

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 9th
day of May, 1996.

In the matter of the application of)
Emerald Pointe Utility Company for)
permission, approval, and a certificate)
of convenience and necessity authorizing)
it to construct, install, own, operate,)
control, manage, and maintain a water and)
sewer system for the public located in an)
unincorporated area in Taney County,)
Missouri.)

Case No. WA-96-96

ORDER GRANTING CERTIFICATE OF CONVENIENCE AND NECESSITY

On September 25, 1995 Emerald Pointe Utility Company (Emerald Pointe or Applicant) filed an Application pursuant to § 393.170, RSMo 1994 for a certificate of convenience and necessity authorizing it to construct and operate a public water and sewer system in an unincorporated area in Taney County, Missouri. On November 9, 1995 the Commission issued an Order and Notice in this case which set out the nature of, and the specifics contained in, the Application. This Order and Notice directed the Applicant to send notice of its proposed certificated area to all residents now located in the proposed service area. The Order and Notice also directed the Commission's Information Officer to send notice of the order to the appropriate media representatives, and it directed the Commission's Records Department to serve a copy of the Order and Notice upon the Taney County Commission. Lastly, the order provided that any proper party wishing to intervene should apply to do so before December 11, 1995. The Commission received no applications for intervention in this case.

On February 8, 1996 a First Amended Application was filed by Emerald Pointe. The purpose of the Amended Application was to revise the legal description which had been included in the original Application. The Amended Application stated that in all other respects the information contained in the

original Application was correct. On March 29, 1996 the Staff of the Public Service Commission (Staff) submitted a Memorandum in this case. This Memorandum was jointly offered by Dale Johansen, the Project Coordinator; Jim Merciel of the Water and Sewer Department; Larry Cox of the Accounting Department; Cary Featherstone of the Accounting Department; Randy Wright of the Financial Analysis Department; and Guy Gilbert of the Depreciation Department. Each of these individuals and departments are within the Public Service Commission. Attached to the Staff Memorandum was Attachment 1 which consisted of the Water Depreciation Rates and Attachment 2 which consisted of the Sewer Depreciation Rates.

The Commission has reviewed the Application, the First Amended Application, and the Staff Memorandum along with the entirety of the file and makes the following findings of fact. The Commission finds the Applicant is a Missouri corporation duly organized and existing under the laws of the state of Missouri with its principal office and place of business located at 102 South Commercial, Branson, Missouri 65616. The Commission finds that Emerald Pointe is not currently a certificated provider of utility service in the state of Missouri. If this Application is approved, Emerald Pointe will become a "public utility" as that term is defined at § 386.020(32), RSMo 1994. The Commission finds that a legal description of the area to be certificated and served is set out in Exhibit 3A, and the Commission finds this exhibit has been substituted for Exhibit 3 which accompanied the original Application. The Applicant has also provided a Feasibility Study which sets out, among other things, the plans and estimated costs of the utility plant and equipment, proposed rates and charges, and an estimate of the number of customers, revenues, and expenses for the first three years of operation.

Emerald Pointe expects to initially provide service to individual home builders. The initial phase of the water system is designed to serve 650 customers, with the initial phase of the sewer system designed to serve 323

customers. Emerald Pointe anticipates an ultimate potential of some 3,200 customers. Emerald Pointe has planned additional utility plant to be phased in as the development grows.

The Staff has reviewed Emerald Pointe's filing, conducted a field inspection audit, and has requested and received additional information. Staff has reported that the capital structure of Emerald Pointe is expected to be 50 percent common equity and 50 percent debt to total capital ratio. The water and sewer rates were designed using a 12 percent return on equity and a 10 percent cost of debt. The available actual construction costs for the first phase of each system were used to determine rate base. Staff has noted that Emerald Pointe will be required to file a financing case seeking Commission approval to issue its long-term debt.

The water rates designed for Emerald Pointe use, as their basic criteria, 520 water customers using 4,000 gallons per month which constitutes 80 percent of the capacity of Phase 1 of the water system. The water system rate base consists of \$311,135 which was arrived at by taking the total plant in service of \$527,075 less the contributed plant of \$215,940. The water system's operating expenses are currently \$92,094. Based upon these figures, the water rates are calculated to be \$8.93 for the first 2,000 gallons per month, plus \$2.92 per additional 1,000 gallons. These figures will result in a water bill for an average of 4,000 gallons per month of \$14.77.

The sewer rate calculations are based upon an assumption of 258 customers using 4,000 gallons per month, which also constitutes 80 percent of capacity of Phase 1 of the sewer system. The sewer system assumes a rate base of \$631,350 by taking the total plant in service of \$728,224 less the contributed plant of \$96,874. These figures include the lift stations as rate base. The operating expenses for the sewer company are \$176,268. Based upon these figures, the sewer rates are calculated to be \$16.59 for the first 2,000 gallons of water use per month, plus \$5.83 per additional 1,000 gallons water use with a cap of

8,000 gallons per month. Therefore, the sewer bill for an average of 4,000 gallons water use per month would be \$28.25. Attached to this order, as Attachment 1 and Attachment 2, are the proposed depreciation rates for the water and sewer company, respectively. These depreciation accrual rates are recommended by the Staff and are similar to those approved for other water utilities and sewer utilities.

