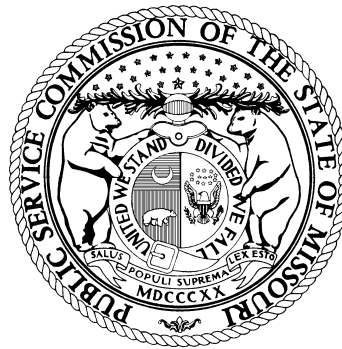


MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

COST OF SERVICE REPORT



LAKE REGION WATER & SEWER COMPANY

CASE NO. SR-2010-0110

**Horseshoe Bend Sewer
Shawnee Bend Sewer**

&

CASE NO. WR-2010-0111

Shawnee Bend Water

*Jefferson City, Missouri
January, 2010*

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

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

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

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

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

II. BACKGROUND OF THE LAKE REGION WATER & SEWER COMPANY

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

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

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

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

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

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

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

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

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

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

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

9 **III. EXECUTIVE SUMMARY**

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

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

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

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

Source: Staff Exhibit Model System-- Schedule 5

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

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

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

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

4 Mr. Hummel is providing direct testimony on this topic.

5 *Staff Witness: Cary G. Featherstone*

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

7 **A. Test Year**

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

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

16 **A. Summary**

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

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

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

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

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

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

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

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

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

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

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

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

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

17 **C. Capital Structure and Embedded Costs**

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

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

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

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

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

11 **D. Cost of Common Equity**

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

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

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

5 **E. Conclusion**

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

16 *Staff Witness: Shana Atkinson*

17 **VI. RATE BASE**

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

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

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

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

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

7 Adjustment numbers:

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

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

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

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

13 Adjustment numbers:

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

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

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

20 *Staff Witness: Karen Herrington*

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

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

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

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

20 Adjustment numbers:

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

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

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

24
25 *Staff Witness: Karen Herrington*

1 **C. Materials and Supplies**

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

9 *Staff Witness: Bret G. Prenger*
10

11 **VII. INCOME STATEMENT – REVENUES**

12 **A. Rate Revenues**

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

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

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

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

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

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

Adjustment numbers:

Shawnee Bend Sewer: Rev-2 (SR-2010-0110)

Horseshoe Bend Sewer: Rev-2 (SR-2010-0110)

Shawnee Bend Water: Rev-2 (WR-2010-0111)

Staff Witness: Bret G. Prenger

VIII. MISCELLANEOUS REVENUES

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

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

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

Adjustment numbers:

Shawnee Bend Sewer: Rev-3 (SR-2010-0110)

Horseshoe Bend Sewer: Rev-3 (SR-2010-0110)

Shawnee Bend Water: Rev-3 (WR-2010-0111)

Staff Witness: Bret G. Prenger

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

3 **A. Payroll**

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

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

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

9 Adjustment numbers:

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

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

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

13
14 *Staff Witness: Bret G. Prenger*

15 **B. Management Fees**

16 **1. Executive Management Oversight**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 Adjustment numbers:

19 Shawnee Bend Sewer: S-35 (SR-2010-0110)
20 Horseshoe Bend Sewer: S-35 (SR-2010-0110)
21 Shawnee Bend Water: W-31 (WR-2010-0111)
22

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

1 Adjustment numbers:

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

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

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

5
6 *Staff Witness: V. William Harris*

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

8 **1. Public Service Assessment Fee**

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

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

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

22 Adjustment numbers:

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

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

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

26
27 *Staff Witness: Karen Herrington*

2. Property Tax Expense

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

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

Staff Expert: Karen Herrington

3. Insurance Expense

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

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

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

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

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

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

21 Adjustment numbers:

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

25
26 *Staff Witness: Karen Herrington*

4. Rate Case Expense

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

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

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

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

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

5 Adjustment numbers:

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

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

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

9
10 *Staff Witness: Karen Herrington*
11

12 **5. Bad Debt**

13
14 Staff examined the write-offs for uncollectible (bad debts) for the three separate operating
15 systems of Lake Region-- Shawnee Bend Water, Shawnee Bend Sewer and Horseshoe Bend
16 Sewer. Based on the current write-offs over the past three years there have not been any
17 significant write-offs for any of the three operating systems. The Staff determined the bad debt
18 expense levels for the Test Year were appropriate amounts to include in the revenue requirement
19 calculation for each of the three Lake Region operating systems.

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

27 *Staff Witness: Bret G. Prenger*
28

1 **5. Other Operating Expenses**

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

17
18
19
20 *Continued on next page.*

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

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

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

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

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

<u>EMS Adjustment</u>	<u>Account Number</u>	<u>Account Description</u>	<u>Methodology</u>
S-2	710.00	Purchased Wastewater Maintenance	2-Year Average 2006-2007
S-3	711.20	Sludge Removal	Known and Measureable
S-4	715.00	Power for Treatment Plants-Other	Known and Measureable
S-5	715.10	WWTP Power	Known and Measureable
S-6	718.20	Chemicals	Known and Measureable
S-8	719.10	Effluent Testing Expenses	Known and Measureable
S-9	721.20	SB Sewer Operating Expenses	Known and Measureable
S-12	720.00	Supplies and Materials-Other	Known and Measureable
S-13	720.10	HB Sewer Supplies	Known and Measureable
S-14	720.20	SB Sewer Supplies	Known and Measureable
S-15	720.40	Lagoon Supplies	Remove Test Year
S-17	722.00	Tools and Shop Supplies-Sewer	Known and Measureable
S-19	745.95	SB Miscellaneous Operating Expense	Known and Measureable
S-23	733.00	Contracted Legal Fees	Known and Measureable
S-26	742.10	Rent Lake Region	Annualize Amount for Lake Office
S-33	921.00	Office Supplies	2-Year Average 2007-2008
S-35	922.00	Management Fees	Remove Test Year
S-43	975.00	Other Miscellaneous Expenses	Known and Measureable
S-48	779.00	License and Permits-Other	Remove Test Year
S-49	779.10	SB License and Permits	Known and Measureable
S56	967.00	Other Taxes	Remove Test Year

