

# MISSOURI PUBLIC SERVICE COMMISSION

**FILED<sup>3</sup>**

FEB 27 2014

## STAFF REPORT

Missouri Public  
Service Commission

## REVENUE REQUIREMENT COST OF SERVICE



### LAKE REGION WATER & SEWER COMPANY

CASE NO. WR-2013-0461

*Jefferson City, Missouri  
November 15, 2013*

*Staff* Exhibit No. 1  
Date 2/18/14 Reporter PSG  
File No. WR-2013-0461

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CASE NO. WR-2013-0461**

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**REVENUE REQUIREMENT**  
**COST OF SERVICE REPORT OF**  
**LAKE REGION WATER & SEWER COMPANY**  
**CASE NO. WR-2013-0461**

**I. Executive Summary**

Staff of the Missouri Public Service Commission ("Staff") has conducted a review in Case Nos. WR-2013-0461 and SR-2013-0459 of all cost of service components (capital structure and rate of return, rate base, depreciation expense, and operating expenses) which comprise Lake Region Water & Sewer Company's ("Lake Region" or "Company") revenue requirement for its water and sewer operations, respectively. This audit was in response to Lake Region's application to increase its gross annual water revenues in the amount of \$74,197 and its gross annual sewer revenues for Horseshoe Bend sewer operations in the amount of \$142,892 and \$1,673 for its Shawnee Bend sewer operations. The application was filed with the Missouri Public Service Commission ("Commission") on July 17, 2013.

Staff's recommended increase in revenue requirement is based upon a test year of the twelve (12) months ending June 30, 2013. Staff's recommended revenue requirement for Lake Region at its recommended return on equity (ROE) of 13.89 percent is as follows:

Lake Region Operating Entity	Annual Revenue Requirement Staff ROE of 13.89%	Rate Base at June 30, 2013
Horseshoe Bend Sewer	\$39,912	\$1,274,431
Shawnee Bend Sewer	(\$195,641)	\$276,864
Shawnee Bend Water	(\$103,683)	\$1,084,271

The impact of Staff's recommended revenue requirement for each retail rate customer class will be proposed in the Staff's rate design testimony that is to be filed on November 22, 2013.

*Staff Expert/Witness: Kimberly K. Bolin*

## **II. Background of Lake Region Water & Sewer Company**

Lake Region is a water and sewer company providing regulated water and sewer services to the Horseshoe Bend and Shawnee Bend areas at the Lake of the Ozarks. Horseshoe Bend has approximately 243 sewer customers and Shawnee Bend has approximately 654 water customers and 632 sewer customers. The Company operates and maintains two wells and an elevated water storage facility for its water operations, and sewage pumping (lift) stations and waste water sewer lines connected to waste water treatment facilities for its sewer operations.

The Company was originally named Four Seasons Lake Sites Water & Sewer Company ("Four Seasons") and was part of the original Lodge of the Four Seasons resort community. These properties were sold over various periods of time. The Commission granted the original owners a certificate of convenience and necessity on December 31, 1973, in Case No. 17,954. This certificate was amended in Case No. 18,001 on May 16, 1974, to expand water service in an area immediately adjacent to the previously authorized certificated area. The service area was expanded again in Case No. SA-89-135.

Four Seasons sold the water system on Horseshoe Bend to Ozark Shores Water Company ("Ozark Shores") in 1992. After this sale transaction, Four Seasons changed its name to Four Seasons Water and Sewer Company in Case No. SA-98-248. A name change was approved again on March 18, 1999, to Lake Region Water & Sewer Company. Lake Region Water & Sewer Company was granted a certificate to provide water and sewer service in the Shawnee Bend area on October 26, 1999, in Case No. SA-2000-295.

Lake Region is currently owned by RPS Properties, LP ("RPS" or "RPS Properties") a partnership between the Schwermann family, with Robert Schwermann being the general partner, and Vernon Stump. Vernon Stump is the President of the Company. Brian Schwermann is the secretary for Lake Region. On December 31, 2012, Sally Stump, wife of Vernon Stump, transferred her shares of Lake Region stock to Vernon Stump. Vernon Stump and Brian Schwermann are also the President and Secretary, respectively, of another company, Ozark Shores which provides water service to customers in Lake Region's Horseshoe Bend Sewer service area. Ozark Shores is owned by North Suburban Public Utility Company, which is owned by Robert Schwermann and Sally Stump.

