

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

In the Matter of S. K. & M. Water and            )  
Sewer Company's Rate Increase Request        )

Case No. SR-2007-0461

**UNANIMOUS AGREEMENT REGARDING DISPOSITION  
OF SMALL SEWER COMPANY REVENUE INCREASE REQUEST**

COME NOW S. K. & M. Water and Sewer Company ("Company"), the Staff of the Missouri Public Service Commission ("Staff") and the Office of the Public Counsel ("OPC") and for their Unanimous Agreement Regarding Disposition of Small Company Revenue Increase Request ("Unanimous Agreement") state the following to the Missouri Public Service Commission ("Commission").

**BACKGROUND**

On October 19, 2006, the Company initiated the small company revenue increase request ("Request") for sewer service that is now the subject of the instant case 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, the Company set forth its request for an increase of \$36,876 in its total annual sewer service operating revenues. 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 be reviewed during the Staff's review of the revenue increase request, and could thus be the subject of Staff recommendations. The Company provides service to approximately 160 residential customers.

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 Tracking File No. QS-2007-0007 to the Request. The Request was then forwarded 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 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 OPC various information regarding the results of the investigation, as well as its initial recommendations for resolution of the Company's 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 entered into an agreement regarding the proposed disposition of the Company's Request. This resulted in the Company's filing of its currently pending tariff revisions on May 31, 2007, which in turn resulted in this case being opened.

Other case activities that have taken place since the Company filed its currently pending tariff revisions include, but are not limited to, the following: (1) the Staff filed the Company/Staff agreement; (2) the Company sent a notice to its customers regarding the rates that would result from approval of the Company/Staff agreement; (3) the OPC requested a local public hearing, and such a hearing was held; (4) the OPC filed a pleading stating its disagreement with the Company's

currently pending tariff revisions; (5) the Commission issued an order suspending the Company's currently pending tariff revisions, establishing a procedural schedule and setting the date for an evidentiary hearing; and (6) the parties to the case filed an agreed-upon list of issues to be heard and the Commission issued an order adopting that list of issues.

### **DISPOSITION OF THE COMPANY'S REQUEST**

Pursuant to negotiations held subsequent to the Company's filing of its currently pending tariff revisions, the Company, the Staff and the OPC hereby state the following agreements, which, as stated in item (15) below, satisfactorily resolve all of the identified issues for this case.

- (1) That for the purpose of implementing the agreements set out herein, the Company will submit a substitute tariff sheet containing the rates, charges and language set out in the example tariff sheet attached hereto as Attachment A, to replace the corresponding pending revised tariff sheet.
- (2) That the Staff and the OPC agree that the substitute tariff sheet that the Company will be submitting should be approved to be effective for service rendered on or after September 1, 2007, or as soon thereafter as is possible; provided that the Company submits the substitute sheet by August 20, 2007.
- (3) That the ratemaking income statement attached hereto as Attachment B accurately reflects the Company's annualized revenues generated by its current customer rates, the agreed-upon annualized cost of service to be recovered through the Company's customer rates, and the resulting agreed-upon annualized operating revenue increase of \$6,566, which is required to recover the agreed-upon cost of service.
- (4) That the workpapers attached hereto as Attachment C, which include consideration of a capital structure of 63.38% equity for the Company and a pre-tax rate of return on equity of 10.10%, accurately reflect the agreed-upon annualized cost of service and provide the basis for the ratemaking income statement referenced in item (3) above.
- (5) That the rates set out in the attached example tariff sheet, the development of which is shown on the rate design worksheet attached hereto as Attachment D, are designed to generate revenues sufficient to recover the agreed-upon annualized cost of service.

- (6) That the rates included in the attached example tariff sheet will result in the residential customer impacts shown on the billing comparison worksheet attached hereto as Attachment E.
- (7) That the rates included in the attached example tariff sheet are just and reasonable, and that the provisions of the attached example substitute tariff sheet also properly reflect all other agreements set out herein, where necessary.
- (8) That the schedule of depreciation rates attached hereto as Attachment F should be the prescribed schedule of sewer plant depreciation rates for the Company.
- (9) That the Company will contract with a properly licensed chief operator within ninety (90) days of the effective date of the tariff revisions resulting from this Unanimous Agreement; or the Company's general manager, who is a properly licensed operator, will fulfill the duties of the chief operator.
- (10) That if the Company does not comply with the provisions of item (11) above, it will file a revised rate tariff sheet including customer rates designed to reduce its annualized revenues by an amount corresponding to the amount that was included in the agreed-upon cost of service for the operator's salary and related payroll taxes.
- (11) That the Company will implement the recommendations contained in the Staff's Engineering & Management Services Department Report attached hereto as Attachment G within one-hundred twenty (120) days after the effective date of the tariff revisions resulting from this Unanimous Agreement.
- (12) That the Company will send its customers a notice regarding the impact of the rates resulting from this Unanimous Agreement either prior to or with the first billing under those rates, and will file a copy of that notice in the case file within ten (10) days after the date it sends the notice to its customers.
- (13) That the Company acknowledges that the Staff will, and the OPC may, conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this Unanimous Agreement.
- (14) That the Company acknowledges that the Staff or the OPC may file a formal complaint against it, if the Company does not comply with the provisions of this Unanimous Agreement.
- (15) That the above agreements satisfactorily resolve all issues identified by the Staff and the OPC regarding the Company's Request, except as otherwise specifically stated.
- (16) That the agreements set out in items (1) through (14) above supersede the agreements reached by the Company and Staff, which were set out in the Company/Staff agreement that the Staff filed in this case on June 7, 2007.

### **ADDITIONAL MATTERS**

Other than the specific agreed-upon conditions expressly set out herein, the terms of this Unanimous Agreement reflect compromises between the Company, the Staff and the OPC, and none of those parties have agreed to any particular ratemaking principle in arriving at the amount of the annual operating revenue increase specified herein.

The Company and the OPC agree that the Staff shall have the right to provide whatever oral explanation the Commission may request regarding this Unanimous Agreement at any agenda meeting at which the agreement is noticed to be considered by the Commission. To the extent reasonably practicable, the Staff will provide the Company and the OPC with advance notice of any such agenda meeting so that they may have the opportunity to also be represented at the meeting.

### **EFFECTIVE DATE**

This Unanimous Agreement shall be considered effective as of the date that the Company submits the substitute tariff sheet required herein to the Commission.

**WHEREFORE**, the Company, the Staff and the OPC respectfully submit this Unanimous Agreement for the Commission's consideration, and further respectfully request that the Commission issue an order approving the agreement and ordering the parties to comply with it.

Respectfully Submitted,

*/s/ L. Russell Mitten*

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**ATTORNEYS FOR S. K. & M. WATER  
AND SEWER COMPANY**

*/s/ Keith R. Krueger*

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**ATTORNEY FOR THE STAFF OF THE  
MISSOURI PUBLIC SERVICE COMMISSION**

*/s/ Christina L. Baker*

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**ATTORNEY FOR THE  
OFFICE OF THE PUBLIC COUNSEL**

# CASE NO. SR-2007-0461

## UNANIMOUS DISPOSITION AGREEMENT

### LISTING OF ATTACHMENTS TO AGREEMENT

Note: To view a particular attachment, click on the "Bookmark" tab at the top of the menu bar to the left of the screen and then click on the item that you want to see.