Emerald Pointe proposes connection charges for both water and sewer service which will consist of the actual costs of material and labor. The water connection will generally include a corporation cock, a meter box or vault, meter yoke with valve, meter, service pipe between the corporation cock and meter set, and labor to make the tap and install service connection components. A sewer connection consists of a wye, or saddle, and labor to tap and connect the sewer service. As proposed, one or more contractors will be available to work with both the home builder and the utility, and are authorized to make connections to the utility system as building plumbing is constructed. Emerald Pointe will then be billed for the work, and Emerald Pointe will subsequently pass the cost of making the connection on to the builder or customer.

Staff notes that this is an expanding development and Emerald Pointe may not initially have enough customers to realize complete expense recovery nor earnings. Staff recommends, as is common for newly certificated utilities, that the expenses be reviewed within 18 months after the effective date of the certificate granted by the Commission to check for reasonableness of estimated expenses and rates. Staff has also recommended that the Commission order Emerald Pointe to file complete tariffs for water service and sewer service upon issuance of the order granting a certificate and with a 10 day effective date. Staff requests, therefore, that the certificate become effective for water and sewer service concurrent with the effective date of the tariff.

The Commission finds that, as is common with all regulated utilities, Emerald Pointe shall keep its books and records in accordance with the Uniform

System of Accounts. This shall include the recording of day-to-day operating expenses, revenues, cost of construction of utility plant, and contribution-in-aid-of- construction. Documentation of construction costs shall also be retained as part of these records. Emerald Pointe shall be required to adopt the Uniform System of Accounts for Class C and Class D sewer utilities, as prescribed by the National Association of Regulatory Utility Commissioners and adopted by this Commission. The Commission notes that its staff is available to assist the company in properly setting up its books.

Applicant alleges that there are no municipalities located within the proposed service area and that the approval of Taney County is not required for the Applicant to provide water and sewer service as set out in the Application. Applicant has further stated that its water and sewer system will meet all requirements of the Missouri Department of Natural Resources and a copy of the permits issued by the Department of Natural Resources was attached to the Application.

The Commission finds that there are no other public utilities or governmental bodies being operated or rendering sewer service within the proposed service area. The area requested to be certificated is currently being developed into a residential area. The Commission finds that the residential homes and condominium units would constitute a public need for adequate sewer and water service within the area proposed to be served and that the public convenience and necessity will be promoted by granting the authority requested in the Application.

IT IS THEREFORE ORDERED:

1. That Emerald Pointe Utility Company shall be granted a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage, and maintain a water and sewer system for the public located in an unincorporated area in Taney County, Missouri, as more specifically set out in the Application in this case.

2. That Emerald Pointe Utility Company shall file complete tariffs for water service and sewer service within 10 days of the issue date of this order. Those proposed tariffs shall bear a 30 day effective date but, if appropriate, may be approved sooner.

3. That the tariffs for water and sewer service filed pursuant to paragraph 2 herein shall include service area descriptions consistent with the Amended Application and rates and rules consistent with the Staff's recommendations as set out in the Staff Memorandum filed on March 29, 1996 in this case.

4. That Emerald Pointe Utility Company shall adopt the Uniform System of Accounts for Class C and Class D utilities, as prescribed by the National Association of Regulatory Utility Commissioners and adopted by this Commission. Further, Emerald Pointe Utility Company shall keep its books and records in detail as set out herein.

5. That the Commission hereby approves the depreciation accrual rates as shown on Attachment 1 for the water depreciation rates, and Attachment 2 for the sewer depreciation rates, as attached to this order.

6. That the Commission, by this order, makes no finding that would preclude the right to consider the ratemaking treatment to be afforded in matters herein or any future expenditures by Emerald Pointe Utility Company in any later proceeding.

7. That the Commission Staff shall review the expenses, expense recovery, and earnings of Emerald Pointe Utility Company within 18 months of the effective date of the certificate granted herein.

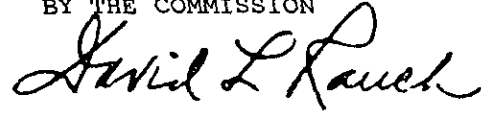
8. That the Emerald Pointe Utility Company may do, or cause to be done, such other acts as are necessary to implement the authority granted herein.

9. That the certificate(s) to be granted by this order shall not

become effective until the effective date of the tariffs ordered herein.

10. That this order shall become effective on May 21, 1996.

BY THE COMMISSION

A handwritten signature in cursive script that reads "David L. Rauch".

David L. Rauch
Executive Secretary

(S E A L)

Zobrist, Chm., Kincheloe, Crumpton,
and Drainer, CC., Concur.
McClure, C., Absent.

ALJ: Roberts