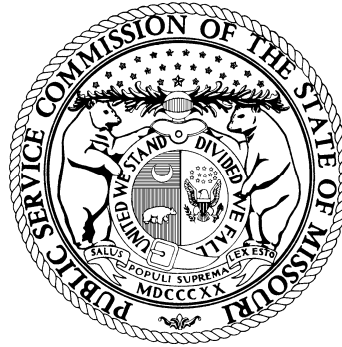


MISSOURI PUBLIC SERVICE COMMISSION

JUNE 23, 2010 REFILEING OF STAFF'S JUNE 21, 2010
RESPONSE TO
MISSOURI PUBLIC SERVICE COMMISSION'S
JUNE 16, 2010
ORDER REGARDING CLARIFICATION
TO PLANT ADDITIONS



LAKE REGION WATER & SEWER COMPANY

CASE NO. SR-2010-0110

**Horseshoe Bend Sewer
Shawnee Bend Sewer**

&

CASE NO. WR-2010-0111

Shawnee Bend Water

*Jefferson City, Missouri
June 23, 2010*

LAKE REGION WATER & SEWER COMPANY
SR-2010-0110 AND WR-2010-0111
TABLE OF CONTENTS

I. LAKE REGION WATER & SEWER COMPANY'S PLANT IN SERVICE	1
II. LAKE REGION WATER & SEWER COMPANY'S PLANT ADDITION FOR TRUE-UP...4	
III. COMPARISON OF PLANT IN SERVICE, RATE BASE AND REVENUE REQUIREMENT AT TIME OF APRIL 16, 2010 TRUE-UP HEARINGS AND MAY 18, 2010 CORRECTION	4
IV. REVENUE REQUIREMENT SCENARIOS FOR JUNE 7, 2010	6
V. COMMISSION ORDERED SCENARIO NUMBER 1 - JUNE 7, 2010 Report.....	13
VI. SCENARIO NUMBER 2 - JUNE 7, 2010 Report	15
VII. SCENARIO NUMBER 3 - JUNE 7, 2010 Report	16
VIII. CONCLUSION	18

**JUNE 23, 2010 REILING OF STAFF'S JUNE 21, 2010 RESPONSE TO
MISSOURI PUBLIC SERVICE COMMISSION'S
JUNE 16, 2010 ORDER REGARDING CLARIFICATION
TO PLANT ADDITIONS**

I. LAKE REGION WATER & SEWER COMPANY'S PLANT IN SERVICE

1. The Missouri Public Service Commission (Commission) issued an Order June 16, 2010 (the June 16th Order) directing Staff to clarify its position on plant additions and rate base calculations for Lake Region Water and Sewer Company (Lake Region). On June 21, 2010 Staff filed a response to the Commission's June 16th Order (referred to herein as the June 21st Report). Subsequent to the June 21st Report the Company contacted Staff that it saw a problem with this filing, specifically with the terms of the agreement it reached with Staff regarding changes to the true-up revenue requirement. Lake Region and Staff were unable to resolve the differences relating to this agreement. Consequently, Staff believes the result of True-up Revenue Requirement is the latest agreement between the parties except for the contested issues of Executive Management costs, Rate Case Expenses and the treatment of Availability Charges.

2. On April 16, 2010 prior to the start of the True-up hearing, John Summers, Lake Region's General Manager contacted Staff about a concern the Company had regarding the amount of plant additions included in the plant in service schedule filed with the True-up revenue requirement runs. Staff indicated to the Company it would address the matter subsequent the April 16th True-up hearings.

3. Prior to the April 16th True-up hearing, Mr. Summers and Staff member Karen Herrington discussed the amount of the plant addition completed in March 2010. Mr. Summers indicated the plant addition total should be \$242,603. Ms. Herrington confirmed

\$242,603 as the correct amount for plant additions and included that amount in the Horseshoe Bend Sewer revenue requirement calculation.

