

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

In the Matter of the Small Company Rate)	<u>Case No. SR-2007-0022</u>
Increase Request of Aqua Missouri, Inc.)	
(Development))	

**NOTICE OF AGREEMENT REGARDING DISPOSITION
OF SMALL COMPANY RATE INCREASE REQUEST**

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through Counsel, and for its Notice of Agreement Regarding Disposition of Small Company Rate Increase Request ("Agreement Notice") states the following to the Missouri Public Service Commission ("Commission").

1. On July 12, 2006, (unless noted otherwise, all dates herein refer to the year 2006) Aqua Missouri, Inc. (Development) ("Company") submitted to the Commission revised tariff sheets to implement increases in its sewer service rates and the instant case was established.

2. As is noted in the Company's tariff filing transmittal letter, the changes contained in the subject revised tariff sheets are based upon a *Company/Staff Agreement Regarding Disposition of Small Sewer Company Rate Increase Request* ("Company/Staff Agreement") entered into by the Company and the Staff. As is also noted in the Company's tariff filing transmittal letter, the Company/Staff Agreement pertains to the small company rate increase request that the Company submitted to the Commission on May 17, 2005 (Tracking File No. QS-2005-0008).

3. Included in the document that is attached hereto and identified as Appendix A, and that is incorporated herein by reference, are copies of the above-referenced Company/Staff Agreement and related attachments.

4. Included as a part of the Company/Staff Agreement is acknowledgement of the Company/Staff agreements regarding extensions of the 150-day tariff filing period that normally

applies to small company rate increase requests (second paragraph on page 4 of the agreement). Additionally, copies of the extension agreements are included in the above-referenced Tacking File for the Company's rate increase request as Item Nos. 3, 8, 9 and 10.

WHEREFORE, the Staff respectfully submits this Agreement Notice for the Commission's information and consideration in this case.

Respectfully Submitted,

/s/ Keith R. Krueger

Keith R. Krueger
Deputy General Counsel
Missouri Bar No. 23857

Attorney for the Staff of the
Missouri Public Service Commission

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CERTIFICATE OF SERVICE

I hereby certify that copies of this Agreement Notice have been mailed with first class postage, hand-delivered, transmitted by facsimile or transmitted via e-mail to all counsel and/or parties of record this 21st day of July 2006.

/s/ Keith R. Krueger

APPENDIX A

DISPOSITION AGREEMENT & ATTACHMENTS

CASE NO. SR-2006-0022

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Company/Staff Disposition Agreement

COMPANY/STAFF AGREEMENT REGARDING DISPOSITION
OF SMALL SEWER COMPANY RATE INCREASE REQUEST

AQUA DEVELOPMENT COMPANY, INC D/B/A AQUA MISSOURI, INC.

(AQUA MISSOURI/DEVELOPMENT – SEWER)

MO PSC WORK I.D. NO. QS-2005-0008

BACKGROUND

Aqua Development Company, Inc. d/b/a Aqua Missouri, Inc. ("Company") initiated the small company rate increase request ("Request") for sewer service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") tracking file by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.330, Sewer Utility Small Company Rate Increase Procedure ("Small Company Rate Increase Procedure"). In its request letter, which was received at the Commission's offices on May 17, 2005, the Company set forth its request for an increase of \$2,268 in its total annual sewer service operating revenues for the affected service area. In its request letter, the Company also stated its understanding that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would also be reviewed during the Commission Staff's review of the rate increase request, and could thus be the subject of Staff recommendations at the conclusion of the rate increase process. The Company provides service to approximately 15 residential customers in the affected service area.

Upon receipt of the Company's request letter, personnel in the Commission's Data Center entered the letter into the Commission's electronic filing and information system and the system assigned Work I.D. No. QS-2005-0008 to the Request. The Request was then routed to the Commission's Water & Sewer Department for processing under the Small Company Rate Increase Procedure.