1 Another company owned by RPS Properties and Sally Stump is Lake Utility  
2 Availability Fees. This entity collects the availability fees paid by owners of undeveloped lots  
3 within the service area of Lake Region and Ozark Shores for the privilege of the future ability  
4 to connect to Lake Region's water and sewer systems

5 Lake Region is one of three operating utilities co-located in the same office and  
6 sharing common cost. The other two utilities are Ozark Shores, also a Missouri Public  
7 Service Commission regulated utility, and Camden County Public Water Supply District #4  
8 ("PWSD4"), a non-regulated utility.

9 *Staff Expert/Witness: Kimberly K. Bolin*

### 10 **III. True-Up**

11 The purpose of a true-up audit is to establish a cut-off point to which major elements  
12 of a utility's revenue requirement are to be updated, beyond the test year. When ordered,  
13 true-up audits involve the filing of additional sets of testimony and the scheduling of  
14 additional evidentiary hearings ordered by the Commission.

15 The Commission ordered a test year in this proceeding based upon twelve (12) months  
16 ending June 30, 2013, with a true-up audit through December 31, 2013. The parties to  
17 this case (Lake Region, Staff, and the Office of the Public Counsel (OPC)) have agreed the  
18 true-up audit be limited to the following items:

#### 19 **RATE BASE:**

20 Plant in Service  
21 Accumulated Depreciation Reserve  
22 Accumulated Deferred Income Taxes  
23 Customer Advances  
24 Contributions in Aid of Construction  
25 Materials and Supplies

#### 26 **INCOME STATEMENT:**

27 Revenue - Customer Growth  
28 Availability Fees  
29 Payroll – Employee levels, wage rate and related benefits

1 Contracted Labor  
2 Management Fees  
3 Executive Management Oversight  
4 Insurance  
5 Rate Case Expense  
6 Depreciation and Amortization Expense  
7 Property Taxes  
8 Related Income Tax Impact  
9 Support Services Expense

10 *Staff Expert/Witness: Kimberly K. Bolin*

#### 11 **IV. Rate of Return**

##### 12 **A. Summary**

13 The Financial Analysis Staff (Shana Atkinson) recommends that the Commission  
14 authorize an overall Rate of Return (ROR) of 7.22 percent for Lake Region. This rate of  
15 return recommendation is based on a recommended return on common equity of  
16 13.89 percent applied to a hypothetical, common equity ratio of 25.00 percent and a  
17 5.00 percent embedded cost of debt applied to a 75.00 percent debt ratio.

18 The Staff's embedded cost of debt is based on the cost of debt outstanding as of  
19 June 30, 2013, for debt issued at the Lake Region level and debt incurred to acquire  
20 Lake Region. Staff relied on Lake Region's responses to Staff Data Request Nos. 0021, 0064  
21 and 0070 to determine the embedded cost of debt.

22 Staff used a hypothetical capital structure consisting of 75.00 percent debt and  
23 25.00 percent common equity. This is a deviation from Staff's recommendation in  
24 Lake Region's last rate case, Case No. SR-2010-0110, in which Staff used an estimate of the  
25 actual capital supporting Lake Region's rate base. Staff will explain later in its testimony  
26 why it is recommending the use of a hypothetical capital structure in this case. Staff assumed  
27 that the current value of equity invested in rate base is Staff's rate base recommendation of  
28 \$2,635,566 less the \$2,850,000 acquisition debt and the June 30, 2013, outstanding balance of  
29 debt issued at Lake Region of \$1,396,731.04. This illustrates that Lake Region's capital



1 structure consists of 100.00 percent debt, but Staff recommends a hypothetical capital  
2 structure consisting of 75.00 percent debt and 25.00 percent common equity. Staff believes  
3 this is the most appropriate approach given the information Staff was able to analyze.  
4 The lack of financial information is due to Lake Region's objections to Staff Data Request  
5 Nos. 0064 and 0065, which requested the outstanding balance of the acquisition loan as of  
6 June 30, 2013, and the current terms and conditions associated with this loan. Lake Region  
7 provided information on this loan in the previous rate case and in fact, even supported  
8 including it in developing a rate of return in the last rate case.