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Agreement Attachment F:	Schedule of Depreciation Rates
Agreement Attachment G:	Staff's E.M.S.D. Report

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Unanimous Disposition Agreement

Agreement Attachment A

Example Tariff Sheet



**EXAMPLE TARIFF SHEET**

P.S.C. MO No. 1

6th Revised Sheet No. 4

Canceling

5th Revised Sheet No. 4

S. K. & M. Water and Sewer Company  
Name of Issuing Company

For: Unincorporated Area in Perry County, MO  
Certificated Service Area

**SCHEDULE OF RATES  
FOR SEWER SERVICE \***

Rate Schedule No. S-2 – General Service +

Availability +

Available to any sewer customer located on the company's sewer collecting mains suitable for supplying the service requested.

Monthly Rate

Single Family                      \$23.02                      +

Multi-Family                        \$18.41                      +

Sewer Entrance Fee                      \$100.00

Taxes +

Any applicable federal, state or local taxes computed on billing basis shall be added as separate items in rendering each bill.

Late Charges +

Billings will be made and distributed at monthly intervals. Bills will be rendered net, bearing the last date on which payment will then be considered delinquent. The period after which payment will then be considered delinquent is 21 days after rendition of the bill. A charge of \$5.00 or three percent (3%) per month times the unpaid balance, whichever is more, will be added to delinquent amounts.

Returned Check Charge \*

A returned check charge of \$25 per check will be paid by customers on all checks returned unpaid from the bank.

\* Indicates New Rate or Text

+ Indicates Changed Rate or Text

Issue Date: June 1, 2007  
Month/Day/Year

Effective Date: July 16, 2007  
Month/Day/Year

Issued By: Angela Swan – General Manager  
Name & Title of Issuing Officer

P.O. Box 212; Perryville, MO  
Company Mailing Address

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Unanimous Disposition Agreement

Agreement Attachment B

Ratemaking Income Statement

**SK & M WATER & SEWER**  
**Rate Making Income Statement-Sewer**

**Operating Revenues at Current Rates**

1	Tariffed Rate Revenues *	\$	37,359
2	Other Operating Revenues *	\$	-
3	<b>Total Operating Revenues</b>	<b>\$</b>	<b>37,359</b>
4	* See "Revenues - Current Rates" for Details		

**Cost of Service**

Item	Amount
1 Fuel & Purchased Power	\$ 6,007
2 Repairs of Sewer Plant-Equipment	\$ 2,768
3 Repairs of Sewer Plant-Collections & Manholes	\$ 2,463
4 Repairs of Sewer Plant-Treatment Repairs	\$ 3,120
5 Repairs of Sewer Plant-Other	\$ 217
6 Outside Services-Primary Operator	\$ 8,736
7 Outside Services-Secondary Operator	\$ -
8 Outside Services-Accounting	\$ 2,205
9 Outside Services-Other	\$ 386
10 Customer Records & Collection Expense	\$ 397
11 Permit Fees	\$ 1,066
12 Administration & General - Salaries	\$ 2,100
13 Office Supplies	\$ 436
14 Insurance Expense	\$ 943
15 Service Charges	\$ 248
16 Interest Expense	\$ -
17 Regulatory Commission Expense	\$ 3,096
18 Miscellaneous General Expenses	\$ 255
19 <b>Sub-Total Operating Expenses</b>	<b>\$ 34,443</b>
20 Property Taxes	\$ 1,015
21 MO Franchise Taxes	\$ -
22 Employer FICA Taxes	\$ 1,881
23 Federal Unemployment Taxes	\$ -
24 State Unemployment Taxes	\$ -
25 State & Federal Income Taxes	\$ 653
26 <b>Sub-Total Taxes</b>	<b>\$ 3,549</b>
27 Depreciation Expense	\$ 3,165
28 Amortization of Utility Plant (computer system)	\$ -
29 <b>Sub-Total Depreciation/Amortization</b>	<b>\$ 3,165</b>
30 <b>Return on Rate Base</b>	<b>\$ 2,768</b>
31 <b>Total Cost of Service</b>	<b>\$ 43,925</b>
25 <b>Overall Revenue Increase Needed</b>	<b>\$ 6,566</b>

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Unanimous Disposition Agreement

Agreement Attachment C

Cost of Service Workpapers

S.K. & M. Water and Sewer Company  
 Case: SR-07-461A  
 12 Months Ending December 31, 2005

Revenue Requirement

Line	(A)	(B)
		10.09% Return
1	Net Orig Cost Rate Base (Sch 2)	\$ 27,436
2	Rate of Return	10.09%
*****		
3	Net Operating Income Requirement	\$ 2,768
4	Net Income Available (Sch 8)	\$ (3,145)
*****		
5	Additional NOIIBT Needed	\$ 5,913
6	Income Tax Requirement (Sch 10)	
7	Required Current Income Tax	\$ 653
8	Test Year Current Income Tax	\$ 0
*****		
9	Additional Current Tax Required	\$ 653
10	Required Deferred ITC	\$ 0
11	Test Year Deferred ITC	\$ 0
*****		
12	Additional Deferred ITC Required	\$ 0
*****		
13	Total Additional Tax Required	\$ 653
*****		
14	Gross Revenue Requirement	\$ 6,566
*****		

S.K. & M. Water and Sewer Company  
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Rate Base

Line Description		Amount	
(A)		(B)	
1	Total Plant in Service (Sch 3)	\$	100,022
Subtract from Total Plant			
2	Depreciation Reserve (Sch 6)	\$	72,586
3	Net Plant in Service	\$	27,436
Add to Net Plant in Service			
4	Cash Working Capital (Sch )	\$	0
5	Materials and Supplies-Exempt		0
6	Prepaid Insurance		0
Subtract from Net Plant			
7	Federal Tax Offset 0.0000 %	\$	0
8	State Tax Offset 0.0000 %		0
9	City Tax Offset 0.0000 %		0
10	Interest Expense Offset 0.0000 %		0
11	Customer Advances for Construction		0
12	Contribution in aid of Construction		0
13	Deferred Income Taxes-Depreciation		0
14	Total Rate Base	\$	27,436

S.K. & M. Water and Sewer Company  
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Total Plant in Service

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)		(B)	(C)	(D)	(E)	(F)
Intangible Plant							
1	301.000	Organization	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
2	302.000	Franchises	0	0	100.0000	0	0
3	303.000	Miscellaneous Intangible Plant	0	0	100.0000	0	0
4		Total	\$ 0	\$ 0		\$ 0	\$ 0
Land and Structures							
5	310.000	Land and Land Rights	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
6	311.000	Structures and Improvements	0	0	100.0000	4,476 P-10	4,476
7		Total	\$ 0	\$ 0		\$ 4,476	\$ 4,476
Collection Plant							
8	352.100	Collection Sewers - Force	\$ 2,568	\$ 0	100.0000	6,731 P-1	\$ 9,299
9	352.200	Collection Sewers - Gravity	16,439	0	100.0000	766 P-2	17,205
10	353.000	Other Collection Plant Facilities	7,565	0	100.0000	0 P-3	7,565
11	354.000	Services to Customers	1,332	0	100.0000	0 P-4	1,332
12	355.000	Flow Measuring Devices	0	0	100.0000	0	0
13		Total	\$ 27,904	\$ 0		\$ 7,497	\$ 35,401
Pumping Plant							
14	362.000	Receiving Well and Pump Pits	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
15	363.000	Pumping Equipment	0	0	100.0000	1,915 P-9	1,915
16		Total	\$ 0	\$ 0		\$ 1,915	\$ 1,915
Treatment & Disposal Plant							
17	372.000	Oxidation Lagoon	\$ 20,527	\$ 0	100.0000	(20,527) P-5	\$ 0
18	373.000	Treatment & Disposal Equipment	0	0	100.0000	0	0
19	374.000	Plant Sewers	0	0	100.0000	0	0
20	375.000	Outfall Sewer Lines	0	0	100.0000	0	0
21	376.000	Other Treat. & Disp. Plant Equip.	53,544	0	100.0000	(1,351) P-6	52,193
22		Total	\$ 74,071	\$ 0		\$ (21,878)	\$ 52,193