4. What Lake Region thought was a problem with the plant addition amount, actually turned out to be a change in another plant account amount. The discrepancy Mr. Summers referenced at the April 16th True-up hearing actually related to a plant amount for the Shawnee Bend Sewer account 362 (Receiving Wells and Pump Pits). Staff originally had an incorrect amount of \$296,578 in its direct filing which it found during revisions for the True-up. The actual balance for account 362 should have been \$258,043. This amount corresponds with the Company's general ledger. In addition to adding the amount of new plant addition of \$242,603 which was the purpose of the True-up, Staff also corrected the right amount based on the Lake Region's general ledger for account 362 (the \$258,043 amount), and corrected the related accumulated reserve balances.

5. On May 18, 2010 Staff responded to the Commission's April 8, 2010 Order regarding the availability charges. The name of the report was "STAFF RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S APRIL 8, 2010 ORDER REGARDING AVAILABILITY CHARGES" (the May 18th Report). In this report Staff submitted three scenarios based on including availability charges as revenues and various levels of contributions in aid of construction (CIAC). The starting basis of each those revenue requirement calculations was the True-up through March 31, 2010, corrected for a minor item as of May 18, 2010. The starting revenue requirement before any of the scenario calculations was identified as "Staff True-up April 16, 2010-- No Availability Fees and CIAC Offset to Rate Base Corrected May 18, 2010--" [see pages 5, 13, 17, 18 and Schedules 1-3 and 1-4 of the June 7th report to

identify the that the amounts below were used as starting basis for the three scenarios presented to the Commission regarding availability fees].

6. The May 18th corrected revenue requirement amount for the True-up through March 31, 2010 without availability fees appears as follows:

Revenue Requirement Lake Region's Operating System	Staff True-up April 16, 2010-- No Availability Fees and CIAC Offset to Rate Base Corrected May 18, 2010--
Shawnee Bend Water	\$22,252
Shawnee Bend Sewer	112,327
Horseshoe Bend Sewer	<u>44,552</u>
Total	\$179,131

The April 16th date was the date of the True-up hearings

7. The above break down for the three Lake Region operating systems based on the True-up through March 31, 2010 corrected May 18, 2010 was also the starting basis for the filing made June 7th entitled "STAFF'S JUNE 7, 2010 RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S MAY 27, 2010 ORDER REGARDING AVAILABILITY CHARGES" (the June 7th Report) [see pages 9, 11, 13 and 14 of the June 7th report to identify the above amounts were used as starting basis for the three scenarios presented to the Commission regarding availability fees].

8. The corrected plant amount for account 362 of \$258,043 (discussed above in paragraph 4) and the plant addition of \$242,603 (discussed above in paragraph 3) were both included in the revenue requirement results presented in the May 18th Report and the June 7th Report.

II. LAKE REGION WATER & SEWER COMPANY'S PLANT ADDITION FOR TRUE-UP

1. As directed in the Commission's June 16th order, the amount of the new plant addition included for the Horseshoe Bend Sewer system for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing is \$242,603. This amount did not change based on discussions with Lake Region after the April 16th True-up hearing.

Plant Additions for March 31, 2010 True-up

Lake Region's Operating System	Plant Addition at the April 16th True-up	Plant Addition based on discussion with Company after April 16th True-up corrected May 18, 2010
Shawnee Bend Water	\$0	\$0
Shawnee Bend Sewer	0	0
Horseshoe Bend Sewer	<u>242,603</u>	<u>242,603</u>
Total Plant Additions	\$242,603	\$242,603

III. COMPARISON OF PLANT IN SERVICE, RATE BASE AND REVENUE REQUIREMENT AT TIME OF APRIL 16, 2010 TRUE-UP HEARINGS AND MAY 18, 2010 CORRECTION

1. As directed in the Commission's June 16th order, the plant in service amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 are:

Continued on the next page...

Plant in Service as of March 31, 2010 True-up

Lake Region's Operating System	Plant in Service at the April 16th True-up Corrected May 18, 2010	Plant in Service at the April 16th True-up-- Corrected May 18, 2010
Shawnee Bend Water	Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874	Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874
Shawnee Bend Sewer	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519
Horseshoe Bend Sewer	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908
Total Plant in Service	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301

Source: Exhibit Model System Schedule 7, Lines 1, 2 and 3

As can be seen from the above table, there were no changes for the May 18, 2010 corrected revenue requirement calculations for plant in service.

