

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Lake Region Water & Sewer)	File No. SR-2010-0110
Company's Application to Implement a General)	Tariff No. YS-2010-0250
Rate Increase in Water & Sewer Service)	

In the Matter of Lake Region Water & Sewer)	File No. WR-2010-0111
Company's Application to Implement a General)	Tariff No. YW-2010-0251
Rate Increase in Water & Sewer Service)	

STAFF'S PROPOSED FINDING OF FACTS
AND CONCLUSIONS OF LAW

COMES NOW the Staff of the Missouri Public Service Commission (Staff) by and through counsel, and respectfully submits the following Proposed Findings of Fact and Conclusions of Law to the Missouri Public Service Commission (Commission):

Parties

1. Lake Region Water and Sewer Company (Lake Region or Company) is a corporation organized under the laws of the State of Missouri in good standing with its principal place of business at 62 Bittersweet Road, Lake Ozark, Missouri 65049. Lake Region possesses a certificate of convenience and necessity issued by the Commission on December 31, 1973, in PSC Case No. 17,975, to provide water and sewer service in Missouri.

2. The Staff of the Missouri Public Service Commission (Staff) is a party to this case pursuant to Section 386.071, RSMo (2000) and Commission Rule 4 CSR 240-2.010(11).

3. The Office of Public Counsel (OPC) is a party to this case pursuant to Section 386.710(2) RSMo (2000) and by Commission Rule 4 CSR 240-2.010(11).

4. Four Seasons Lakesites Property Owners Association Inc. (Four Season's POA) is a nonprofit corporation organized under Missouri law that represents approximately 7,100

property owners on the Shawnee Bend and Horseshoe Bend peninsulas some of whom receive water and sewer service from Lake Region. Four Season's POA principal office is located at 36 Vintage Landing, Four Seasons, Missouri 65049. The Commission granted Four Season's POA intervention on November 2, 2009.

5. Four Seasons Racquet and Club Condo Property Owners Association Inc. (Racquet Club) is a Missouri not-for-profit corporation organized and operating under Missouri law, in good standing. Racquet Club's principal office and place of business is located at 251 Racquet Club Drive, Box 2370, Lake Ozark, Missouri, 65049. The Commission granted Racquet Club intervention in this case on November 2, 2009. Racquet Club provides condominium association services, including the purchase of water and sewer services from Lake Region, on behalf of its members.

Procedural History

6. On October 7, 2009, Lake Region submitted to the Commission certain proposed tariff sheets designed to implement a general rate increase for water and sewer serviced provided by the Company, along with direct testimony in support of the proposed rates. The revised rates were designed to produce an additional \$331,223 in gross annual water and sewer revenues, excluding gross receipts and sales taxes. The Commission identified these tariff filings as Case Nos. SR-2010-0110 and WR-2010-0111.

7. On October 8, 2009, the Commission issued its Suspension Order and Notice, wherein, among other things, the Commission suspended the proposed tariff sheets until September 6, 2010. Also on October 8, 2009, Lake Region filed Substitute Tariff Sheets to reflect an error in its initial filing. On October 9, 2009, the Commission issued its Second Suspension Order and Notice. The specific tariff sheets suspended were:

PSC MO No. 1 (Water)
First Revised Sheet No. 4, Replacing Original Sheet No. 4
First Revised Sheet No. 5, Replacing Original Sheet No. 5

PSC MO No. 2 (Sewer)
Second Revised Sheet No. 6, Replacing First Revised Sheet No. 6
Second Revised Sheet No. 5, Replacing First Revised Sheet No. 7

Subsequently, the following parties requested, and were granted intervention: Four Season's POA and Racquet Club.

8. The Missouri Department of Natural Resources (MoDNR) filed its *Compliance Report for Lake Region Water and Sewer Company* on December 14, 2009.

9. On January 26, 2010, the Commission conducted a local public hearing in order to provide the public with the opportunity to comment. Direct, rebuttal, and surrebuttal testimony was filed by numerous parties.