Staff Witness: Bret G. Prenger and Karen Herrington

1
2 **IX. DEPRECIATION**

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

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

13 **A. Current Income Tax**

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

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

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

11 **B. Deferred Income Tax**

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

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

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

11 *Staff Witness: V. William Harris*
12

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

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

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

The following table lists the allocation factors used by Staff:

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

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

Staff Witness: Karen Herrington and Bret G. Prenger

XII. SERVICE QUALITY

A. Customer Service and Business Operations Review

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

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

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

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

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

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

- Customer Billing;
- Credit and Collections;
- Complaint and Inquiry Handling and Recording;
- Work Orders;
- Customer Communications; and
- Document Storage.

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

B. Overview

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

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

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

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

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

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

Source: Lake Region's 2008 Annual Report

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

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

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

9 **C. Administrative Matters**

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

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

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

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

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

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

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

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

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

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

7 **D. Meter Reading**

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

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

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

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

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

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

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

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

E. Customer Billing

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

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

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

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

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

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

Source: EMSD staff calculation.

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

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

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

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

18 **F. Credit and Collections**

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

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

Source: Company Personnel Estimate.

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

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

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

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

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

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

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

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

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

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

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

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

¹ This account is currently in dispute.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 **H. Work Orders**

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

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

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

1 *THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

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

8 **I. Customer Communications**

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

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

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

23 **J. Document Storage**

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

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

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

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

BEFORE THE PUBLIC SERVICE COMMISSION

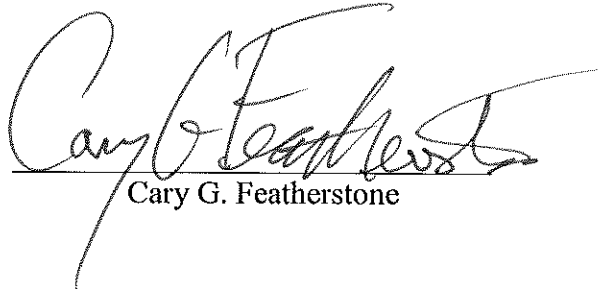
OF THE STATE OF MISSOURI

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

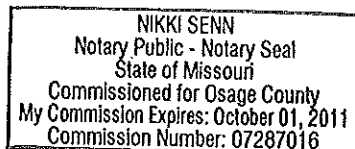
AFFIDAVIT OF CARY FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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


Cary G. Featherstone

Subscribed and sworn to before me this 13th day of January, 2010.




Notary Public

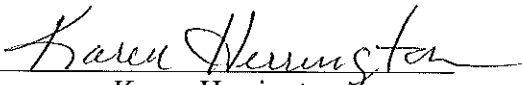
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF KAREN HERRINGTON

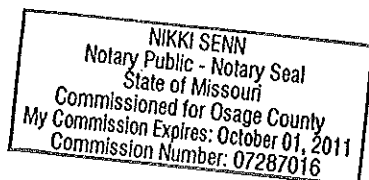
STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

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


Karen Herrington

Subscribed and sworn to before me this 13th day of January, 2010.


Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF SHANA ATKINSON

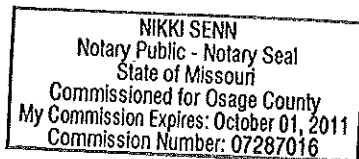
STATE OF MISSOURI)		
)		ss.
COUNTY OF COLE)		

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



Shana Atkinson

Subscribed and sworn to before me this 13th day of January, 2010.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

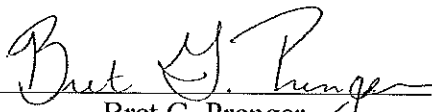
OF THE STATE OF MISSOURI

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

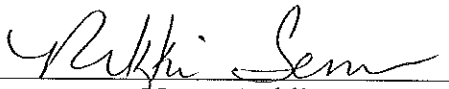
AFFIDAVIT OF BRET G. PRENGER

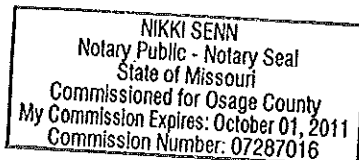
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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


Bret G. Prenger

Subscribed and sworn to before me this 13th day of January, 2010.


Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

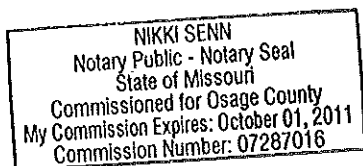
AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

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

V. William Harris
V. William Harris

Subscribed and sworn to before me this 13th day of January, 2010.



Nikki Senn
Notary Public

