
3. Foxfire has met the legal standard required by §393.170 (3) RSMo 2000.

4. In the attached Memorandum, which is labeled Appendix A, the Staff recommends that the Commission issue an Order which:
- A. Grants Foxfire a CCN for the provision of water service in the service area requested in its Application.
 - B. Approves the Staff's recommended customer rates for Foxfire's use in the subject service area.
 - C. Directs Foxfire to submit new tariff sheets including a map and written description of the Spring Branch service area and the approved customer rates for the service area.
 - D. Directs the Staff to conduct a rate review for the Spring Branch Service Area once Foxfire has accumulated twelve months of records regarding its operation of the subject water system.
 - E. Approves the revised schedule of depreciation rates for Foxfire as shown on Attachment 2 of Appendix A.
 - F. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the requested CCN, including future expenditures by Foxfire, in any later proceeding.

WHEREFORE, the Staff respectfully recommends that the Commission issue an Order granting Foxfire a CCN for the service area requested. In addition, the Staff respectfully requests that the Commission enter an Order consistent with the recommendations listed just above, and, that the Commission find that the CCN is necessary or convenient for the public service.

Respectfully submitted,

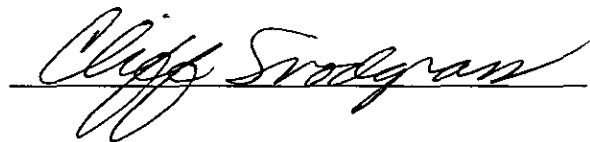
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 5th day of April, 2001.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WA-2001-53; Foxfire Utility Company

FROM: Dale W. Johansen – Project Coordinator
James Russo – Accounting Department
Rosella Schad – Engineering & Management Services Department
David Murray – Financial Analysis Department
James Merciel – Water & Sewer Department

 4/5/01
Project Coordinator/Date

 4-5
General Counsel's Office/Date

SUBJECT: Staff's Recommendation for Granting of a Certificate of Convenience and Necessity

DATE: April 5, 2001

Background

On July 26, 2000, Foxfire Utility Company (Foxfire) submitted an Application for a Certificate of Convenience and Necessity (CCN). The area that Foxfire proposes to serve is identified as its "Spring Branch Service Area" and includes portions of a subdivision development known as Arrowhead Estates and Lakewood Village, which is located within an unincorporated area in Benton County.

On August 3, 2000, the Commission issued an *Order and Notice* regarding Foxfire's Application. The *Order and Notice* directed the Commission's Records Department and Information Office to send out their standard public notices regarding the Application and also established a deadline of August 23, 2000 for interested parties to submit requests to intervene in the case. No requests to intervene in the case were submitted to the Commission.

On December 21, 2000, the Commission issued an *Order Directing Filing* that set February 20, 2001 as a date for the Staff to file a recommendation. The Staff subsequently requested, and was granted, an extension of that date to February 27, 2001. However, the Staff and Foxfire were not able to reach an agreement regarding settlement of the case by that date, and the Staff thus requested that an early prehearing conference be held.

On March 7, 2001, the Commission issued its *Order Setting Early Prehearing Conference and Directing Filing of Procedural Schedule*, setting a prehearing conference for March 29, 2001 and directing the filing of a proposed procedural schedule by April 5, 2001.

Foxfire, the Staff and the Office of the Public Counsel (OPC) attended the prehearing conference on March 29, 2001, and were able to reach agreement regarding the disposition of this case. As a result, this Memorandum is being filed in lieu of the ordered proposed procedural schedule.

The Subject Water System

Foxfire is acquiring an existing water system that was constructed by the developer of the area a number of years ago. Operation of this water system previously has not been regulated by the Public Service Commission, and also was not monitored by the Missouri Department of Natural Resources. The service area is a resort type area on the Lake of the Ozarks, with both full-time and part-time residential water customers.

The water system is somewhat typical of those found in resort type subdivisions. It has three wells, small diameter plastic piping, no water meters on customer service lines and no master meters at any of the wells. Without meters, it is not possible for the Staff to determine the capacity of the water system, nor to evaluate customer usage. While the Staff believes that the water system is generally adequate for ordinary usage, it is possible that water pressure problems may exist during high usage times such as holiday weekends. Such problems could arise either as a result of the lack of well pump capacity, the lack of distribution system capacity, or both.

Foxfire acknowledges that system upgrades are appropriate, and in fact hired a consulting engineer to explore possible system upgrades and the cost impacts of such upgrades. Although an engineering report has been completed, no specific proposals for system upgrades are being made at this time.

Staff's Investigation

As noted at the beginning of this Memorandum, Staff members from the Accounting, Engineering & Management Services, Financial Analysis and Water & Sewer Departments participated in the Staff's review of the subject Application. All Staff participants, as well as their up-line supervisors, were provided the opportunity to review this Memorandum prior to it being filed. Jim Merciel of the Water & Sewer Department created the initial draft of this Memorandum and comments received from the reviewers were incorporated therein for creation of this final version of the Memorandum.