2. As directed in the Commission's June 16th order, the rate base amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 are:

Rate Base for March 31, 2010 True-up compared to the May 18th corrected

Lake Region's Operating System	Rate Base Amounts at the April 16th True-up	Rate Base at the April 16th True-up Corrected May 18, 2010
Shawnee Bend Water	\$888,182	\$874,282
Shawnee Bend Sewer	1,372,065	1,486,680
Horseshoe Bend Sewer	<u>526,217</u>	<u>584,138</u>
Total Rate Base	\$2,786,464	\$2,945,100

Source: Exhibit Model System Schedule 7, Line 5

The above changes were based on corrections in the reserve and CIAC area discovered during the true-up process.

3. The revenue requirement amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing compared to the amount corrected May 18th are:

Revenue Requirement

Lake Region's Operating System	Staff True-up April 16, 2010 -- No Availability Fees and CIAC offset to Rate Base	Staff True-up April 16, 2010 -- No Availability Fees and CIAC offset to Rate Base Corrected -- May 18, 2010
Shawnee Bend Water	\$23,078	\$22,252
Shawnee Bend Sewer	105,533	112,327
Horseshoe Bend Sewer	<u>41,120</u>	<u>44,552</u>
Total	\$169,731	\$179,131

IV. REVENUE REQUIREMENT SCENARIOS FOR JUNE 7, 2010

1. Staff presented three scenarios for consideration to the Commission on May 18, 2010 regarding the response to the April 8, 2010 Order (the April 8th Order). The Commission ordered Staff to provide a revenue requirement based on adding contributed plant to rate base and including availability charges as revenues. This was identified as Commission Ordered Scenario 1. Staff did not recommend the implementation of rates for the Commission Ordered Scenario 1.

2. Staff provided two additional scenarios -- Scenarios 2 and 3-- which identified two different levels of add back of contributed plant to rate base. Scenario 2 considered amounts of contributed plant already collected from identified availability fees from the period 2003 to 2010 of \$3.2 million [see May 18th Report, Schedule 1-1].

Staff did not recommend the implementation of rates for Scenario 2.

3. Scenario 3 identified the revenue requirement based on Staff's position that the contributed plant had been fully recovered and there was no need to add any contributed plant back to rate base.

Staff recommended implementation of Scenario 3 as basis for determining water and sewer rates in these rate cases.

4. On May 18, 2010, Staff submitted a report to the Commission (the May 18th Report) in response to the Commission's April 8, 2010 Order (the April 8th Order) where the Commission requested a revenue requirement scenario be presented. Staff provided the Commission Ordered Scenario 1 and two other scenarios -- Staff Scenario 2 and Staff Scenario 3 -- in the May 18th Report.

5. On June 7, 2010, Staff submitted a report to the Commission (the June 7th Report) that revised the three scenarios filed by Staff on May 18, 2010 regarding a change in capital structure for the add back to rate base for contributed plant (essentially removing contributions in aid of construction) in response to Commission's Order dated May 27, 2010 (the May 27th Order).

The results of the three scenarios for the updates to the capital structure presented June 7th appear as follows:

Continued on the next page...

Lake Region Operating System	Staff True-up April 16, 2010 -- <u>No Availability Fees and CIAC Offset to Rate Base</u>	Scenario 1-- Staff True-up April 16, 2010 -- With Availability Fees and \$5.3 million CIAC offset added to Rate Base	Scenario 2-- Staff True-up April 16, 2010 -- <u>With Availability Fees and \$2.1 million CIAC offset added to Rate Base</u>	Scenario 3-- Staff True-up April 16, 2010 - <u>- With Availability Fees and No CIAC Offset added to Rate Base</u>	Staff True-up April 16, 2010 -- <u>With Availability Fees and No CIAC Offset added to Rate Base</u>
	Corrected May 18, 2010	June 7th Updated for capital structure	June 7th Updated for capital structure	June 7th Updated -- no change for capital structure	Staff Recommendation - June 7th Report
Shawnee Bend Water	\$22,252	\$172,298	\$8,046	(\$107,348)	\$0
Shawnee Bend Sewer	112,327	183,060	25,229	(82,073)	0
Horseshoe Bend Sewer	<u>44,552</u>	<u>156,945</u>	<u>92,924</u>	<u>44,552</u>	<u>44,552</u>
TOTAL	\$179,131	\$512,303	\$126,199	(\$144,869)	\$44,552

For a full discussion on development of the individual scenarios please review Staff's June 7th Report.