10. On February 22, 2010, Lake Region, the Racquet Club and Staff filed a Partial Nonunanimous Stipulation Respecting Adjustments to Sewer Charges Applicable to Intervenor Four Seasons Racquet and County Club Condominium Owners Association, Inc. No party objected to this Stipulation and Agreement and, therefore, this was treated as a unanimous stipulation and agreement according to Commission Rule 4 CSR 240-2.115.

11. On April 14, 2010, the Commission issued an order approving the Stipulation Respecting Adjustments to Sewer Charges Applicable to Intervenor Four Seasons Racquet Club Condominium Owners Association Inc. On March 27, 2010, Lake Region and Racquet Club filed a *Joint Request for Extension* to extend the date in which the flow meters are to be operational, until August 31, 2010.

12. On March 16, 2010, Lake Region, Four Season's POA, Public Counsel, Racquet Club, and Staff filed a Unanimous Stipulation of Undisputed Facts.

13. On March 23, 2010, Staff filed a List of Issues, Order of Opening and Cross Examination on behalf of the parties to this case.

14. On March 29 through 31, 2010 the Commission conducted an evidentiary hearing on the issues of executive management fees and availability fees.

15. On April 16, 2010, Lake Region, Public Counsel and Staff filed true-up direct testimony. On April 22, 2010, Lake Region filed true-up rebuttal testimony.

16. On April 26, 2010, the Commission conducted a true-up hearing on the issues of rate case expense and availability fees.

17. On May 13, 2010, Staff filed a Joint Motion to Revise Existing Briefing Schedule on behalf of the parties to this case. The Commission adopted the amendment to the briefing schedule on May 13, 2010.

Applicable Law

18. The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

19. In making its Findings of Fact and Conclusions of Law, the Commission is mindful that it is required, after a hearing, to “make a report in writing in respect thereto, which shall state the conclusion of the commission, together with its decision, order and requirement in the premises.”¹ Because Section 386.420 does not explain what constitutes adequate findings of

¹ Section 386.420.2, RSMo 2000. All statutory references, unless otherwise specified, are to the Revised Statutes of Missouri (RSMo), revision 2000.

fact, Missouri courts have turned to Section 536.090, which applies “every decision and order in a contested case,” to fill in the gaps of Section 386.420.²

20. Findings of fact are inadequate when they “leave the reviewing court to speculate as to what part of the evidence the [Commission] believed and found to be true and what part it rejected.”³ Findings of fact are also inadequate that “provide no insight into how controlling issues were resolved” or that are “completely conclusory.”⁴

Jurisdiction

21. Section 393.140, gives the Commission authority to regulate the rates Lake Region may charge its customers for water and sewer. When Lake Region filed a tariff designed to increase its rates, the Commission exercised its authority under Section 393.150, to suspend the effective date of that tariff for 120 days beyond the effective date of the tariff, plus an additional six months.

Burden of Proof

22. Section 393.150.2 provides in part, “[a]t any hearing involving a rate sought to be increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the . . . water corporation or sewer corporation, and the commission shall give to the hearing and decision of such questions preference over other questions pending before it and decide the same as speedily as possible.”

² *St. ex rel. Laclede Gas Co. v. Pub. Serv. Comm’n of Mo.*, 130 S.W.3d 813, 816 (Mo. App. W.D. 2003); *St. ex rel. Noranda Aluminum, Ind. V. Pub. Serv. Comm’n*, 24 S.W.3d 243, 245 (Mo. App. W.D. 2000).

³ *St. ex rel. Int’l Telecharge, Inc. v. Mo. Pub. Serv. Comm’n*, 806 S.W.2d 680, 684 (Mo. App. W.D. 1991) (quoting *St. ex rel. AM. Tel & Tel. Co. v. Pub. Serv. Comm’n*, 701 S.W.2d 45, 754 (Mo. App. W.D. 1985)).

⁴ *St. ex. rel., Monsanto Co. v. Pub. Serv. Comm’n*, 716 S.W.2d 791, 795 (Mo. Banc 1986) (relying on *St. ex rel. Rice v. Pub. Serv. Comm’n*, 359 Mo. 109, 220 S.W.2d 61 (1949)).

23. In determining rates Lake Region may charge its customers, the Commission is required to determine that the proposed rates are just and reasonable. Section 393.150.2. Lake Region has the burden of proving its proposed rates are just and reasonable. Section 393.150.2.