S.K. & M. Water and Sewer Company  
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Total Plant in Service

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)		(B)	(C)	(D)	(E)	(F)
General Plant							
23	391.000	Office Furniture & Equipment	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
24	392.000	Transportation Equipment	31,287		100.0000	(25,439) P-7	5,848
25	393.000	Other General Equipment	43,189		100.0000	(43,000) P-8	189
26		Total	\$ 74,476	\$ 0		\$ (68,439)	\$ 6,037
*****							
27		Total Plant in Service	\$ 176,451	\$ 0		\$ (76,429)	\$ 100,022
*****							



S.K. & M. Water and Sewer Company  
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Adjustments to Total Plant

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
*****		
Collection Sewers - Force	P-1	\$ 6,731
*****		
1. To adjust test year to reflect actual plant balance. (McMellen)		\$ (106)
2. To adjust test year to include the new lift station. (McMellen)		\$ 6,837
*****		
Collection Sewers - Gravity	P-2	\$ 766
*****		
1. To adjust test year to reflect the replacement of sewer lines. (McMellen)		\$ 766
*****		
Oxidation Lagoon	P-5	\$ (20,527)
*****		
1. To adjust test year to exclude fully depreciated plant. (McMellen)		\$ (20,527)
*****		
Other Treat. & Disp. Plant Equip.	P-6	\$ (1,351)
*****		
1. To adjust test year to reflect actual plant balance. (McMellen)		\$ (1,351)
*****		
Transportation Equipment	P-7	\$ (25,439)
*****		
1. To adjust test year to reflect actual plant balance. (McMellen)		\$ (5,583)
2. To adjust test year to allocate equipment. (McMellen)		\$ (16,708)

S.K. & M. Water and Sewer Company  
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Adjustments to Total Plant

Adj No	Description	Total Co Adjustment	Mo Juris Adjustment
3.	To adjust test year to exclude the allocated portion of the truck that was sold. (McMellen)		\$ (3,148)
*****			
	Other General Equipment P-8		\$ (43,000)
*****			
1.	To adjust test year to reflect actual plant balance. (McMellen)		\$ (149)
2.	To adjust test year to allocate equipment. (McMellen)		\$ (27,976)
3.	To adjust test year to exclude the allocated portion for the backhoe that was sold. (McMellen)		\$ (5,775)
4.	To adjust test year to exclude the allocated portion of the backhoe that is fully depreciated. (McMellen)		\$ (1,050)
5.	To adjust test year to exclude the allocated portion of the other backhoe that was sold. (McMellen)		\$ (8,050)
*****			
	Pumping Equipment P-9		\$ 1,915
*****			
1.	To adjust test year to include a new pump and installation. (McMellen)		\$ 1,915
*****			
	Structures and Improvements P-10		\$ 4,476
*****			
1.	To adjust test year to include the new fence. (McMellen)		\$ 4,476

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Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
	(A)		(B)	(C)	(D)
<b>Intangible Plant</b>					
1	301.000	Organization	\$ 0	0.0000	\$ 0
2	302.000	Franchises	0	0.0000	0
3	303.000	Miscellaneous Intangible Plant	0	0.0000	0
4		<b>Total</b>	\$ 0		\$ 0
<b>Land and Structures</b>					
5	310.000	Land and Land Rights	\$ 0	0.0000	\$ 0
6	311.000	Structures and Improvements	4,476	2.5000	112
7		<b>Total</b>	\$ 4,476		\$ 112
<b>Collection Plant</b>					
8	352.100	Collection Sewers - Force	\$ 9,299	2.0000	\$ 186
9	352.200	Collection Sewers - Gravity	17,205	2.0000	344
10	353.000	Other Collection Plant Facilities	7,565	0.0000	0
11	354.000	Services to Customers	1,332	2.0000	27
12	355.000	Flow Measuring Devices	0	0.0000	0
13		<b>Total</b>	\$ 35,401		\$ 557
<b>Pumping Plant</b>					
14	362.000	Receiving Well and Pump Pits	\$ 0	0.0000	\$ 0
15	363.000	Pumping Equipment	1,915	6.7000	128
16		<b>Total</b>	\$ 1,915		\$ 128
<b>Treatment &amp; Disposal Plant</b>					
17	372.000	Oxidation Lagoon	\$ 0	4.0000	\$ 0
18	373.000	Treatment & Disposal Equipment	0	0.0000	0
19	374.000	Plant Sewers	0	0.0000	0
20	375.000	Outfall Sewer Lines	0	0.0000	0
21	376.000	Other Treat. & Disp. Plant Equip.	52,193	4.5000	2,349
22		<b>Total</b>	\$ 52,193		\$ 2,349

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Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
	(A)		(B)	(C)	(D)
		General Plant			
23	391.000	Office Furniture & Equipment	\$ 0	0.0000	\$ 0
24	392.000	Transportation Equipment	5,848	0.0000	0
25	393.000	Other General Equipment	189	10.0000	19
26		Total	\$ 6,037		\$ 19
*****					
27		Total Depreciation Expense	\$ 100,022		\$ 3,165
*****					

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Depreciation Reserve

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)		(B)	(C)	(D)	(E)	(F)
Intangible Plant							
1	301.000	Organization	\$ 0	\$ 0	0.0000	\$ 0	\$ 0
2	302.000	Franchisees	0	0	0.0000	0	0
3	303.000	Miscellaneous Intangible Plant	0	0	0.0000	0	0
4		Total	\$ 0	\$ 0		\$ 0	\$ 0
Land and Structures							
5	310.000	Land and Land Rights	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
6	311.000	Structures and Improvements	0	0	100.0000	0	0
7		Total	\$ 0	\$ 0		\$ 0	\$ 0
Collection Plant							
8	352.100	Collection Sewers - Force	\$ 1,622	\$ 0	100.0000	\$ 49 R-1	\$ 1,671
9	352.200	Collection Sewers - Gravity	10,027	0	100.0000	344 R-2	10,371
10	353.000	Other Collection Plant Facilities	7,460	0	100.0000	105 R-3	7,565
11	354.000	Services to Customers	825	0	100.0000	27 R-4	852
12	355.000	Flow Measuring Devices	0	0	0.0000	0	0
13		Total	\$ 19,934	\$ 0		\$ 525	\$ 20,459
Pumping Plant							
14	362.000	Receiving Wells	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
15	363.000	Pumping Equipment	0	0	100.0000	0	0
16		Total	\$ 0	\$ 0		\$ 0	\$ 0
Treatment & Disposal Plant							
17	372.000	Oxidation Lagoon	\$ 20,527	\$ 0	100.0000	\$ (20,527) R-5	\$ 0
18	373.000	Treatment & Disposal Equipment	0	0	100.0000	0	0
19	374.000	Plant Sewers	0	0	100.0000	0	0
20	375.000	Outfall Sewer Lines	0	0	100.0000	0	0
21	376.000	Other Treat. & Disp. Plant Equip	43,841	0	100.0000	2,349 R-6	46,190
22		Total	\$ 64,368	\$ 0		\$ (18,178)	\$ 46,190