6. The plant in service amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 for the Commission Ordered Scenario 1 are:

Continued on the next page...

Commission Ordered Scenario 1 Plant in Service as of March 31, 2010 True-up

Lake Region's Operating System	Plant in Service at the April 16th True-up Corrected May 18, 2010	Plant in Service at the April 16th True-up - Corrected May 18, 2010
	June 7th Commission Ordered Scenario 1	
Shawnee Bend Water	Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874	Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874
Shawnee Bend Sewer	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519
Horseshoe Bend Sewer	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908
Total Plant in Service	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301

Source: Exhibit Model System Schedule 7, Lines 1, 2 and 3

As can be seen from the above table, there were no changes for the March 31, 2010 corrected May 18, 2010 revenue requirement calculations for plant in service compared to the Commission Ordered Scenario 1 results filed in the June 7th Report.

7. The plant in service amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 for the Staff Scenario 2 are:

Continued on the next page...

Staff Scenario 2 Plant in Service as of March 31, 2010 True-up

Lake Region's Operating System	Plant in Service at the April 16th True-up Corrected May 18, 2010	Plant in Service at the April 16th True-up-- Corrected May 18, 2010 June 7th Staff Scenario 2
	Shawnee Bend Water	Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874
Shawnee Bend Sewer	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519
Horseshoe Bend Sewer	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908
Total Plant in Service	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301

Source: Exhibit Model System Schedule 7, Lines 1, 2 and 3

As can be seen from the above table, there were no changes for the March 31, 2010 True-up corrected May 18, 2010 revenue requirement calculations for plant in service compared to the Staff Scenario 2 results filed in the June 7th Report.

8. The plant in service amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 for the Staff Scenario 3 are:

Continued on the next page...

Staff Scenario 3 Plant in Service as of March 31, 2010 True-up

Lake Region's Operating System	Plant in Service at the April 16th True-up Corrected May 18, 2010	Plant in Service at the April 16th True-up-- Corrected May 18, 2010 June 7th Staff Scenario 3
Shawnee Bend Water	Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874	Plant \$3,970,671 Reserve <u>547,797</u> Net Plant \$3,422,874
Shawnee Bend Sewer	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519	Plant \$3,952,151 Reserve <u>836,632</u> Net Plant \$3,115,519
Horseshoe Bend Sewer	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908	Plant \$2,190,789 Reserve <u>759,882</u> Net Plant \$1,430,908
Total Plant in Service	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301	Plant \$10,113,611 Reserve <u>2,144,311</u> Net Plant \$7,969,301

Source: Exhibit Model System Schedule 7, Lines 1, 2 and 3

As can be seen from the above table, there were no changes for the March 31, 2010 True-up corrected May 18, 2010 revenue requirement calculations for plant in service compared to the Staff Scenario 3 results filed in the June 7th Report.

9. As directed in the Commission's June 16th order, the rate base amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 for the Commission Ordered Scenario 1 are:

Commission Ordered Scenario 1 Rate Base for March 31, 2010 True-up compared to the May 18th corrected

Lake Region's Operating System	Rate Base at the April 16th True-up Corrected May 18, 2010	Rate Base at the April 16th True-up Corrected May 18, 2010 June 7th Commission Ordered Scenario 1
Shawnee Bend Water	\$874,282	\$2,814,189
Shawnee Bend Sewer	1,486,680	2,918,147
Horseshoe Bend Sewer	<u>584,138</u>	<u>1,307,533</u>
Total Rate Base	\$2,945,100	\$7,039,869

Source: Exhibit Model System Schedule 7, Line 5

The increase in rate base for the Commission Ordered Scenario 1 results from the \$5.3 million elimination of CIAC, effectively restoring the contributed plant back to plant and rate base. Staff does not recommend the results of this scenario be used to set rates in this case.