As a part of its review of Foxfire's Application, the Staff conducted an audit of the available financial information regarding the subject water system and also conducted an inspection of the system. Staff also met on several occasions with the owners of Foxfire to discuss the disposition of this case.

Staff's Findings & Conclusions

Foxfire is an existing regulated utility that operates both a water and sewer system near Branson. The Commission granted Foxfire a CCN for that service area in Case No. WA-95-31. Based on its review of the subject Application and its familiarity with Foxfire, the Staff is of the opinion that, even though upgrades are necessary but are not being proposed at this time, it is in the public interest that Foxfire be granted a certificate to operate the subject water system. The Staff believes that Foxfire has the technical, managerial and financial ability to properly operate the system, and the Staff believes that there is an obvious need for the services that Foxfire will be providing. Additionally, as a regulated utility, Foxfire is in a position to provide better customer service than a developer operating the water system outside the authority of the Commission and the Department of Natural Resources.

Based upon its audit of the available financial information, the Staff is recognizing current net rate base of \$15,412 attributable to the subject water system. A summary of the recognized rate base is included on Attachment 1. At this time, the rate base is considered to be equity investment, however, Foxfire may utilize debt financing for future system upgrades.

As an existing utility, Foxfire currently has existing Commission-approved depreciation rates. However, the Staff is proposing to add a new account for computer equipment, and for this reason is recommending approval of the schedule for water depreciation rates shown on Attachment 2.

The Staff designed its recommended customer rates for Foxfire's Spring Branch Service Area based on 63 full-time residential customers, with an assumed water usage of 4,500 gallons per month, and 108 part-time residential customers, with an assumed water usage of 2,000 gallons per month. The Staff's recommended flat rates are \$22.28 per month for full-time residential customers and \$19.00 per month for part-time residential customers. The manner in which these rates were developed, and a related summary of the anticipated system operating expenses, are shown on Attachment 3.

Subsequent to the Commission granting a certificate for the subject service area, Foxfire will need to submit new tariff sheets for its existing tariff to the Commission for its approval. These tariff sheets will need to include a written description and map of the service area, and the customer rates for the Spring Branch Service Area.

As with other newly certificated service areas, the Staff proposes to conduct a future rate review to analyze the adequacy of the rates now being approved and to check for possible over earnings with respect to the Spring Branch Service Area. Since in this case there is already some information available regarding the operation of the subject water system, the Staff believes this rate review should be conducted once Foxfire has accumulated twelve additional months of records regarding its operation of the subject water system.

Anticipated Responses to Staff's Recommendations

As noted previously, Foxfire, the Staff and the OPC have reached an agreement regarding the disposition of this case and this Memorandum is being filed as a result of that agreement. Based on conversations with representatives of Foxfire and the OPC, the Staff is of the understanding that Foxfire and the OPC will be filing documents in the case papers noting their agreements with the information being provided with this Memorandum and further recommending that the Commission grant Foxfire a CCN pursuant to the Staff's recommendations.

Staff's Recommendations

Based upon the above, the Staff recommends that the Commission issue an order which:

- * Grants Foxfire a CCN for the provision of water service in the service area requested in its Application;
- * Approves the Staff's recommended customer rates for Foxfire's use in the subject service area;
- * Directs Foxfire to submit new tariff sheets for its existing tariff including a map and written description of the Spring Branch service area and the approved customer rates for the service area;
- * Directs the Staff to conduct a rate review for the Spring Branch Service Area once Foxfire has accumulated twelve months of records regarding its operation of the subject water system;
- * Approves the revised schedule of depreciation rates for Foxfire as shown on Attachment 2; and
- * Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the requested CCN, including future expenditures by Foxfire, in any later proceeding.

The Water & Sewer Department Staff will file a further recommendation regarding approval of the new tariff sheets that Foxfire will be filing in accordance with the Commission's order.

List of Attachments

- Attachment 1: Summary of Recognized Rate Base
Attachment 2: Schedule of Proposed Depreciation Rates
Attachment 3: Rate Design and Anticipated Expenses

Foxfire Utility Company
Spring Branch Service Area
Case No. WA-2001-53
Summary of Recognized Rate Base

Plant	Original Cost	Allocation Factor	Jurisdictional Plant 12/31/00	Adjustments	Adjusted Plant
Land	\$2,000.00	100%	\$2,000.00		\$2,000.00
Pumps October 1997	\$1,278.42	100%	\$1,278.42	575.29	\$703.13
Pump September 1999	\$639.21	100%	\$639.21		\$639.21
Pump February 2001	\$898.00	100%	\$898.00		\$898.00
Chlorinators January 2000	\$1,805.00	100%	\$1,805.00		\$1,805.00
Distribution Pipelines Feb 01	\$2,000.00	100%	\$2,000.00		\$2,000.00
Engineering Study	\$6,500.00	100%	\$6,500.00		\$6,500.00
Office Furniture 11/2000	\$284.00	50%	\$142.00		\$142.00
Fax Machine	\$139.98	50%	\$69.99		\$69.99
Computer Equipment:					
Printer August 1999	\$299.46	50%	\$149.73		\$149.73
Computer March 1999	\$1,103.88	50%	\$551.94	367.02	\$184.93
Computer January 2001	\$734.03	50%	\$367.02		\$367.02
Totals	\$17,681.98		\$16,401.31		\$15,459.00