Pursuant to the provisions of the Small Company Rate Increase Procedure and related internal operating procedures, the Staff of the Commission ("Staff") initiated an audit of the Company's books and records, a review of certain of the Company's general business practices, an inspection of the Company's facilities and a review of the Company's operation of its facilities. (Hereafter, these activities will be collectively referred to as the Staff's "investigation" of the Company's Request.)

Upon completion of its investigation of the Company's Request, the Staff provided the Company and the Office of the Public Counsel ("OPC") various information regarding the results of the investigation, as well as its initial recommendations for resolution of the Company's Request.

RESOLUTION OF THE COMPANY'S RATE INCREASE REQUEST

Pursuant to negotiations held subsequent to the Company's and the OPC's receipt of the above-referenced information regarding the Staff's investigation of the Company's Request, the Staff and the Company hereby state the following agreements.

- (1) That for the purpose of implementing the agreements set out herein, the Company will file tariff revisions with the Commission containing the rates, charges and language set out in the example tariff sheets that are included in Attachment A hereto.
- (2) That except as otherwise noted in the agreements below, the ratemaking income statement that is included in Attachment B hereto accurately reflects the Company's annualized revenues generated by its current customer rates, the Company's total annualized cost of providing service and the agreed-upon annualized operating revenue decrease of \$4,732, which is required to recover the Company's cost of service.
- (3) That the rates set out in the attached example tariff sheets, the development of which is shown on the rate design worksheet that is included in Attachment C hereto, are designed to generate revenues sufficient to recover the Company's total annualized cost of service, and that the provisions of the attached example tariff sheets also properly reflect all other agreements set out herein, where necessary.
- (4) That the rates included in the above-referenced example tariff sheets are just and reasonable.
- (5) That the schedule of depreciation rates that is included in Attachment D hereto should be the prescribed schedule of sewer plant depreciation rates for the Company, as these were the depreciation rates used by the Staff in its revenue requirement analysis.

(6) That the Company will make adjustments to its books and records regarding the plant-in-service, depreciation reserve and CIAC balances necessary to reflect the agreed-upon ratemaking rate base that was used in the calculation of the Company's overall revenue requirement. These adjustments will reflect the referenced agreed-upon balances as of 03/31/05, with those balances to be used as the starting point for entries subsequent to that date. Further, the Company and Staff agree to use their best efforts to reach agreement on the referenced balances for the period ending 12/31/05 in time for the Company to use those balances for the completion of its CY2006 Commission annual report.

(7) That the Company will develop Continuing Property Records for all of its Missouri utility plant-in-service and will maintain records regarding contributions-in-aid-of-construction (CIAC) so that it can be determined who made such contributions and on what date the contributions were made or paid.

(8) That the Company will maintain its records regarding utility plant-in-service, depreciation reserves, CIAC, operating revenues and operating expenses in a manner sufficient to allow the Staff to conduct system-specific cost-of-service analyses for future rate increase requests.

(9) That the Company will maintain its financial records in accordance with the Commission's Uniform System of Accounts (USOA).

(10) That the above agreements satisfactorily resolve all issues identified by the Staff and the Company regarding the Company's Request, except as otherwise specifically stated.

ADDITIONAL MATTERS

Since this Disposition Agreement is only between the Staff and the Company, the Small Company Rate Increase Procedure requires that the Company send a notice to its customers regarding the rates and charges that would result from implementation of the provisions of this Disposition Agreement. In compliance with the Small Company Rate Increase Procedure, that notice will provide the Company's customers an opportunity to send comments to the OPC and the Staff within twenty (20) days after the date of the notice. In addition to that customer notice, the Company acknowledges that the OPC also has the right to request that the Commission hold a local public hearing regarding the Company's Request and the provisions of this Disposition Agreement.

Other than the specific conditions agreed upon and expressly set out herein, the terms of this Disposition Agreement reflect compromises between the Staff and the Company, and neither party has agreed to any particular ratemaking principle in arriving at the amount of the annual operating revenue increase specified herein.