10. As directed in the Commission's June 16th order, the rate base amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 for the Staff Scenario 2 are:

Staff Scenario 2 Rate Base for March 31, 2010 True-up compared to the May 18th corrected

Lake Region's Operating System	Rate Base at the April 16th True-up Corrected May 18, 2010	Rate Base at the April 16th True-up Corrected May 18, 2010 June 7th Staff Scenario 2
Shawnee Bend Water	\$874,282	\$1,729,969
Shawnee Bend Sewer	1,486,680	1,993,739
Horseshoe Bend Sewer	<u>584,138</u>	<u>840,381</u>
Total Rate Base	\$2,945,100	\$4,564,089

Source: Exhibit Model System Schedule 7, Line 5

The increase in rate base for the Staff Scenario 2 results from the \$2.0 million elimination of CIAC, effectively restoring the contributed plant back to plant and rate base. Staff does not recommend the results of this scenario be used to set rates in this case.

11. As directed in the Commission's June 16th order, the rate base amounts for the True-up through March 31, 2010 at the time of the April 16, 2010 True-up hearing and corrected for May 18, 2010 for the Staff Scenario 2 are:

Staff Scenario 3 Rate Base for March 31, 2010 True-up compared to the May 18th corrected

Lake Region's Operating System	Rate Base at the April 16th True-up Corrected May 18, 2010	Rate Base at the April 16th True-up Corrected May 18, 2010 June 7th Staff Scenario 3
Shawnee Bend Water	\$874,282	\$874,282
Shawnee Bend Sewer	1,486,680	1,486,680
Horseshoe Bend Sewer	<u>584,138</u>	<u>584,138</u>
Total Rate Base	\$2,945,100	\$2,945,100

Source: Exhibit Model System Schedule 7, Line 5

There was no change in rate base for the Staff Scenario 3 from the True-up corrected May 18th amounts. Staff is not recommending any amounts of CIAC be eliminated. Since the contributed plant was fully recovered in the sale of the price of the lots and through already collected availability fees there is no further recovery necessary and therefore, no amount is needed to be restored to plant and rate base. Staff recommends the results of this scenario be used to set rates in this case.

V. COMMISSION ORDERED SCENARIO NUMBER 1 - JUNE 7, 2010 Report

Staff Calculation of the Revenue Requirement Commission Ordered Scenario No. 1 Using Availability Fees and Assumed No Recovery of Contributed Plant--\$5.3 million CIAC added to rate base and change in capital structure.

1. The results of the revenue requirement using the updated rate of return for Scenario 1 using 90% of collected availability fees as revenues and adding \$5.3 million CIAC offset back to rate base adjusting the capital structure are:

<u>Scenario 1</u> Lake Region's Operating System	Staff True-up April 16, 2010 -- With Availability Fees and \$5.3 million CIAC offset added to Rate Base June 7th Updated for capital structure	Company April 30 & May 26, 2010 -- With Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure
Shawnee Bend Water	\$172,298	\$250,951
Shawnee Bend Sewer	183,060	219,507
Horseshoe Bend Sewer	<u>156,945</u>	<u>147,936</u>
Total	\$512,303	\$618,396

Staff does not recommend the implementation of rates for Commission Ordered Scenario. The \$5.3 contributed plant has been fully recovered. Staff examined Lake Region's and its predecessor's Annual Reports where it was clear that the Company had more than sufficient revenues from availability fees collected in the past to fully recover the \$5.3 million of contributed plant (see Staff filing made May 28, 2010 concerning review of Lake Region's and its predecessor's Annual Reports). However, Staff continues to believe that the purpose of availability fees was not to recover the investment in contributed plant but rather to provide the utility with funds to support the utility infrastructure for repairs, maintenance, construction of new plant and the overall operations to provide utility system. The actual recovery of the investment in contributed plant would be recovered through the sale price of the undeveloped lots.