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Depreciation Reserve

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)		(B)	(C)	(D)	(E)	(F)
		General Plant					
23	391.000	Office Furniture & Equipment	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
24	392.000	Transportation Equipment	23,970		100.0000	(18,121) R-7	5,849
25	398.500	Other General Equipment	13,269		100.0000	(13,181) R-8	88
26		Total	\$ 37,239	\$ 0		\$ (31,302)	\$ 5,937
*****							
27		Total Depreciation Reserve	\$ 121,541	\$ 0		\$ (48,955)	\$ 72,586
*****							

S.K. & M. Water and Sewer Company  
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Adjustments to Depreciation Reserve

Adj No	Description	Total Co Adjustment	Mo Juris Adjustment
*****			
	Collection Sewers - Force	R-1	\$ 49
*****			
1.	To adjust test year to update reserve through 12/31/06. (McMellen)		\$ 49
*****			
	Collection Sewers - Gravity	R-2	\$ 344
*****			
1.	To adjust test year to update reserve through 12/31/06. (McMellen)		\$ 344
*****			
	Other Collection Plant Facilities	R-3	\$ 105
*****			
1.	To adjust test year to update reserve through 12/31/06. (McMellen)		\$ 105
*****			
	Services to Customers	R-4	\$ 27
*****			
1.	To adjust test year to update reserve through 12/31/06. (McMellen)		\$ 27
*****			
	Oxidation Lagoon	R-5	\$ (20,527)
*****			
1.	To adjust test year to exclude reserve on fully depreciated plant. (McMellen)		\$ (20,527)
*****			
	Other Treat. & Disp. Plant Equip	R-6	\$ 2,349
*****			
1.	To adjust test year to update reserve through 12/31/06. (McMellen)		\$ 2,349

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Adjustments to Depreciation Reserve

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
*****		
Transportation Equipment	R-7	\$ (18,121)
*****		
1. To adjust test year for actual reserve balance. (McMellen)		\$ (10,633)
2. To adjust test year to allocate equipment. (McMellen)		\$ (8,669)
3. To adjust test year to exclude the allocated portion for the truck that was sold. (McMellen)		\$ (53)
4. To adjust test year to include reserve through 12/31/06. (McMellen)		\$ 1,234
*****		
Other General Equipment	R-8	\$ (13,181)
*****		
1. To adjust test year to reflect actual reserve balance. (McMellen)		\$ 1,663
2. To adjust test year for the allocation of equipment. (McMellen)		\$ (9,706)
3. To adjust test year to exclude the allocated portion for the backhoe that was sold. (McMellen)		\$ (4,041)
4. To adjust test year to exclude the allocated portion of the backhoe that is fully depreciated. (McMellen)		\$ (1,050)
5. To adjust test year to exclude the allocated portion on the other backhoe that was sold. (McMellen)		\$ (66)
6. To adjust test year to update reserve through 12/31/06. (McMellen)		\$ 19



S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Income Statement

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)		(B)	(C)	(D)	(E)	(F)
Operating Revenues							
1		Operating Revenues	\$ 37,340	\$ 0	100.0000	\$ 19 S-1	\$ 37,359
2		Other Revenues	(40)	0	100.0000	40 S-2	0
3		<b>Total</b>	<b>\$ 37,300</b>	<b>\$ 0</b>		<b>\$ 59</b>	<b>\$ 37,359</b>
Operation & Maintenance Expense							
4		Fuel & Purchased Power	\$ 5,259	\$ 0	100.0000	\$ 748 S-3	\$ 6,007
5		Repairs of Sewer Plant-Equipment	2,316	0	100.0000	452 S-4	2,768
6		Repairs of Sewer Plant-Coll. & Manh	4,866	0	100.0000	(2,403) S-5	2,463
7		Repairs of Sewer Plant-Trtmt Repai	1,100	0	100.0000	2,020 S-6	3,120
8		Repairs of Sewer Plant-Other	832	0	100.0000	(615) S-7	217
9		Customer Records & Collection Expen	641	0	100.0000	(244) S-8	397
10		A&G Salaries-Primary Operator	5,950	0	100.0000	2,786 S-9	8,736
11		A&G Salaries-Administrative	4,061	0	100.0000	(1,961) S-24	2,100
12		Office Supplies Expense	606	0	100.0000	(170) S-10	436
13		Outside Services-Chlorination Tech	50	0	100.0000	(50) S-25	0
14		Outside Services-Secondary Operator	300	0	100.0000	(300) S-26	0
15		Outside Services-Accounting	3,309	0	100.0000	(1,104) S-28	2,205
16		Outside Services-Other	421	0	100.0000	(35) S-11	386
17		Insurance Expense	4,782	0	100.0000	(3,839) S-12	943
18		State Permits/Fees	1,523	0	100.0000	(457) S-13	1,066
19		Regulatory Commission Expense	3,250	0	100.0000	(154) S-14	3,096
20		Service Charges	248	0	100.0000	0 S-15	248
21		Interest Expense	1,352	0	100.0000	(1,352) S-16	0
22		Miscellaneous Expense	81	0	100.0000	174 S-17	255
23		<b>Total</b>	<b>\$ 40,947</b>	<b>\$ 0</b>		<b>\$ (6,504)</b>	<b>\$ 34,443</b>
Depreciation Expense							
24		Depreciation Expense	\$ 3,948	\$ 0	100.0000	\$ (783) S-18	\$ 3,165
25		<b>Total</b>	<b>\$ 3,948</b>	<b>\$ 0</b>		<b>\$ (783)</b>	<b>\$ 3,165</b>
Other Operating Expenses							
26		Tax Expense-Property	\$ 1,478	\$ 0	100.0000	\$ (463) S-21	\$ 1,015
27		Tax Expense-Payroll	901	0	100.0000	980 S-22	1,881
28		<b>Total</b>	<b>\$ 2,379</b>	<b>\$ 0</b>		<b>\$ 517</b>	<b>\$ 2,896</b>

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Income Statement

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)		(B)	(C)	(D)	(E)	(F)
29		Total Operating Expenses	\$ 47,274	\$ 0		\$ (6,770)	\$ 40,504
30		Net Income Before Taxes	\$ (9,974)	\$ 0		\$ 6,829	\$ (3,145)
Current Income Taxes							
31		Current Income Taxes	\$ 286	\$ 0	100.0000	\$ (286) S-23	\$ 0
32		Total	\$ 286	\$ 0		\$ (286)	\$ 0
Deferred Income Taxes							
33		Deferred Income Taxes	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
34		Total	\$ 0	\$ 0		\$ 0	\$ 0
35		Total Income Taxes	\$ 286	\$ 0		\$ (286)	\$ 0
36		Net Operating Income	\$ (10,260)	\$ 0		\$ 7,115	\$ (3,145)

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Adjustments to Income Statement

Adj No	Description	Total Co Adjustment	Mo Juris Adjustment
*****			
	Operating Revenues	S-1	\$ 19
*****			
1.	To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ 19
*****			
	Other Revenues	S-2	\$ 40
*****			
1.	To adjust test year to offset negative revenues. (McMellen)		\$ 40
*****			
	Fuel & Purchased Power	S-3	\$ 748
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ 748
*****			
	Repairs of Sewer Plant-Equipment	S-4	\$ 452
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ 452
*****			
	Repairs of Sewer Plant-Coll. & Manh	S-5	\$ (2,403)
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (2,403)
*****			
	Repairs of Sewer Plant-Trtmnt Repai	S-6	\$ 2,020
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ 2,020