24. In determining whether the rates proposed by Lake Region are just and reasonable, the Commission must balance the interests of the investor and the consumer. *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944). In discussing the need for a regulatory body to institute just and reasonable rates, the United States Supreme Court has held as follows:

Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the services are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment. *Bluefield Water Works & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 690 (1923).

In the same case, the Supreme Court provided the following guidance on what is a just and reasonable rate:

What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the county on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has not constitutional right to profits such as were realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally. *Bluefield Water Works & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 692-93 (1923).

The Supreme Court has further indicated:

‘[R]egulation does not insure that the business shall produce net revenues.’ But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital. *Federal Power Commission v. Hope Natural Gas Co*, 320, U.S. 591, 603 (1994) (citations omitted).

In undertaking the balancing required by the Constitution, the Commission is not bound to apply any particular formula or combination of formulas. Instead the Supreme Court stated:

Agencies to whom this legislative power has been delegated are free, within the ambit of their statutory authority, to make the pragmatic adjustments which may be called for by particular circumstances. *Federal Power Commission v. Natural Gas Pipeline Co.*, 315 U.S. 575, 586 (1942).

Furthermore, the Missouri Court of Appeal quoting the United States Supreme Court in *Hope Natural Gas* stated:

[T]he Commission [is] not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function, moreover, involves the making of ‘pragmatic adjustments.’ . . . Under the statutory standard of ‘just and reasonable’ it is the result reached, not the method employed which is controlling. It is not theory but the impact of the rate order which counts. *State ex. rel. Associate Natural Gas Co. v. Public Serv. Comm’n*, 706 S.W. 2d 870, 873 (Mo. App. W.D. 1985).

Ratemaking Standards and Practices

25. The Commission is vested with the state's police power to set "just and reasonable" rates for public utility services,⁵ subject to judicial review of the question of reasonableness.⁶ A "just and reasonable" rate is one that is fair to both the utility and its customers;⁷ it is no more than is sufficient to "keep public utility plants in proper repair for effective public service, [and] . . . to insure to the investors a reasonable return upon funds invested."⁸ In 1925, the Missouri Supreme Court stated:

The enactment of the Public Service Act marked a new era in the history of public utilities. Its purpose is to require the general public not only to pay rates which will keep public utilities plants in proper repair for effective public service, but further to insure to the investors a reasonable return upon funds invested. The police power of the state demands as much. We can never have efficient service, unless there is a reasonable guaranty of fair returns for capital invested. *** These instrumentalities are a part of the very life blood of the state, and of its people, and a fair administration of the act is mandatory. When we say 'fair,' we mean fair to the public, and fair to the investors.⁹

The Commission's guiding purpose in setting rates is to protect the consumer against the natural monopoly of the public utility, generally the sole provider of a public necessity.¹⁰ "[T]he dominant thought and purpose of the policy is the protection of the public . . . [and] the protection given the utility is merely incidental."¹¹ However, the Commission must also afford

⁵ Section 393.130, in pertinent party, requires a utility's charges to be "just and reasonable" and not in excess of charges allowed by law or by order of the commission. Section 393.140 authorizes the Commission to determine "just and reasonable" rates.

⁶ *State ex rel City of Harrisonville v. Pub. Serv. Comm'n*, 291 Mo. 432, 236 S.W. 852 (1922).

⁷ *St. ex rel. Valley Sewage Co. v. Pub. Serv. Comm'n*, 515 S.W.2d 845 (Mo. App. K.C.D. 1974).

⁸ *St. ex rel. Washington University et al. v. Pub. Serv. Comm'n*, 308 Mo. 328, 344-45, 272 S.W. 971, 973 (banc 1925).

⁹ *St. ex rel. Washington University et al. v. Pub. Serv. Comm'n*, 308 Mo. 328, 344-45, 272 S.W. 971, 973 (banc 1925).

¹⁰ *May Dep't Stores Co. v. Union Elec. Light & Power Co.*, 341 Mo. 299, 107 S.W.2d 41, 48 (1937).

