

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WA-96-246
Spokane Highlands Water Company

FROM: Dale Johansen, Project Coordinator *DWJ 7/30/96*
Larry Cox, Accounting Department *LC 7/31/96 CRH 7/31/96 JCW 7/31/96*
Jolie McKeel, Depreciation Department *J.M. 7/30/96 / RMD 7-30-96*
Jim Merciel, Water and Sewer Department *7/29/96*
Randy Wright, Financial Analysis Department *RW BY RB 7/31/96*

Sam Alderman 8/1/96
Director, Utility Operations Division/Date

Kenneth Rodema 7/31/96
Director, Utility Services Division/Date

W. K. Haan 8/2/96
General Counsel's Office/Date

FILED

AUG - 2 1996

**MISSOURI
PUBLIC SERVICE COMMISSION**

SUBJECT: Staff's Recommendation for Granting of Certificate of Convenience and Necessity

DATE: July 29, 1996

On February 2, 1996, Spokane Highlands Water Company (Company) filed an application for a Certificate of Convenience and Necessity (Certificate) to provide water service in a subdivision in Christian County known as Spokane Highlands.

Spokane Highlands subdivision is being developed by the owners of the Company. The subdivision consists of 74 lots for single family residences, which are being sold at this time. The water system is designed to serve all lots. Rates are set based on 60 customers, which represents the developers' three (3) year development plan.

The Staff reviewed the Company's filing, and has conducted a field inspection and audit. Total plant in service is \$67,211. Contributions in aid of construction total \$19,564, for rate base of \$47,647. Available actual construction costs for the system were used to determine rate base. At the time of the Staff's initial review, the Company's capital structure consisted of approximately 28% common equity and 72% debt to total capital. The Staff utilized the cost of debt of 10.75%, and a return on common equity of 12% in determining a reasonable rate of return of 11.1% for ratemaking purposes. It should be noted that as of July 26, 1996 the Company has paid down its loan and that its current capital structure consists of approximately 54% common equity and 46% debt to total capital.

Monthly rates, calculated using the third-year customer level of 60 single family residences, and monthly use of 6,000 gallons, are recommended as follows:

Monthly minimum, includes first 2,000 gallons	\$ 11.19
Commodity charge, per 1,000 gallons over 2,000 gallons	\$ 2.31

The water bill for an average use of 6,000 gallons water use per month would be \$20.43.

A one-time connection charge is necessary to pay for new meter installations. The recommended connection charge is \$350 for a residential connection. This is based on actual cost of material for a service connection, which includes the meter, box and lid, yoke, about 50 feet of pipe, saddle, and connecting parts, plus estimated labor and backhoe expense.

Spokane Highlands is an expanding development, and the Company may not initially have enough customers to realize complete expense recovery nor earnings. As is common for newly certificated utilities, the Staff recommends expenses be reviewed within eighteen (18) months after the effective date of a Certificate granted by the Commission to check for reasonableness of estimated expenses and rates.

Recommended depreciation accrual rates are shown on Attachment 1. These depreciation accrual rates are similar to those approved for other small water utilities.

The Company will need an approved Schedules of Rates, Rules and Regulations (tariff) for water service. A copy of the Water and Sewer Department's example water tariff has been sent to the Company's principals to assist them in preparation of such a document. It is recommended a Certificate become effective for water service on the effective date of the tariff.

As is required of all regulated utilities, the Company needs to keep its books and records in accordance with the Uniform System of Accounts. This includes 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 also needs to be retained as part of the records. The Staff recommends the Commission order the Company to adopt the Uniform System of Accounts For Class C and D Water Utilities as prescribed by the National Association of Regulatory Utility Commissioners, and adopted by the Commission. The Staff has offered to assist the Company in properly setting up its books.

The Staff has communicated with the Company in regard to the matters addressed in this memorandum by a letter dated July 8, 1996. The Company responded by telephone on July 23, 1996 expressing its agreement with the Staff on all issues.

To summarize, the Staff recommends the Commission:

1. Approve a Certificate for water service as proposed in the Application, to be effective upon the effective date of tariffs to be filed as addressed herein;
2. Approve rates as described herein, to be reviewed by the Staff within eighteen months of the effective date of tariffs to be filed in this case;
3. Approve depreciation accrual rates as shown on Attachment 1;
4. Order the Company to file complete tariffs for water service, such tariffs to include service area descriptions consistent with the Application, and rates and rules consistent with the Staff's recommendations herein;
5. Order the Company to keep its books and records in accordance with the Uniform System of Accounts For Class C and D Sewer Utilities, along with appropriate documentation as described herein;
6. Make no finding that would preclude the right to consider the ratemaking treatment to be afforded any matters herein, or any future expenditures by the Company in any later proceeding.

A second order from the Commission will be necessary to approve the tariffs, thus the Water and Sewer Department will file an additional recommendation regarding approval of the tariffs to be filed by the Company.

Attachment: 1 Depreciation accrual rates for water plant

copies: Director - Utility Operations Division
Director - Policy and Planning Division
Director - Utility Services Division
General Counsel
Manager - Financial Analysis Department
Manager - Accounting Department
Asst. Manager -- Accounting (C. Hyneman)

Manager - Water and Sewer Department
Manager - Depreciation Department
Spokane Highlands Water Company
-- Kirk R. Jones, President
-- David N. Appleby, Counsel
Office of the Public Counsel

**SPOKANE HIGHLANDS WATER COMPANY
DEPRECIATION RATES
Case No. WA-96-246
(WATER)**

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate</u>
311	Structures & Improvements	2.5%
314	Wells & Springs	2.0%
316	Supply Mains	2.0%
317	Other Water Source Plant	2.0%
321	Structures & Improvements	2.5%
323	Other Power Production Equipment	4.0%
325	Electric Pumping Equipment	10.0%
326	Diesel Pumping Equipment (35 yr, +5% salv)	2.7%
327	Hydraulic Pumping Equipment	2.5%
328	Other Pumping Equipment	5.0%
331	Structures & Improvements	2.5%
332	Water Treatment Equipment	2.9%
341	Structures & Improvements	2.5%
342	Distribution Reservoirs & Standpipes	2.5%
343	Transmission & Distribution Mains	2.0%
344	Fire Mains	2.0%
345	Services	2.9%
346	Meters - Bronze Chamber (35 yr, +5% salv)	2.7%
347	Meters - Plastic Chamber	10.0%
348	Hydrants	2.5%
349	Other Transmission & Distribution Plant	3.3%
390	Structures & Improvements	2.9%
391	Office Furniture & Equipment	5.0%
392	Transportation Equipment (7 yr, +10% salv)	13.0%
393	Stores Equipment	4.0%
394	Tools, Shop, Garage Equipment	5.0%
395	Laboratory Equipment	5.0%
396	Power Operated Equipment	6.7%
397	Communication Equipment	6.7%
398	Miscellaneous Equipment	5.0%