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Adjustments to Income Statement

Adj No	Description	Total Co Adjustment	Mo Juris Adjustment
*****			
	Repairs of Sewer Plant-Other	S-7	\$ (615)
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (615)
*****			
	Customer Records & Collection Expen	S-8	\$ (244)
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (244)
*****			
	A&G Salaries-Primary Operator	S-9	\$ 2,786
*****			
1.	To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ 2,786
*****			
	Office Supplies Expense	S-10	\$ (170)
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (170)
*****			
	Outside Services-Other	S-11	\$ (35)
*****			
1.	To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (35)
*****			
	Insurance Expense	S-12	\$ (3,839)
*****			
1.	To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ (3,839)

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
*****		
State Permits/Fees	S-13	\$ (457)
*****		
1. To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (457)
*****		
Regulatory Commission Expense	S-14	\$ (154)
*****		
1. To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (154)
*****		
Interest Expense	S-16	\$ (1,352)
*****		
1. To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (1,352)
*****		
Miscellaneous Expense	S-17	\$ 174
*****		
1. To adjust test year to reflect the Staff's annualized level for mileage. (McMellen)		\$ 174
*****		
Depreciation Expense	S-18	\$ (783)
*****		
1. To adjust test year depreciation expense to reflect the Staff's annualization of plant and depreciation rates. (McMellen)		\$ (783)

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
*****		
Tax Expense-Property S-21		\$ (463)
*****		
1. To adjust test year to reflect the Staff's annualized level. (McMellen)		\$ (463)
*****		
Tax Expense-Payroll S-22		\$ 980
*****		
1. To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ 980
*****		
Current Income Taxes S-23		\$ (286)
*****		
1. To adjust current income taxes consistent with the adjusted net operating income before taxes. (McMellen)		\$ (286)
*****		
A&G Salaries-Administrative S-24		\$ (1,961)
*****		
1. To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ (1,961)
*****		
Outside Services-Chlorination Tech S-25		\$ (50)
*****		
1. To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ (50)
*****		
Outside Services-Secondary Operator S-26		\$ (300)
*****		
1. To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ (300)

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
*****		
Outside Services-Accounting	S-28	\$ (1,104)
*****		
1. To adjust test year to reflect the Staff's annualized level. (Mapeka)		\$ (1,104)

S.K. & M. Water and Sewer Company  
Case: SR-07-461A  
12 Months Ending December 31, 2005

Income Tax

Line		Test Year	10.09% Return
(A)		(B)	
1	Net Income Before Taxes (Sch 8)	\$ (3,145)	\$ 3,421
*****			
Add to Net Income Before Taxes			
2	Book Depreciation Expense	\$ 3,165	\$ 3,165
3	Total	\$ 3,165	\$ 3,165
Subtr from Net Income Before Taxes			
4	Interest Expense 0.5200 %	\$ 143	\$ 143
5	Book Depreciation Expense	3,165	3,165
6	Total	\$ 3,308	\$ 3,308
*****			
7	Net Taxable Income	\$ (3,288)	\$ 3,278
*****			
Provision for Federal Income Tax			
8	Net Taxable Income	\$ (3,288)	\$ 3,278
9	Deduct Missouri Income Tax 100.0 %	\$ 0	\$ 190
10	Deduct City Income Tax	0	0
11	Federal Taxable Income	(3,288)	3,088
12	Total Federal Tax	\$ 0	\$ 463
Provision for Missouri Income Tax			
13	Net Taxable Income	\$ (3,288)	\$ 3,278
14	Deduct Federal Income Tax 50.0 %	\$ 0	\$ 232
15	Deduct City Income Tax	0	0
16	Missouri Taxable Income	(3,288)	3,047
17	Total Missouri Tax	\$ 0	\$ 190



S.K. & M. Water and Sewer Company  
 Case: SR-07-461A  
 12 Months Ending December 31, 2005

Income Tax

Line	(A)	Test Year	(B)	10.09% Return
<b>Provision for City Income Tax</b>				
18	Net Taxable Income	\$	(3,288)	\$ 3,278
19	Deduct Federal Income Tax	\$	0	\$ 463
20	Deduct Missouri Income Tax		0	190
21	City Taxable Income		(3,288)	2,625
22	Total City Tax	\$	0	\$ 0
<b>Summary of Provision for Income Tax</b>				
23	Federal Income Tax	\$	0	\$ 463
24	Missouri Income Tax		0	190
25	City Income Tax		0	0
26	Total	\$	0	\$ 653
<b>Deferred Income Taxes</b>				
27	Deferred Investment Tax Credit	\$	0	\$ 0
28	Deferred Repair Allowance		0	0
29	Deferred Tax Depreciation		0	0
30	Amort of Deferred Tax Depreciation		0	0
31	Amort of Repair Allowance		0	0
32	Amort of Deferred ITC		0	0
33	Deferred Unbilled		0	0
34	Total	\$	0	\$ 0
*****				
35	Total Income Tax	\$	0	\$ 653
*****				

Case No. SR-2007-0461

Unanimous Disposition Agreement

Agreement Attachment D

Rate Design Worksheet

# SK & M WATER & SEWER

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## Development of Tariffed Rates-Sewer

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

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Revenues Generated by Current Tariffed Rates	\$ 37,359
Agreed-Upon Overall Revenue Increase	\$ 6,566
Percentage Increase Needed	17.577%

---

### Metered Customer Rates

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Meter Size	Current Service Charge	Proposed Service Charge
Single	\$ 19.58	\$ 23.02
Multi	\$ 15.66	\$ 18.41

Case No. SR-2007-0461

Unanimous Disposition Agreement

Agreement Attachment E

Billing Comparison Worksheet

# SK & M WATER & SEWER

## Residential Customer Bill Comparison-Sewer

### Rates for 5/8" Meter

<u>Current Base</u> <u>Customer Charge</u>	<u>Proposed Base</u> <u>Customer Charge</u>	<u>Current</u> <u>Usage Rate</u>	<u>Proposed</u> <u>Usage Rate</u>
<b>\$19.58</b>	<b>\$23.02</b>	<b>\$0.000</b>	<b>\$0.000</b>

current service charge is monthly charge

### MONTHLY BILL COMPARISON

#### Current Rates

Customer Charge	\$ 19.58
Usage Charge	\$ -
Total Bill	\$ 19.58

#### Proposed Rates

Customer Charge	\$ 23.02
Usage Charge	\$ -
Total Bill	\$ 23.02

#### INCREASES

#### Customer Charge

\$ Increase	<b>\$3.44</b>
% Increase	<b>17.58%</b>

#### Usage Charge

\$ Increase	<b>\$0.00</b>
% Increase	<b>N/A</b>

#### Total Bill

\$ Increase	<b>\$3.44</b>
% Increase	<b>17.58%</b>

Case No. SR-2007-0461

Unanimous Disposition Agreement

Agreement Attachment F

Schedule of Depreciation Rates

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION  
At a Session of the Public Service  
Commission held at its office  
in Jefferson City on the 26th  
day of December, 1984.

DEPRECIATION AUTHORITY ORDER NO. 137

In the matter of prescribing depreciation  
accrual rates for the SK&M Water and Sewer  
Company - Sewer Operations.

DEPRECIATION AUTHORITY ORDER

As provided for in Section 393.240 of the Missouri Revised Statutes, 1978, the Commission's Engineering Staff has made its study and investigation of the several class of property of said utility and has ascertained, determined and fixed the recommended rates of depreciation for the several classes of property for accruing depreciation credits to the depreciation reserve until further order by the Commission.