The Company and the Staff acknowledge that they have previously agreed on extensions of the normal 150-day tariff filing date for small company rate increase requests for the following reasons: (1) accounting information was kept on a state wide operations and needed to be allocated to the appropriate certificated area; (2) the Staff and the Company required time to build and reconcile the plant, depreciation and CIAC accounts; and (3) the Staff required additional time to prepare its report and issue findings, to discuss its findings with the Company, and to reach agreements with the Company regarding the disposition of the Company's requests.

The Company acknowledges that the Staff will be making an additional filing with the Commission regarding this matter, with that filing including the following: (a) the Staff's recommendation for approval of the subject tariff revisions, and any related recommendations; (b) background information regarding the Company's Request and the Staff's investigation thereof; (c) the Staff's audit workpapers; (d) a general overview of the Company, including an overview of the Company's customer service procedures and practices; (e) information regarding the status of the Company's payment of its Commission assessments; (f) the status of the Company's submission of its Commission annual reports; (g) the status of the Company's submission of its Commission annual statement of operating revenues; (h) any other pending cases that the Company may have before the Commission; (i) any recent Notices of Violations issued to the Company by the Missouri Department of Natural Resources; and (j) the status of the Company's corporate standing with the Missouri Secretary of State. Additionally, the Company agrees that the Staff shall have

the right to provide whatever oral explanation the Commission may request regarding the rate case that will be created when the Company files the tariff revisions called for in this agreement, at any agenda meeting at which that case is noticed to be considered by the Commission. To the extent reasonably practicable, the Staff will provide the Company with advance notice of any such agenda meeting so that it may have the opportunity to also be represented at the meeting.

EFFECTIVE DATE AND SIGNATURES

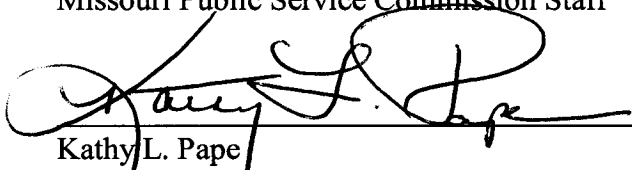
This Disposition Agreement shall be considered effective as of the date that the Company files the tariff revisions required herein with the Commission.

Agreement Signed and Dated:



Dale W. Johansen
Manager – Water & Sewer Department
Missouri Public Service Commission Staff

7/12/06
Date



Kathy L. Pape
Vice President, Treasurer and Rate Counsel
Aqua Development Company, Inc. d/b/a Aqua Missouri, Inc.

7/11/06
Date

List of Attachments

- Attachment A – Example Tariff Sheets
- Attachment B – Ratemaking Income Statement
- Attachment C – Rate Design Worksheet
- Attachment D – Schedule of Depreciation Rates

Agreement Attachment A

Example Tariff Sheets

Canceling P.S.C. MO. No. 1

(Original) SHEET No. 4

AQUASOURCE DEVELOPMENT COMPANY d/b/a AQUA MISSOURI INC.
Name of Issuing CorporationFor Missouri Certificated Service AreaSewer DivisionRules and Regulations
Governing Rendering of ServiceSCHEDULE OF RATES

A. Application – The following monthly sewer service charges will be in effect for Customers of Aqua Development Company, located within the Company's Morgan County, Missouri service areas.

Residential Metered Rate \$7.40 minimum monthly service charge and \$0.59/1,000 gallons
of base water usage +

Commercial Flat Rate \$10.35 per month +
And Industrial

All applicable Federal, State, and local taxes shall be added in addition to the above charges.

A surcharge in accordance with Rule 10 for an excess strength waste discharge may be applied.