9 **B. Background of Lake Region Operations, Ownership and Financing**  
10 **Arrangement**

11 Lake Region is engaged in providing public utility water and sewer service to  
12 residential and commercial customers in Camden County, Missouri. The Company's  
13 organizational/ownership structure is as follows:

14 Lake Region is owned equally by RPS Properties and Vernon Stump. Vernon Stump  
15 acquired his Lake Region shares from Sally Stump (Vernon Stump's wife) on December 31,  
16 2012. Vernon Stump is the President of both Lake Region and Ozark Shores Water Company.  
17 RPS Properties is a limited partnership for the Schwermann family with Robert Schwermann  
18 being the General Partner. Mr. Schwermann was also the former President of Lake Region.  
19 Members of the Schwermann family are limited partners (generally limited partners are  
20 financial contributors, but not active in the operations); one of those family members is Brian  
21 Schwermann who is the Secretary of Lake Region and Ozark Shores Water Company.  
22 Ozark Shores Water Company is wholly owned by North Suburban Public Utilities, Inc.  
23 North Suburban Public Utilities, Inc. is owned 51.76% by Robert Schwermann and 48.24%  
24 by Sally Stump.

25 The debt issued to fund the acquisition of Lake Region was specifically issued by  
26 RPS and Sally Stump. According to loan documents provided by Lake Region in response  
27 to Staff Data Request No. 0001.1 in the Company's most recent finance case, Case  
28 No. WF-2013-0118, this loan is primarily secured by the assignment of RPS's and  
29 Sally Stump's investment property/securities in Lake Region. The lender, Alterra Bank, also  
30 required a Negative Pledge Agreement, which states that assets of Lake Region shall not be  
31 pledged as collateral on any other indebtedness.

### C. Capital Structure and Embedded Costs

Unlike the last rate case, Staff recommends the use of a hypothetical capital structure of 75 percent debt and 25 percent equity. Staff determined the equity ratio to be 0.00 percent by subtracting the long-term debt amount from the total capital amount (rate base) and then dividing that equity amount by the total capital. (*see* Schedule SA-1 of Appendix 2) However, Staff recommends a capital structure of 75.00 percent debt and 25.00 percent equity. Based on Staff's discovery in Lake Region's last rate case and its recent finance case, the evidence showed that Lake Region's assets could support a highly leveraged capital structure regardless of who or what entity issued the debt to capitalize the assets. Lake Region's owners communicated to Staff in the last rate case they simply decided to issue all of the debt at the partnership level rather than at the Lake Region level for their own personal reasons. Although the owners have now issued some debt at Lake Region, they still have an unidentified balance on the original acquisition loan.

While Staff believes Lake Region's lack of transparency during discovery could support Staff's continued use of a more leveraged actual capital structure as recommended by Staff and accepted by the Company in the last rate case, there are practical limitations on estimating the cost of equity at extreme levels of leverage. Therefore, Staff decided to cap the leverage ratio at 75 percent debt.

Staff's embedded cost of debt recommendation is 5.00 percent for debt associated with Lake Region, as of June 30, 2013. This cost of debt is based on the cost of the acquisition debt and the amount of debt held at Lake Region. Both the acquisition debt and the amount of debt held at Lake Region are loans with Alterra Bank. In this testimony, the acquisition debt will be referred to as the acquisition loan and the debt held at Lake Region will be referred to as the Lake Region loan. The outstanding balance of the Lake Region loan was \$1,396,731.04 as of June 30, 2013, with a maturity date of August 10, 2014. Lake Region indicated in the Company's "Lake Region Water & Sewer Company's Response to Order Directing Filing and Contingent Motion for Leave to File Response Out of Time" filing in Case No. WF-2013-0118, that on or about June 18, 2013, a disbursement from the Lake Region loan of \$1,392,339.21 was authorized to pay down Loan 7016782. Loan 7016782 is the acquisition loan, which was issued on October 8, 2004, in the amount of \$2,700,000 and was renewed on October 10, 2005, for \$2,876,281.29. The balance of this

1 loan increased due to the need for new funds for equipment, legal fees and engineering. The  
2 loan was renewed again in 2006, 2008, 2009 and 2011. The balance on this loan has  
3 continued to be high due to the fact that the balloon payment due at maturity continues to be  
4 refinanced. The most recent loan documents Lake Region made available to Staff in regards  
5 to the acquisition loan shows a maturity date of August 10, 2014, and a principal amount of  
6 \$2,850,000. Staff was unable to verify the amount outstanding on this loan as of the update  
7 period due to objections to Staff Data Request Nos. 0064 and 0065. Lake Region also stated  
8 in response to Staff Data Request No. 0070 that they do not know if the acquisition loan  
9 documents that they did provide to Staff were current as of June 30, 2013. Staff has issued a  
10 subpoena to RPS Properties to try and obtain the current loan documents and the amount  
11 outstanding as of the update period, June 30, 2013, for the acquisition loan. However, the  
12 information was not available to Staff in time for filing direct testimony. The acquisition loan  
13 documents provided to Staff were provided in response to Data Request No. 0001.1 in  
14 Case No. WF-2013-0118, and Data Request No. 0061 in Case No. SR-2010-0110. The  
15 Lake Region loan documents were provided in response to Staff Data Request No. 0021 in  
16 this case.