The Commission, having considered the recommended rates, finds that such rates are proper and adequate.

It is, therefore,

ORDERED: 1. That the said utility be, and it is, hereby ordered to adopt the following depreciation accrual rates beginning January 1, 1985:

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate Percent</u>
352.1	Collection Sewers (Gravity)	2.00
352.2	Collection Sewers (Force)	2.00
353	Other Collection Plant	4.00
354	Services to Customers	2.00
372	Oxidation Lagoons	4.00
373	Treatment & Disposal Facilities	4.50

ORDERED: 2. That the said utility be, and it is, hereby ordered to accrue depreciation expenses at the component rates set in "ORDERED: 1." above.

Case No. SR-2007-0461

Unanimous Disposition Agreement

Agreement Attachment G

Staff's E.M.S.D. Report



# **REPORT OF CUSTOMER SERVICE AND BUSINESS OPERATIONS REVIEW**

## **Engineering & Management Services Department**

### **Small Company Rate Increase Requests**

**Tracking File Nos. QW-2007-0006 & QS-2007-0007**

### **S. K. & M. Water and Sewer Company**

In conjunction with the above-referenced small company rate increase requests, the Engineering and Management Services Department (EMSD) staff initiated a review of the customer service processes, procedures and practices at S. K. & M. Water and Sewer Company (Company) on October 19, 2006. Prior to an on-site interview on December 11, 2006, the EMSD staff examined Company tariffs, annual reports, Commission complaint and inquiry records and other documentation related to the Company's customer service operations.

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

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

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

- Meter Reading
- Customer Billing and Payment Remittance
- Credit and Collections
- Disconnection/Reconnection Process
- Complaint Handling and Recording
- Record Storage and Protection

This report contains the results of the EMSD staff's review.

## **Overview**

As of December 2006, the Company indicated that it provides water service to 283 customers and sewer service to 159 customers located in Perryville, Missouri. The number of customers has remained constant since 2004. Recently, there were three homes built in the new Rolling Hills subdivision, which has several more lots available; however, since the town is currently growing in the opposite direction, the Company does not project any significant growth in the future. Company personnel indicated that they do not have any long-term maintenance projects planned.

Due to a change in ownership in November 2006, the Company has recently implemented a new organizational structure and has modified the job duties of several employees. Activities associated with Company operations are currently performed by the Chief Operator, Secondary Operator, Meter Reader, Meter Shut-Off Contractor, Accountant and Secretary. With the exception of the Chief Operator, all services are provided to the Company on a contractual basis. All contracts between the Company and subcontractors have been agreed upon orally and are not in written form.

The Chief Operator oversees daily operations of both outside plant activities and business office functions, supervises all subcontractors and responds to customer complaints, as necessary. The Secondary Operator tests chlorination levels daily, inspects the sewer plant daily, performs routine maintenance and is also responsible for disconnecting and reconnecting customers' service. On several recent occasions, the Company has hired additional contractors to assist with maintenance and repair projects that are outside of the Secondary Operator's expertise. The Meter Reader reads all meters on a monthly basis. An accounting firm is responsible for the Company's business office functions including preparation of customer bills, collection of customer payments and bad debt, maintenance of customer records, preparation of customer correspondence and responding to customer inquiries and complaints during normal business hours. All business office functions are performed at the accounting firm's office.

The business office is open Monday through Friday between the hours of 8 a.m. and 5 p.m. with the exception of Wednesdays, when the office closes at noon. The Secretary staffs a second telephone line from her residence and is available to accept calls at all times. Depending on the nature of the call, the Secretary either takes messages for the Chief Operator or refers

customers to the accounting firm during normal business hours to resolve billing inquiries or complaints.

For the most part, Company subcontractors do not utilize time sheets to track time spent on activities related to water or sewer activities. The only instances in which time sheets are utilized are when the Secondary Operator completes maintenance and repair work in addition to his normal job duties.

### **Meter Reading**

Meters are read between the 25<sup>th</sup> and 27<sup>th</sup> days of each month by the Company's subcontracted meter reader. Company personnel indicated that a physical disconnection is not consistently performed when customers move from their residences; therefore, all inactive water meters are read on a monthly basis to prevent and detect unauthorized usage.

Company personnel indicated that it takes approximately 8 to 10 hours each month to read all meters. The meter reader records the readings in a book that details each customer's name, service address, and all previous meter readings for that particular calendar year. If the reading appears to be inconsistent with the customer's previous usage history, the meter reader will recheck the reading. If the reading is still found to be correct, the meter reader notes a "C" next to the reading in the meter-reading book.

Company personnel indicated that meter readings are rarely estimated. Readings are estimated on occasion during winter months when meters are not accessible. Personnel at the Company's accounting firm stated that if meter readings are estimated, the meter reader notes an "E" next to the reading in the meter-reading book. The Company was unable to produce a report of estimated bills, and EMSD staff did not observe any instances in which the meter-reading book had been noted with an "E." Estimated bills are calculated based on the average usage amount of the customer. The Company's accounting personnel indicated that customer billing statements are occasionally noted as estimates when the Company has been unable to obtain an actual meter reading.

The meter-reading book is returned to the accounting firm, where each customer's usage is calculated using a Microsoft Works spreadsheet. The customer's usage is then recorded by hand in the meter-reading book. The gallons of water billed are compared to the master meter reading on a monthly basis. Personnel at the accounting firm indicated that significant

discrepancies between these two amounts are common. During the on-site visit, EMSD staff observed that the previous owner and the new owner of the Company have not been billed for the water they used at their respective residences.

### **Customer Billing and Payment Remittance**

Customer billing and payment remittance is handled through a subcontracted accounting firm. The accounting firm uses Microsoft Works software to calculate bills and QuickBooks software to record deposits.

Each month, the accounting firm enters the new billing period dates, meter readings and any past due balances or credits for each customer into a Microsoft Works spreadsheet. Using this information, each customer's water usage and current amount due is calculated. Customer billing statements are printed from the billing software in postcard format. Since each month's billing history is saved as a separate computer file, it is difficult for personnel at the accounting firm to access billing history for individual customers.

The formula programmed into the billing software is not capable of calculating prorated bills. In instances that a bill is prorated, it must be calculated by hand and the amount due is manually keyed into the billing software. When bills are calculated manually, the accounting firm does not have a control in place to verify the accuracy of the initial calculation.

Customer billing statements are mailed on the 1<sup>st</sup> day of every month and are due on the 10<sup>th</sup> of every month. Personnel of the Company's accounting firm indicated that customers are not considered delinquent until the next billing cycle; however, this is not noted on customer billing statements.

Currently, the minimum monthly charge for water service is \$4.69 and customers are charged \$1.98 per 1,000 gallons of usage. Single-family residences are charged \$19.58 and multi-family residences are charged \$15.66 per month for sewer service. The Company does not assess any late fee penalties to delinquent paying customers.

Customers may pay their bills with cash or check via mail or in person at the business office. Customer payments are not accepted in the field in any circumstances. The accounting firm indicated that 90% of their customers mail their payments; however, the accounting firm checks its P.O. Box on a daily basis. Payments are processed and stored at the accounting firm until a deposit is made. Bank deposits are made two to three times each week. In order to

determine that customer payments are posted accurately into the billing system, the accounting firm verifies that they are equal to the amount of deposits recorded.

### **Credit and Collections**

All new customers must complete an application form to establish service with the Company. All new customers are required to pay a security deposit of \$35 for water service and \$30 for sewer service. Security deposits for both water and sewer service are refunded without interest when the customer terminates service with the Company. The Company holds security deposits in a separate savings account.