* Indicates new rate or text

+ Indicates change

DATE OF ISSUE July 12, 2006 DATE EFFECTIVE August 26, 2006

ISSUED BY Terry Rakocy President 5400 Business Highway 50, Jefferson City, MO
Name of Officer Title Address

Agreement Attachment B

Ratemaking Income Statement

Aqua Development, Inc. - Ozark Meadows II

Rate Making Income Statement-Sewer

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	6,720
2	Other Operating Revenues *	\$	5,286
3	Total Operating Revenues	\$	12,006
4	* See "Revenues - Current Rates" for Details		

Cost of Service

Item	Amount
1 Sludge Hauling	\$ 252
2 Management Fees	\$ 503
3 Sewer Treatment Labor & Expense	\$ 1,184
4 Purchased Power	\$ 1,177
5 Materials & Supplies	\$ 107
6 Permit Fees	\$ 375
7 Administration & General - Salaries	\$ 302
8 Transportation	\$ 186
9 Insurance	\$ 159
10 Employee Pensions & Benefits	\$ 395
11 Regulatory Commission Expense	\$ 1,069
12 Uncollectible Accounts/Bad Debt Exp.	\$ 49
13 Miscellaneous Customer Accounts Expense	\$ 71
14 Miscellaneous Expense- Rent Building	\$ 31
15 Miscellaneous Expense- Rent Equipment	\$ 21
16 Miscellaneous General Expenses	\$ 268
17 Sub-Total Operating Expenses	\$ 6,149
18 Property Taxes	\$ 251
19 MO Franchise Taxes	\$ -
20 Employer FICA Taxes	\$ 126
21 Federal Unemployment Taxes	\$ -
22 State Unemployment Taxes	\$ -
23 State & Federal Income Taxes	\$ 72
24 Sub-Total Taxes	\$ 449
25 Depreciation Expense	\$ 1,555
26 Amortization Expense	\$ (1,350)
27 Sub-Total Depreciation/Amortization	\$ 205
28 Return on Rate Base	\$ 471
29 Total Cost of Service	\$ 7,274
30 Overall Revenue Increase Needed	\$ (4,732)

Agreement Attachment C

Rate Design Worksheet

Aqua Development, Inc. - Ozark Meadows II

Development of Tariffed Rates-Sewer

Agreement is to decrease currently tariffed rates by a percentage equal to the agreed-upon overall revenue decrease divided by the revenues generated by the currently tariffed rates.

Revenues Generated by Current Tariffed Rates	\$ 6,720
Agreed-Upon Overall Revenue Increase	\$ (4,732)
Percentage Increase Needed	-70.417%

Metered Customer Rates

Meter Size	Current Service Charge	Proposed Service Charge	Current Usage Rate	Proposed Usage Rate
Residential	\$ 25.00	\$ 7.40	\$ 2.000	\$ 0.59
Flat rate	\$ 35.00	\$ 10.35	\$ -	\$ -
2"	\$ -	\$ -	\$ -	\$ -
3"	\$ -	\$ -	\$ -	\$ -
4"	\$ -	\$ -	\$ -	\$ -
6"+	\$ -	\$ -	\$ -	\$ -

Agreement Attachment D

Schedule of Depreciation Rates

Aqua Missouri, Inc.

DEPRECIATION RATES (SEWER)

QS-2005-0008 & QS-2005-0010

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
351	Structures & Improvements	2.5%	40	
352.1	Collection Sewers (Force)	2.0%	50	
352.2	Collection Sewers (Gravity)	2.0%	50	
354	Flow Measurement Devices	3.3%	30	
361	Structures & Improvements	2.50%	40	
362	Receiving Wells	4.0%	25	
363	Electric Pumping Equipment	10.0%	10	
371	Structures & Improvements	2.50%	40	
372	Oxidation Lagon (Class C & D)	4.0%	25	
373	Treatment & Disposal Facilities (Class C & D)	2.5%	40	
374	Plant Sewers (Class C & D)	2.5%	40	
375	Other Treatment & Disposal Plt. Equip.	2.0%	50	
390	Structures & Improvements	2.50%	40	
392	Transportation Equipment	13.0%	7	9%
393	Stores Equipment	4.0%	25	