17 In response to Staff Data Request No. 0064, Lake Region stated that the Company has  
18 not done any calculations regarding weighted average interest as the interest charged has been  
19 the minimum allowed during the period for all loans made to the Company. Therefore, Staff  
20 recommends 5.00 percent, which is the stated minimum allowed in the loan documents  
21 available to Staff, for both the acquisition loan and the Lake Region loan.

#### 22 **D. Cost of Common Equity**

23 Staff used their "Small Utility Return on Equity (ROE)/Rate of Return (ROR)  
24 Methodology" to estimate Lake Region's cost of common equity (*see* Appendix 2, Schedule  
25 SA-2). Staff's ROE recommendation is 13.89 percent. Staff estimated Lake Region's cost of  
26 common equity by adding a 4 percent risk premium to the public utility bond yield average  
27 for August, September and October 2013. Staff used an average of 'B+' rated public utility  
28 bonds. Staff estimated a 'B+' rating for Lake Region based on assigning a 'Strong' Business  
29 Risk Profile (BRP) estimate with a 'Highly Leveraged' Financial Risk Profile (FRP) estimate.  
30 The 'Strong' BRP was based on the Company's ability to attract debt capital through  
31 commercial loans. The 'Highly Leveraged' FRP was based on the Debt/Capital ratio of

1 Lake Region and comparing that to the financial benchmark ratios in *Standard & Poor's*  
2 "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded" (see Appendix 2,  
3 Schedule SA-3).

#### 4 **E. Conclusion**

5 It is the Staff's responsibility to calculate and recommend a rate of return that should  
6 be authorized on the water utility rate base and sewer utility rate base of Lake Region. Under  
7 the cost of service ratemaking approach, a weighted cost of capital of 7.22 percent was  
8 developed for Lake Region's water and sewer utility operations (see Schedule SA-1 of  
9 Appendix 2). This rate was calculated by applying an embedded cost of long-term debt of  
10 5.00 percent and a cost of common equity of 13.89 percent, to a hypothetical capital structure  
11 consisting of 75 percent long-term debt and 25 percent common equity. Therefore, from a  
12 financial perspective, Staff is recommending to the Commission that Lake Region's water and  
13 sewer utility operations be allowed to earn a return on its original cost rate base of  
14 7.22 percent.

15 *Staff Expert/Witness: Shana Atkinson*

### 16 **V. Rate Base**

#### 17 **A. Plant in Service and Depreciation Reserve**

18 To ensure accuracy of the Company's plant in service and accumulated depreciation  
19 reserve, Staff examined plant levels, additions and retirements using the Company's General  
20 Ledger from 1999 to June 30, 2013, for each of the three separate operating systems that  
21 Lake Region runs; Shawnee Bend water operations, Shawnee Bend sewer operations, and  
22 Horseshoe Bend sewer operations. This process was used to determine the proper level of  
23 plant in service that should be included in the Company's rate base for three separate water  
24 and sewer revenue requirements. Depreciation reserve reflects the rate base value of  
25 Lake Region's depreciation reserve for each of the operating entities, as of June 30, 2013, by  
26 account.

1 Staff Witness Arthur W. Rice of the Commission's Engineering and Management  
2 Services Unit (EMSU) will be sponsoring adjustments to Lake Region's test year ending  
3 plant in service and depreciation reserve balances, which he will address in Section(s) VII, G  
4 of the Report.

5 *Staff Expert/Witness: Ashley Sarver*

#### 6 **B. Materials and Supplies - Inventory**

7 The Company holds a variety of materials and supplies in inventory so as to be readily  
8 available in performing its utility operations. Staff reviewed all test year invoices related to  
9 materials and supplies and Lake Region's general ledgers to determine the materials and  
10 supplies inventory levels to include in rate base.