¹¹ *St. ex rel. Crown Coach Co. v. Pub. Serv. Comm'n*, 179 S.W.2d 123, 126 (1944).

the utility an opportunity to recover a reasonable return on the assets it has devoted to the public service.¹²

26. The Commission has exclusive jurisdiction to establish public utility rates,¹³ and the rates it sets have the force and effect of law.¹⁴ A public utility has no right to fix its own rates and cannot charge or collect rates that have not been approved by the Commission;¹⁵ neither can a public utility change its rates without first seeking authority from the Commission.¹⁶ A public utility may submit rate schedules or “tariffs,” and thereby suggest to the Commission rates and classifications which it believes are just and reasonable, but the final decision is the Commission’s.¹⁷ Thus, “[r]atemaking is a balancing process.”¹⁸

27. Ratemaking involves two successive processes: first, the determination of the “revenue requirement,” that is, the amount of revenue the utility must receive to pay the costs of producing the utility service while yielding a reasonable rate of return to the investors.¹⁹ The second process is rate design, that is, the construction of tariffs that will collect the necessary revenue requirement from the ratepayers. Revenue requirement is usually based upon a historical test year that focuses on four factors: (1) rate of return the utility has an opportunity to earn; (2) the rate base upon which a return may be earned; (3) the depreciation costs of plant and

¹² *St. ex rel. Utility Consumers Council, Inc. v. Pub. Serv. Comm’n*, 585 S.W.2d 41, 49 (Mo. Banc 1979).

¹³ *May Dep’t Stores Co. v. Union Elec. Light & Power Co.*, 341 Mo. 299, 107 S.W.2d 41, 57 (1937).

¹⁴ *St. ex rel. Utility Consumers Council, Inc. v. Pub. Serv. Comm’n*, 585 S.W.2d 41, 49 (Mo. Banc 1979).

¹⁵ *St. ex rel. Utility Consumers Council, Inc. v. Pub. Serv. Comm’n*, 585 S.W.2d 41, 49 (Mo. Banc 1979).

¹⁶ *Deaconess Manor Ass’n v. Pub. Serv. Comm’n*, 994 S.W.2d 602, 610 (Mo. App. W.D. 1999).

¹⁷ *May Dep’t Stores Co. v. Union Elec. Light & Power Co.*, 341 Mo. 299, 107 S.W.2d 41, 50 (1937).

¹⁸ *St. ex rel. Union Elec. Co. v. Pub. Serv. Comm’n*, 765 S.W.2d 618, 622 (Mo. App. W.D. 1988).

¹⁹ *St. ex rel. Capital City Water Co., v. Mo Pub. Serv. Comm’n*, 850 S.W.2d 903, 916 n. 1 (Mo. App. W.D. 1993).

equipment; and (4) allowable operating expenses.²⁰ The calculation of revenue requirement from these four factors is expressed in the following formula:

$$RR = C + (V - D) R$$

where: RR = Revenue requirement;

C = Cost of service including depreciation expense and taxes;

V = Gross value of utility plant in service;

D = Accumulated depreciation; and

R = Overall rate of return or weighted cost of capital.

28. The return on the rate base is calculated by applying a rate of return, that is, the weighted cost of capital, to the original cost of the assets dedicated to public service less accumulated depreciation.²¹ The Public Service Commission Act vests the Commission with the necessary authority to perform these functions. Section 393.140(4) authorizes the Commission to examine a utility's books and records and, after hearing, to determine the accounting treatment of any particular transaction. In this way, the Commission can determine the utility's prudent operating costs. Section 393.230 authorizes the Commission to value the property of water and sewer utilities operating in Missouri, that is, to determine the rate base.

29. The Revenue requirement is the sum of two components: first, the utility's prudent operating expenses, and second an amount calculated by multiplying the fair value of the utility's depreciated assets by a Rate of Return. For any utility, its fair Rate of Return is simply its composite cost of capital. The composite cost of capital is the sum of the weighed cost of each component of the utility's capital structure. The weighted cost of each capital component is

²⁰ *St. ex rel. Capital City Water Co., v. Mo Pub. Serv. Comm'n*, 850 S.W.2d 903, 916 n. 1 (Mo. App. W.D. 1993) citing *Colton*, "Excess Capacity: Who Gets the Charge From the Power Plant?," 34 Hastings L.J. 1133, 1134 & 1149-50 (1983).