If a customer's bill has not been paid when billing statements are generated for the following billing period, their billing statement is marked "past due" and the previous amount due is added onto the customer's current bill. In these instances, disconnection notices are sent along with the billing statement marked "past due."

During the on-site visit, the accounting firm indicated that 59 customers were 30 or more days in arrears, owing a total amount of \$2,100 from the October 2006 billing cycle. Uncollectible debts from 2004 and 2005 were \$438.18 and \$636.03 respectively.

Personnel at the Company's accounting firm stated that they have received returned checks in the past, but do not keep a record of these occurrences. In instances where a check is returned, the Company calls the customer and charges the account a \$25 returned check fee. If the customer does not make their payment after they are called by the accounting firm, the Company sends a letter to the customer. The Company's tariff does not include a returned check fee; however, staff from the Commission's Water and Sewer Department are reviewing the miscellaneous charges included in the Company's tariff and will recommend appropriate changes in the context of the Company's present rate case.

### **Disconnection/Reconnection Process**

The Company's accounting firm indicated to EMSD staff that 50 disconnection notices are typically sent to customers each month. Once customers receive a disconnection notice, they have until the 12<sup>th</sup> day of the month to remit payment or their service will be disconnected. When personnel from the accounting firm determine a customer is subject to disconnection, the Meter-Shut Off Contractor is sent on-site to perform the disconnection. No notice is left at the

residence after service has been disconnected. Service disconnections are not performed on Fridays, weekends or holidays. The Company's accounting firm was unable to provide EMSD staff the specific number of customers that had water service disconnected in 2004, 2005 and 2006; however, they did estimate that approximately 7 to 8 customers have their water service disconnected each month. Personnel at the Company's accounting firm had no recollection of ever disconnecting a customer's sewer service due to non-payment.

According to Company personnel, once disconnected customers pay their past-due balance, the Meter-Shut Off Contractor reconnects their service before the end of the next business day. Customers are charged a \$15 reconnection fee on their next bill if their service has been disconnected due to nonpayment.

The Company has experienced two instances in which customers have reconnected their own water service after being disconnected for non-payment. If the Company has not been contacted by the disconnected customer within 3 to 4 days following disconnection in order to make payment arrangements, the Meter Shut-Off Contractor will check the meter for usage to prevent and identify instances of diversion.

### **Complaint Handling and Recording**

Customer billing statements list the Company's mailing address and two separate telephone numbers that customers with questions or concerns may call. Customers may call the accounting firm during normal business hours to discuss billing-related issues. In case of an emergency or if customers have concerns regarding operational issues, customers may call the Company's Secretary who will forward a message on to the appropriate party. The accounting firm does not have a recorded message on its telephone line instructing customers whom to contact in case of an after-hours emergency.

A review of the "Consumer Quality" database in the Commission's electronic filing and information system revealed there have been no complaints entered into the system regarding the Company from the time the system went into service in April 2002 through January 30, 2007. The Company does not keep a log of the customer complaints it receives.

## **Record Storage and Protection**

Company records are stored at the accounting firm's business office. Personnel at the accounting firm indicated that their network server backs up electronic files everyday at midnight; however, no back-up copies of paper records are kept.

## **Findings, Conclusions and Recommendations**

The following discussion presents a summary of the findings, conclusions and recommendations pertaining to the Company's customer service operations. The information presented in this section focuses on the following twelve areas that require the attention of the Company's management:

- Oral Agreements with Contractors
- Customer Applications
- Customer Records
- Customer Billing
- Prorated Bills
- Late Fees
- Customer Deposits
- Returned Check Procedure
- Disconnection Process
- Customer Contacts
- Complaint Log
- Record Storage and Protection

## **Oral Agreements with Contractors**

The Company does not have written agreements in place with its outside contractors. In the past, the Company established oral agreements with various outside parties that are responsible for business office functions, accounting services, meter reading, service disconnections and plant operations. Some of these oral commitments were established by the previous Company owner. Since the ownership of the Company has recently changed, the Company should ensure that it is aware of all of the oral agreements that were made in the past. The Company should verify that all parties agree to the specified duties they are expected to

perform, pay received, and methods of performance measurements, as well as the ownership of physical property or information technology. In some cases, the Company may determine that written agreements may be more appropriate, such as with the critical nature of billing records. Understanding all of the Company's previous commitments will help clarify any ambiguities that may be present in these business relationships.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Review all oral agreements currently held with outside contractors and, if necessary, revise the terms of these agreements in order to meet the needs of the reorganized Company. If deemed necessary, develop written agreements with these contractors.*

### **Customer Applications**

Customer applications require customers to disclose their billing address; however, there is no place to note a different service location. Personnel of the Company's accounting firm indicated that this practice has caused confusion in the past and ultimately caused the wrong customer's service to be disconnected. By requiring customers to disclose both service and billing addresses, the Company will have more complete customer information on file.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Require customers to disclose both their service location and billing address on applications.*

### **Customer Records**

The Company's accounting firm is unable to access customer account history in an efficient and user-friendly manner. Customer billing records are saved in a spreadsheet format as separate files on a monthly basis, which makes it very difficult and time consuming to research individual customers' account history. In order to review an individual customer's billing history, the accounting firm personnel must open and search through each month's designated file. Updating or modifying the accounting firm's current billing software so that employees can easily access customer's account history will be useful in instances when customers have a billing dispute.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Evaluate various alternatives that will allow Company employees and subcontractors to access customer billing history in an efficient manner. If deemed appropriate, implement the new procedure.*



## **Customer Billing**

The Company does not allow the customer 21 days from rendition of the bill to make payment. Customer billing statements are mailed on the 1<sup>st</sup> day of every month and are due on the 10<sup>th</sup> of every month. This is in violation of Commission Rule 4 CSR 240-13.020 (7), which states:

A monthly-billed customer shall have at least twenty-one (21) days and a quarterly-billed customer shall have at least sixteen (16) days from the rendition of the bill to pay the utility charges, unless a customer has selected a preferred payment date in accordance with a utility's preferred payment date plan.

In instances where no meter reading has been obtained, the Company does not indicate on all of its customers' monthly billing statements that the bill is estimated. This is in violation of Commission Rule 4 CSR 240-13.020 (2) (D) 2, which states:

When a utility renders an estimated bill in accordance with these rules, it shall –  
(2) Clearly and conspicuously note on the bill that it is based on estimated usage;

Noting that bills are estimated when no meter reading has been obtained clarifies the Company's billing practices to customers and may eliminate further billing disputes.

The previous owner and the new owner of the Company do not receive a bill for the water used at their respective residences. Although their meters are read each month, their usage is not calculated or billed; therefore, comparing the gallons of water billed to the master meter reading shows discrepancies. Calculating each customer's water usage and billing the appropriate amounts will allow the Company to keep accurate and complete records and enable them to determine easily if leaks are present in the system.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Allow customers 21 days from the rendition of the bills to make payment of their bills as required by Commission Rule 4 CSR 240-13.020 (7).*

*Include a clear notation on billing statements that the bills have been estimated when no meter readings have been obtained as required by Commission Rule 4 CSR 240-13.020 (2) (D) 2.*

*Implement a procedure to bill all customers on a monthly basis for their respective water and sewer usage.*

## **Prorated Bills**

The Company's accounting firm prorates customer bills when they are rendered for a period of less than a complete billing period. Although the Company's sewer tariff allows sewer bills to be prorated, the Company's water tariff does not allow water bills to be prorated. Rule 10 of the Company's water tariff (Sheet No. 24) includes the following:

When bills are rendered for a period of less than a complete billing period due to the connection or termination of service, the billing shall be the monthly minimum plus an amount based on the water used at the commodity (water usage) rate or one-half (1/2) of the flat rate if applicable.