11 The current practice for Lake Region is to place all the expenses for Materials and  
12 Supplies – Inventory into Account 151.00, Inventory Other, then at the end of the calendar  
13 year the Company's auditor will make an adjustment from Inventory Other to separate the  
14 materials and supplies between Account 151.00 Inventory Sewer and Account 151.20  
15 Inventory Water. In most cases, Staff uses a thirteen-month average to calculate Materials  
16 and Supplies – Inventory; however in this case, due to fluctuations in the materials and  
17 supplies inventory balances over time Staff determined that a thirteen-month average is not  
18 appropriate. Instead, Staff used a three-year average for the calendar year ending December  
19 31, 2012. Staff was not able to use more updated information regarding this item because  
20 2013 materials and supplies balances are not yet separated between Lake Region's water and  
21 sewer operations. The inventory levels were allocated to all three entities using the plant  
22 allocation factor as of June 30, 2013.

23 *Staff Expert/Witness: Ashley Sarver*

#### 24 **C. Customer Advances**

25 Customer advances are funds provided by individual customers of the Company to  
26 assist in the costs of provision of water and sewer service to them. These funds represent  
27 interest-free money to the Company. Therefore, it is appropriate to include these funds as an  
28 offset to rate base. No interest is paid to customers for the use of their money. The amount of  
29 customer advances were reflected on the June 30, 2013, total.

30 *Staff Expert/Witness: Ashley Sarver*

1                   **D. Contributions in Aid of Construction**

2           Contributions in Aid of Construction (CIAC) are funds provided by individual  
3 customers of the Company to assist in the construction and extension of mains in order to  
4 receive provisions of water and/or sewer service to them. Since customers ultimately provide  
5 the investment in this portion of the utility water and sewer infrastructures, utility companies  
6 do not have any investment in CIAC and are not entitled to earn a return on the property or a  
7 return of the CIAC property. CIAC is usually a significant source of financing for water and  
8 sewer utilities. As a result, a deduction must be made to rate base to account for these  
9 contributions to recognize that the utilities does not have investment dollars in that portion of  
10 the water and sewer plant. The Staff's ending CIAC is based on June 30, 2013.

11 *Staff Expert/Witness: Ashley Sarver*

12                   **E. Deferred Income Taxes**

13           Staff included an amount in rate base to subtract Lake Region's accumulated deferred  
14 tax balance as of June 30, 2013, from plant. Staff used its plant-in-service allocation factor to  
15 allocate Lake Region's deferred tax reserve balance between Shawnee Bend Water,  
16 Shawnee Bend Sewer, and Horseshoe Bend Sewer.

17 *Staff Expert/Witness: Keith D. Foster*

18                   **VI. Allocations**

19           Lake Region is one of three operating utilities co-located in the same facility and  
20 sharing common cost structures. The other two utilities are Ozark Shores, a Missouri Public  
21 Service Commission regulated utility, and PWSD4, a non-regulated utility. The PWSD4  
22 provides management oversight and operational support to Ozark Shores and Lake Region,  
23 supplying various services to each company at contracted rates. In addition to management  
24 oversight, including a common General Manager, some of the services provided to  
25 Ozark Shores and Lake Region by the PWSD4 are labor, meter reading, billing and collection  
26 functions, customer service, and access to heavy equipment and trucks for operator use.  
27 Because of the close interrelationship of the three operating utilities, common costs are  
28 allocated between each utility. Most of the costs for each of the operating companies are  
29 direct-assigned, while some, particularly office functions, are allocated equally. In most  
30 cases, Staff did not propose adjustments to costs allocated between operating companies.

1 Within Lake Region, common costs assigned to it must be further allocated among the  
2 company's three operating systems: Horseshoe Bend Sewer, Shawnee Bend Sewer, and  
3 Shawnee Bend Water. Each operating system has specific costs that are direct-assigned  
4 requiring no further allocation. For example, expenses for maintenance of a well apply only  
5 to the water system while sludge removal applies to the two sewer systems. However, there  
6 are common costs among the three operating systems that must be allocated among them.  
7 Staff used several allocation factors to determine the appropriate cost for each operating  
8 system. The nature of each expense item requiring allocation determined what factor was  
9 applied to allocate the expense. The allocation factors include number of customers, rate  
10 revenue, payroll, plant-in-service, and, in some cases, a blend of the number of customers and  
11 revenue. Attached as Schedule KDF-1, in Appendix 3 is a table of all the allocation factors  
12 used by Staff and the percentages allocated to each of the operating systems for each factor.