	Depreciation Rate	Annual Depreciation	Account #'s
Land	n/a	n/a	
Pumps October 1997	10.0%	\$70.31	325
Pump September 1999	10.0%	\$63.92	325
Pump February 2001	10.0%	\$89.80	325
Chlorinators January 2000	2.9%	\$52.35	332
Distribution pipelines Feb 01	2.0%	\$40.00	343
Furniture	5%	\$7.10	391
Fax Machine	10.0%	\$7.00	391.1
Computer Equipment:			
Printer August 1999	10.0%	\$14.97	391.1
Computer March 1999	10.0%	\$18.49	391.1
Computer January 2001	10.0%	\$36.70	391.1
Totals		\$400.65	

	Accumulated Depreciation to 12/31/00	Retirements	Depreciation Reserve 12/31/00
Land	n/a	n/a	n/a
Pumps October 1997	\$225.59	\$0.00	\$225.59
Pump September 1999	\$82.56	\$0.00	\$82.56
Chlorinators January 2000	\$50.16	\$0.00	\$50.16
Distribution pipelines Feb 01	\$0.00	\$0.00	\$0.00
Office Furniture Nov 2000	\$0.89	\$0.00	\$0.89
Office Equipment Nov 2000	\$0.87	\$0.00	\$0.87
Computer Equipment:			
Printer August 1999	\$20.59	\$0.00	\$20.59
Computer March 1999	\$33.13	\$367.02	-\$333.88
Computer January 2001	\$0.00	\$0.00	\$0.00
Totals	\$413.80	\$367.02	\$46.78

Plant \$15,459.00
Reserve \$46.78
Net Rate Base \$15,412.22

Foxfire Utility Company
Spring Branch Service Area
Case No. WA-2001-53
Proposed Depreciation Rates

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate</u>
311	Structures & Improvements	2.5%
312	Collecting & Impounding Reservoirs	2.0%
313	Lake, River & Other Intakes	2.5%
314	Wells & Springs	2.0%
315	Infiltration Galleries & Tunnels	2.0%
316	Supply Mains	2.0%
317	Other Water Source Plant	2.0%
321	Structures & Improvements	2.5%
323	Other Power Production Equipment	4.0%
325	Electric Pumping Equipment	10.0%
326	Diesel Pumping Equipment (35 yr. + 5% salv)	2.7%
327	Hydraulic Pumping Equipment	2.5%
328	Other Pumping Equipment	5.0%
331	Structures & Improvements	2.5%
332	Water Treatment Equipment	2.9%
341	Structures & Improvements	2.5%
342	Distribution Reservoirs & Standpipes	2.5%
343	Transmission & Distribution Mains	2.0%
344	Fire Mains	2.0%
345	Services	2.9%
346.1	Meters - Bronze Chamber (35 yr. + 5% salv)	2.7%
346.2	Meters - Plastic Chamber	5.0%
346.3	Meter Installations	2.9%
348	Hydrants	2.5%
349	Other Transmission & Distribution Plant	3.3%
390	Structures & Improvements	2.9%
391	Office Furniture & Equipment	5.0%
391.1	Office Computer Equipment	14.3%
392	Transportation Equipment (7 yr. + 9% salv)	13.0%
393	Stores Equipment	4.0%
394	Tools, Shop, Garage Equipment	5.0%
395	Laboratory Equipment	5.0%
396	Power Operated Equipment	6.7%
397	Communication Equipment	6.7%
398	Miscellaneous Equipment	5.0%

Foxfire Utility Company
Spring Branch Service Area
Case No. WA-2001-53
Rate Design and Anticipated Expenses

04/05/01

Customers	Estimated Avg Month	Annual Water Use
63 Full Time	4,000	3,024,000
108 Part Time	2,500	3,240,000
171 Total		6,264,000 total annual gallons

Expense	Total	Customer	Commodity
Operator	4,800	2,400	2,400
Pump Maint	1,000	-	1,000
Distr Maint	5,400	2,700	2,700
Accounting	1,800	1,800	
Clerical	5,200	5,200	
Management	12,000	9,000	3,000
Telephone	800	800	
Supplies	200	200	
Insurance	500	500	
Electric Pumping	2,037	-	2,037
Billing	2,052	2,052	
Depreciation	401	132	269
Misc	500	500	
Chemicals	800	-	800
Return	2,131	703	1,428
Income Tax	-	-	-
DNR Lab fees	200	100	100
Secretary of State	22	22	-
PSC Assesment	196	196	-
Legal Exp	500	500	-
Software Support	250	250	-
Software Amort	57	57	-
Startup	620	620	-
		-	
Total Cost of Service	41,466	27,733	13,733

Monthly Customer Charge \$ 13.515

Commodity Charge \$ 2.192

FLAT RATES	FULL TIME	\$ 22.28
	PART TIME	\$ 19.00

Service List for
Case No. WA-2001-53
Revised: April 5, 2001 (SW)

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