Since the \$5.3 million amount for contributed plant has been fully recovered it is unnecessary to add any amount to rate base and therefore, update the capital structure. No change in capital is necessary. For the above reasons as well as the discussions in Staff's May 18th Report the Commission should reject Scenario 1 for consideration in determining rates in this case.

VI. SCENARIO NUMBER 2 - JUNE 7, 2010 Report

Staff Calculation of the Revenue Requirement Scenario No. 2 Using Availability Fees and Partially Recovered Contributed Plant-- \$2 million CIAC added to rate base and change in capital structure.

1. Using the same availability fee amounts for the above revenue requirement scenario, Staff also calculated this revenue requirement scenario by determining the level of availability fees that have already been collected from undeveloped lot owners from the period of 2003 to 2010. The owners of undeveloped lots have paid almost \$3.2 million of availability fees from 2003 to 2010 based on information provided by the Four Season's Lakesites Property Owners Association (Property Owners) Exhibit 3 provided during the March hearings in this case.

Staff calculated this revenue requirement scenario deducing the \$3.2 million availability fees from the \$5.3 million contributed plant resulting in only \$2.1 million that is added back to rate base [actual amounts are \$5,273,850 less 3,197,100 equals \$2,076,750 added back to rate base]. However, Staff believes this amount will also overstate the revenue requirement scenario because all the contributed plant has been fully recovered through the price of the lot sales as well as the collection of availability fees prior to 2003.

The results of the revenue requirement using the updated rate of return for Scenario 2 using 90% of collected availability fees as revenues and adding \$2.1 million back to rate base are:

<u>Scenario 2</u> Lake Region's Operating System	Staff True-up April 16, 2010 -- With Availability Fees and \$2.1 million CIAC offset added to Rate Base June 7th Updated for capital structure	Company April 30 & May 26, 2010 -- With Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure
Shawnee Bend Water	\$8,046	\$250,951
Shawnee Bend Sewer	25,229	219,507
Horseshoe Bend Sewer	<u>92,924</u>	<u>147,936</u>
Total	\$126,199	\$618,396

Staff does not recommend the implementation of rates for Scenario 2 for the same reasons discussed above concerning Scenario 1 and in the May 18th Report.

VII. SCENARIO NUMBER 3 - JUNE 7, 2010 Report

Staff Calculation of the Revenue Requirement Scenario No. 3 Using Availability Fees and Fully Recovered Contributed Plant-- no CIAC added to rate base and no need for change in capital structure.

1. Staff believes the contributed plant has been fully recovered through the price of the lot sales. Even if the sales price did not provide complete recovery of the contributed plant, the collection of availability fees from 1973 to 2010 would more than allow full recovery of this \$5.3 million donated property. Staff examined the Annual Reports submitted by Lake Region and its predecessor company Four Seasons Water and Sewer Company. The result of the examination of the Annual Reports was submitted to the Commission in a filing made May 28, 2010. From 1974 to 1998 Lake Region collected \$2.4 million and from 2003 to 2010 Staff computed an amount using information from the Property Owners of \$3.2 million. These amounts total \$5.6 million. It should be noted that Staff did not have amounts for the years 1999 to 2002 so the \$5.6 million is not the full amount of availability fees that has been actually

collected. In an Affidavit provided by Lake Region's Treasurer and Corporate Secretary Brian Schwermann on May 13 and 24, 2010 confirms the availability fees for the period 2006 to 2009. Mr. Schwermann confirms for those four years of \$1,571,749 and the amount provided by the Property Owners for 2006 to 2009 was \$1,557,600 (see Staff May 28th filing, Appendix 1).

2. Therefore, it is unnecessary and in violation of Lake Region's tariffs to add back any amount of contributions in aid of construction. As such, Staff has calculated the revenue requirement scenario consistent with the revenue requirement calculations for Lake Region's operating systems presented at the True-up hearing held April 26th which did not add any amount of the contributed plant back to rate base. Staff did compute Scenario 3 using availability fees.

