

M E M O R A N D U M

TO: Missouri Public Service Commission Official Case File
Case No. WA-98-36
Osage Water Company

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SUBJECT: Supplement to the Staff's Recommendation for Approval of an
Application for a Certificate of Convenience and Necessity

DATE: January 28, 1997

On December 12, 1997, the Staff filed its Recommendation for Approval of an Application for a Certificate of Convenience and Necessity (Recommendation) in this docket. The purpose of this Supplement to that Recommendation is to provide clarification in the following areas: (1) the Staff's position regarding the Commission going forward with the issuance of an order for this case; (2) whether or how the issuance of an order would affect the status of the Staff's ongoing audit and evaluation of Osage Water Company's (OWC or Company) books and records; and (3) what the Staff is referring to when it uses the term "long-term ratemaking issues".

Beginning at the top of page 4 and continuing to the top of page 5 of its December 12 Recommendation, the Staff discussed the status and results of its audit of OWC's books and records. On pages 5 and 6 of its December 12 Recommendation, the Staff set out its conclusions and recommendations regarding the instant docket. Regarding the status of its audit, the Staff noted that its audit work was not completed but that it was far enough along to where the Staff could make a recommendation regarding the subject Application. The Staff also noted that its remaining audit work would focus on matters pertaining more to "long-term ratemaking issues" rather than to shorter-term certificate and operating issues.

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With reference to the three "areas of clarification" set out in the first paragraph above, the Staff offers the following comments.

(1) The Staff believes it would be appropriate for the Commission to go forward with its issuance of an order regarding OWC's requested certificates of convenience and necessity, and the recommendations contained in the Staff's December 12 Recommendation.

(2) Issuance of an order at this time will not adversely affect the Staff's ongoing financial audit of OWC, even if the issuance of an order leads to the closing of this docket before the Staff completes its remaining audit work.

(3) The matters being referred to by the term "long-term ratemaking issues" are mainly ones having to do with unpaid amounts related to work done by current and former principals of the Company. The amount of such "sweat equity" that exists, the reasonableness of the principals' billings for the sweat equity, how the amount of sweat equity compares to the overall "value" of the Company and the extent to which recovery of the sweat equity would affect OWC's customer rates are all areas that the Staff continues to review as part of its ongoing audit of OWC's books and records. However, these are matters that would be more appropriately addressed within the context of a rate proceeding rather than in this certificate application case.

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