Discontinuing the practice of prorating water bills will enable the Company to be in accordance with its tariffs.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Discontinue the practice of prorating water bills that are rendered for a period of less than one billing period in accordance with the Company's tariffs.*

## **Late Fees**

The Company does not assess a late fee penalty to delinquent-paying sewer customers. The rate schedule contained in the Company's sewer tariff (Sheet No. 4) includes the following:

Bills (sic) not paid within a delinquency of thirty (30) days bear delinquent late charge for nonpayment of two percent (2%) per month cumulative until paid.

The Company can help ensure a regular cash flow by encouraging timely bill payments. As an incentive for customers to make payment of their sewer bills in a timely manner, customers that make payment after the Company's due date should consistently be charged a late fee. Late fees also assist the Company by providing some compensation for increased administrative costs including the additional time that is required to process delinquent bill notices.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Charge the tariffed late fee charge to delinquent-paying sewer customers.*

## **Customer Deposits**

The Company charges all new water and sewer customers a security deposit. The Company's accounting firm does not provide water customers the opportunity to prove creditworthiness, as cited in the PSC rules, which would enable the customer to avoid paying a

deposit. Although the Company's tariff allows the opportunity to assess a security deposit to all new sewer customers, the same does not apply to customers receiving water service. The policy with regard to security deposits for water service is a violation of Commission Rules. Commission Rule 4 CSR 240-13.030(1) includes the following:

(1) A utility may require a deposit or other guarantee as a condition of new residential service if-

(A) The customer has outstanding with a utility providing the same type of service, an unpaid bill which accrued within the last five (5) years and, at the time of the request for service, remains unpaid and not in dispute;

(B) The customer has in an unauthorized manner interfered with or diverted the service of a utility providing the same service situated on or about or delivered to the customer's premises within the last five (5) years; or

(C) The customer is unable to establish an acceptable credit rating under standards contained in tariffs filed with and approved by the commission. The customer shall be deemed *prima facie* to have established an acceptable credit rating if the customer meets any of the following criteria:

1. Owns or is purchasing a home;
2. Is and has been regularly employed on a full-time basis for at least one (1) year;
3. Has an adequate regular source of income; or
4. Can provide adequate credit references from a commercial credit source.

Deposits are not currently being refunded to water customers who have paid undisputed utility charges on time during the last twelve billing months. Personnel from the Company's accounting firm indicated that all security deposits are refunded when customers leave its service territory. Commission Rule 4 CSR 240-13.030 (4)(D) includes the following:

Upon satisfactory payment of all undisputed utility charges during the last twelve (12) billing months, [the security deposit] shall be promptly refunded or credited, with accrued interest, against charges stated on subsequent bills. Payment of a charge is satisfactory if received prior to the date upon which the charge becomes delinquent provided it is not in dispute. . . .

In addition, the Company has not refunded security deposits to water and sewer customers with interest. This is a violation of Commission rules and Company tariffs. Commission Rule 4 CSR 240-13.030(4)(B) states:

(4) A deposit shall be subject to the following terms:

...

(B) It shall bear interest at a rate specified in utility tariffs, approved by the commission, which shall be credited annually upon the account of the customer or paid upon the return of the deposit, whichever occurs first. . . .

Rule 10 of the Company's water tariffs (Sheet No. 25) includes the following:

Interest at the rate of 6% per annum compounded annually shall be payable on all deposits, but shall not accrue after the utility has made reasonable effort to return the deposit. Interest may be credited to the customer's account.

In addition, Rule 10 of the Company's sewer tariff (Sheet No. 18) includes the following:

Interest at the rate six percent (6%), payable upon return of the deposit, will be paid for the time such deposit was held by the Company unless such period of time be less than six (6) months.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Require a security deposit for water service in accordance with Commission Rule 4 CSR 240-13.030(1).*

*Refund deposits to water customers who have paid undisputed utility charges on time during the last twelve (12) billing months consistent with the Company's tariffs. Record this information in a deposit log.*

*Refund security deposits as required by Commission rules and the Company's tariffs with interest at the rate of 6% per annum compounded annually.*

### **Returned Check Procedures**

The Company does not currently track the number or total dollar amount of returned checks. A monthly report detailing the number and total dollar amount of returned checks would provide management with a useful tool to track the extent of these occurrences.

Each time a returned check is received, the accounting firm drafts a new letter to the customer. Creating a standardized letter or form to correspond with customers whose checks have been returned would increase efficiency in the Company's returned-check procedure and would allow for consistent application of Company policies.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Develop and regularly monitor a report that tracks the number of returned checks and the dollar amount of returned checks.*

*Develop a standardized letter or form to correspond with customers whose checks have been returned.*

### **Disconnection Process**

Personnel of the Company's accounting firm indicated that no notice is left at customers' premises when their water service is disconnected. This is a violation of Commission Rule 4 CSR 240-13.050(8) which states:

... When service is discontinued, the employee shall leave a notice upon the premises in a manner conspicuous to the customer that service has been discontinued and the address and telephone number of the utility where the customer may arrange to have service restored.

According to the above Commission rule, the Company must leave notice for the customer when water service is disconnected.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Implement the procedure of leaving notice at the customers' premises when water service is disconnected as required by Commission Rule 4 CSR 240-13.050(8).*

### **Customer Contacts**

Customer billing statements do not make clear what telephone number customers should call in instances of an after-hours emergency. Billing statements include two telephone numbers for use when customers have complaints or inquiries and for instances of an after-hours emergency. However, the billing statement does not identify in what instances each number should be used. Identifying the Secretary's telephone number as an emergency contact or recording a message on the accounting firm's answering machine instructing customers whom to call in case of an emergency would help customers identify the appropriate telephone number to call and enable them to receive a timely response to their concern.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Indicate to customers how they can contact the Company in case of an after-hours emergency.*

## **Complaint Log**

The Company does not maintain a log noting the complaints received from its customers. This is a violation of Commission Rule 4 CSR 240-13.040(5), which states:

A utility shall maintain records on its customers for at least two (2) years which contain information concerning:

...

(B) The number and general description of complaints registered with the utility;

Not maintaining a log makes it difficult to determine the number of customer complaints that the Company receives. Additionally, the lack of a complaint log makes it difficult for the Company to provide accurate documentation of the nature of its complaints. Compliance with the requirement to maintain a complaint log can be as simple as a notebook with dated notations including the date, name of the customer, a description of the complaint or inquiry and the action taken. In addition to adhering to Commission rules, the availability of documented complaint information is a beneficial tool that would enable Company management to evaluate the reasons why customers contact the Company and determine if any measures could be taken to reduce customer contacts and improve customer satisfaction.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Develop and utilize a log that documents all customer complaints received by the Company's personnel.*

## **Record Storage and Protection**

The Company does not currently store all of its billing information or business documents in a fireproof location. Customers' payments and other important paper business documents are stored at the accounting firm's business office. Use of locked, fireproof file cabinets or vaults for important business documents would provide additional protection to the Company's records and would eliminate the time and cost of re-creating lost data or recollecting payments if the documents were destroyed or stolen.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Store all customer payments, Company billing information and other important business documents in lockable, fireproof file cabinets or vaults.*