3. The results of the revenue requirement using the updated rate of return for Scenario 3 using 90% of collected availability fees as revenues and adding no amount of CIAC back to rate base or adjusting the capital structure are:

<u>Scenario 3</u>	Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base	Staff True-up April 16, 2010 -- <u>With</u> Availability Fees and No CIAC Offset added to Rate Base	Company April 30 & May 26, 2010 -- <u>With</u> Availability Fees and \$5.3 million CIAC offset added back to Rate Base with revised capital structure
Lake Region's Operating System	June 7th Updated -- no change for capital structure	Staff Recommendation-- June 7th Report	
Shawnee Bend Water	(\$107,348)	\$0	\$250,951
Shawnee Bend Sewer	(82,073)	0	219,507
Horseshoe Bend Sewer	<u>44,552</u>	<u>44,552</u>	<u>147,936</u>
Total	(\$144,869)	\$44,552	\$618,396

4. Staff continues to recommend no rate increase be authorized for Shawnee Bend water and sewer operating systems because the availability fees more than offset the need for a rate increase.

5. Staff recommends the Commission use the results of Scenario 3 revenue requirement to determine rates for the three operating systems of Lake Region – Shawnee Bend Water, Shawnee Bend Sewer and Horseshoe Bend Sewer. This scenario uses the availability fees as revenues and treats the contributed plant donated by the developer to Lake Region as contributions in aid of construction with no corresponding add back to rate base, which is consistent with the treatment afforded Ozark Shores Water Company. It is not necessary to revise the capital structure as no contributed plant is added to rate base. Under Scenario 3 Staff calculated the revenue requirement using the same rate of return presented in the January 14, 2010 direct filing. Staff's use of availability fees as revenues to determine rates results in over earnings for Shawnee Bend Water and Sewer operating systems. However, consistent with Staff's stated position in Mr. Featherstone's True-up direct testimony, the May 18th Report and again in the June 7th Report, Staff is not advocating a rate reduction for Shawnee Bend Water and Sewer operating systems, but is not proposing a rate increase for those systems either. Staff is proposing an increase on the Horseshoe Bend Sewer system of \$44,552.

Staff Expert/Witness: Cary Featherstone

VIII. CONCLUSION

Staff continues to support the use of availability fees revenue to determine rates for the Shawnee Bend water and sewer operating systems of Lake Region. As Horseshoe Bend does not have availability fees associated with its service area there are no additional revenues to consider for this operating system. Staff believes availability fees were originally collected from the

undeveloped lot owners by the developer to support the water and sewer utility operations of Shawnee Bend. Staff does not support the revenue requirement scenario in which the Commission asked to Staff to conduct identified as Scenario 1 nor Scenario 2 discussed in the June 7th Report.

Staff recommends Scenario 3 to the Commission to use in determining the proper rate increase for Lake Region in this case. Therefore, Staff is only supporting an increase of \$44,552 for the Horseshoe Bend sewer operating system.

BEFORE THE PUBLIC SERVICE COMMISSION

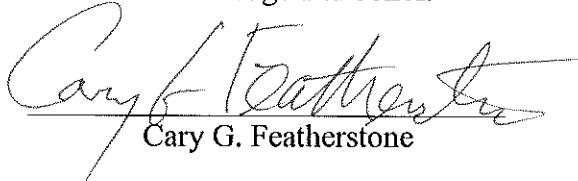
OF THE STATE OF MISSOURI

In the Matter of Lake Region Water &) SR-2010-0110
Sewer Company's Application to)
Implement a General Rate Increase in) Case No. AND
Water and Sewer Service.)
WR-2010-0111

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has reviewed and analyzed the Staff Response to the Company's Response on June 22, 2010 regarding Lake Region Water and Sewer Company (formerly known as Four Seasons Lakesites Water and Sewer Company) filed with Missouri Public Service Commission. The information in the Staff Response was developed by him; that he has knowledge of the matters set forth in such Staff Response; and that such matters are true and correct to the best of his knowledge and belief.


Cary G. Featherstone

Subscribed and sworn to before me this 23rd day of June, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071


Notary Public