²¹ *St. ex rel. Union Elec. Co. v. Pub. Serv. Comm'n*, 765 S.W.2d 618, (Mo. App. W.D. 1988).

calculated by multiplying its cost by a percentage expressing its portion of the capital structure. Where possible, the cost used is “embedded” or historical cost; however, in the case of Common Equity, the cost used is its estimated costs.

PROPOSED FINDINGS OF FACT AND CONCLUSION OF LAW

30. Lake Region is a water corporation pursuant to Section 386.020(59), RSMo (2009), a sewer corporation pursuant to Section 386.020(49), RSMo (2009), and subsequently a public utility within the meaning of 386.020(43), RSMo (2009); thereby subject to the jurisdiction of the Commission pursuant to Section 386.250(3) and (4), RSMo respectively.

31. Lake Region provides water service to approximately 600 customers and sewer service to approximately 600 customers in its Shawnee Bend service area; and sewer service to approximately 140 customers in its Horseshoe Bend service area.

Utility System Customers	Lake Region Customers	Ozark Shores Customers	Combined Total Customers
Shawnee Bend Water	641		641
Shawnee Bend Sewer	615		615
Horseshoe Bend Water		1,790	1,790
Horseshoe Bend Sewer	144		144
Total Customers	1,400	1,790	3,190

[Source staff exhibit 9, pg. 14]

32. The Parties adopted without exception Staff’s methodology used in the design of rates, as found within the direct testimony of James M. Russo filed on January 21, 2010, and, therefore, is not in dispute.²²

33. The Parties do not dispute the information contained within the Staff Accounting Schedules-Utility Service, filed on January 14, 2010, and subsequently updated as of February 8, 2010 to correct a revenue calculation error and a miscommunication between Lake Region and

²² Staff Exhibit 5, *Unanimous Stipulation of Undisputed Facts*, ¶ 21.

Staff regarding Payroll resulting in adjusted increased revenue requirements of \$18,125 for Horseshoe Bend Sewer, \$108,076 for Shawnee Bend Sewer and \$20,549 for Shawnee Bend Water, subject however to the following exceptions: specific information on the topics of Executive Management Fees, Availability Fees and Rate Case Expense.²³

34. The Parties stipulated and agreed that the information contained within the Staff's Cost of Service Report—Utility Services, filed on January 14, 2010 and updated and adjusted on February 8, 2010, as noted in the preceding paragraph, is the cost of service of Lake Region subject to the following exceptions: specific information on the topics of Management Fees, Availability Fees, and Rate Case Expense.²⁴

Executive Management Fees

35. Lake Region has an Executive Management Group that consists of Brian Schwermann, Robert Schwermann, and Vernon Stump.²⁵

36. The Executive Management Group provides oversight on a variety of advanced operation, technological and financial issues that are not expected to occur in the normal course of day-to-day operations.²⁶

37. Dr. Stump performs the operational-technical side of the Executive Management Group.²⁷

38. Brian Schwermann and Robert Schwermann perform the financial duties of the Executive Management Group.²⁸

²³ Staff Exhibit 5, *Unanimous Stipulation of Undisputed Facts*, ¶ 22.

²⁴ Staff Exhibit 5, *Unanimous Stipulation of Undisputed Facts*, ¶ 23.

²⁵ Transcript, p. 122, line 24.

²⁶ Staff Exhibit 9, Cost of Service Report, p. 25, lines 4-8.

²⁷ Transcript p. 150, lines 7-12.

²⁸ Transcript p. 150, lines 7-12.

39. John Summers is the general manager of Lake Region. Mr. Summers has the authority to oversee the day-to-day operations of Lake Region.²⁹ Mr. Summers makes recommendations for expenditure for repairs, maintenance, capital additions and expansions of Lake Region to the Executive Management Group.³⁰

40. The members of the executive management group spend approximately three (3) eight hour days per month working on Lake Region.³¹

41. Staff's witness, William Harris, performed an extensive audit of the duties and expenses of the Executive Management Team. Mr. Harris compared average executive salaries using Missouri Economic Research and Information Center annual executive salary publication and American Water Works Association 2008 Water Utility Compensation Survey for executive salaries.³² Mr. Harris determined that \$63.77 was a reasonable hourly rate for executive managers.³³

42. Mr. Harris also conducted personal interviews with the Executive Management Group and the general manager of Lake Region³⁴, toured Lake Region facilities³⁵, and reviewed and inspected telephone records and travel expenditures.³⁶

43. Lake Region's position that the Executive Management Group fees should be the same amount of money as the Commission assessment is not just and reasonable and was not supported by any evidence.³⁷

²⁹ Staff Exhibit 9, Cost of Service Report, p. 25, lines 4-8.

³⁰ Staff Exhibit 9, Cost of Service Report, p. 25, lines 4-8.

³¹ Staff Exhibit 9, Cost of Service Report, p. 10, line 21.

³² Staff Exhibit 9, Cost of Service Report, p. 9, lines 21-22.

³³ Staff Exhibit 9, Cost of Service Report, p. 10, lines 7-9

³⁴ Transcript, p. 151, lines 1-5.

³⁵ Transcript, p. 151, line 11.

³⁶ Transcript, p. 156, line 18 – p. 157, line 5; Transcript p. 157, line 11 – p. 159, line 9.

³⁷ Transcript, p. 126, line 15.

44. Office of Public Counsel's position that each of the three board members is allowed \$200 to attend the annual board meeting is not just and reasonable because it does not adequately provide for the benefit Lake Region receives from the Executive Management Group.³⁸

45. Mr. Harris found it was just and reasonable to allow a salary for two executive management functions, rather than for each individual on the executive Management Group.³⁹

46. Lake Region has the burden of proving its expenditures are just and reasonable.⁴⁰ Lake Region has not met its burden of proving it is just and reasonable to expend \$50,000 on Executive Management Fees.

47. However, Lake Region has met its burden of proving Staff's position that \$27,901 is just and reasonable for Executive Management Fees.

48. The Executive Management Fees should be allocated between the three operating systems as follows; Shawnee Bend Water \$7,115, Shawnee Bend Sewer \$7,477, and Horseshoe Bend Sewer \$13,309.⁴¹

Rate Case Expense

49. Through the end of the true-up period, ending March 31, 2010, Lake Region provided invoices amounting to \$22,498 in rate case expenses.

50. Staff supported \$22,498 to be allowed in the cost-of-service for Lake Region. Staff also proposed for this amount to be amortized over three years. Staff proposed this amount

³⁸ Transcript, p. 196, lines 4-5.

³⁹ Transcript p. 161, lines 23-25.

⁴⁰ RSMo § 393.150.2, (2000); RSMo § 393.130.1, (2000).

⁴¹ Staff's Initial Brief Part 1, p. 4.

be allocated over the three systems as follows: Shawnee Bend Water \$2,500,⁴² Shawnee Bend Sewer \$2,500,⁴³ and Horseshoe Bend Sewer \$2,500.⁴⁴

51. Public Counsel proposed to allow \$15,585 in rate case expense amortized over five years.⁴⁵

52. Lake Region proposed \$26,449 to be amortized over three years.⁴⁶

53. It is just and reasonable for \$22,498 in rate case expense to be allowed in the cost-of-service amortized over a three year period.

WHEREFORE, the Staff submits the foregoing as its Proposed Findings of Fact and Conclusions of Law in this matter.

Respectfully submitted,

/s/ Jaime N. Ott

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⁴² Staff Exhibit 18, Shawnee Bend Water Accounting Schedule 1, p. 1 lines 40.

⁴³ Staff Exhibit 18, Shawnee Bend Sewer Accounting Schedule 1, p. 1 lines 45.

⁴⁴ Staff Exhibit 18, Horseshoe Bend Sewer Accounting Schedule 1, p. 1 lines 44.

⁴⁵ Public Counsel Exhibit 5, p. 2, lines 2-6

⁴⁶ Lake Region Exhibit 12, p. 1, lines 16-18.

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 24^h day of June 2010.

/s/ Jaime N. Ott