13 *Staff Expert/Witness: Keith D. Foster*

## 14 **VII. Income Statement**

### 15 **A. Revenues**

#### 16 **1. Rate Revenues**

17 Lake Region has two operating divisions for its water and sewer operations:  
18 Shawnee Bend and Horseshoe Bend. The operating divisions are then broken down into three  
19 specific operating entities: Shawnee Bend Water, Shawnee Bend Sewer, and Horseshoe Bend  
20 Sewer.

21 Shawnee Bend Water customers are charged a tariff rate based upon meter size. In  
22 addition to this flat rate amount, residential and commercial customers are charged a  
23 commodity charge of \$2.49 for every thousand gallons used above the amount included in the  
24 designated flat rate. (Please see chart below for more detailed information):  
25  
26  
27  
28  
29

30 *continued on next page*

Meter Size	Gallons Included	Flat Rate
5/8"	3,000 gal/month	\$12.99
3/4"	4,500 gal/month	\$16.72
1"	7,500 gal/month	\$24.18
1.5"	15,000 gal/month	\$42.82
2"	24,000 gal/month	\$65.19
4"	75,000 gal/month	\$191.95
6"	150,000 gal/month	\$378.37

Per the tariff, the commodity charge is to be prorated to the actual volume of consumption for all usage that exceeds the minimum included in the monthly flat rate. Shawnee Bend commercial sewer customers are handled in a similar manner as the water customers. They are charged a monthly flat rate of \$36.19 as well as a commodity charge. The sewer commodity charge is \$6.03 per thousand gallons used over 6,000 gallons per month. The commodity charge is based on the monthly water meter reading at each customer location. Shawnee Bend Sewer residential customers are not charged a commodity charge; they are charged the flat fee of \$36.19 per month for their sewer service. Horseshoe Bend commercial sewer customers are also charged a commodity charge in addition to the monthly flat rate. Commercial sewer customers are charged a monthly flat rate of \$29.39. The commercial sewer commodity charge is \$5.26 per thousand gallons used per month. The monthly usage values are determined from flow meters, water meters, or off of the pumps at the lift stations. Horseshoe Bend Sewer residential customers are not charged a commodity charge; they are charged the flat fee of \$29.39 per month for their sewer service.

To determine the level of revenues that Lake Region needs to collect to maintain safe and adequate service for their customers, Staff examined three years' worth of billing data ending June 30, 2013, for all customers. To examine this data, Staff was given access to the Company's accounting/billing program "Thoroughbred." Using the information provided in the Thoroughbred program, Staff was able to review each customer's monthly payment as well as the customer's usage amount when applicable for all three systems. Staff was then able to determine the appropriate level of flat rate revenue to include for each system by using the current tariff rate applied to the level of customers as of June 30, 2013, for each customer class and meter size. To determine the appropriate level of commodity charge, Staff used a three-year monthly usage average applied to the applicable tariffed commodity rate. Please



see the table below for the number of customers, meter size, flat rate revenues, and commodity revenues for the Shawnee Bend water and sewer customers:

Meter Size/Service	Number of Customers	Flat Rate Fee	Annualized Water Flat Rate	Annualized Water Commodity	Annualized Sewer Flat Rate	Sewer Commodity	Annualized Sewer Commodity
Residential 5/8"	581	\$12.99	\$91,190	\$71,889	\$252,317	N/A	N/A
Residential 5/8" No Sewer	4	\$12.99	Included in above value	Included in above value	N/A	N/A	N/A
Residential 1"	13	\$24.18	\$3,772	\$1,622	\$5,646	N/A	N/A
Residential 1.5"	18	\$42.82	\$9,249	\$1,986	\$7,817	N/A	N/A
Residential 2"	8	\$65.19	\$6,258	\$7	\$3,474	N/A	N/A
Commercial 5/8" No Sewer	5	\$12.99	\$779	\$1,292	N/A	N/A	N/A
Commercial 1" No Sewer	7	\$24.18	\$2,031	\$1,937	N/A	N/A	N/A
Commercial 1.5" No Sewer	2	\$42.82	\$1,028	\$899	N/A	N/A	N/A
Commercial 2" No Sewer	4	\$65.19	\$3,129	\$2,349	N/A	N/A	N/A
Commercial 5/8"	4	\$12.99	\$624	\$48	\$1,737	\$6.03 per 1,000 gal/month over 6,000 gal/month	\$43
Commercial 1.5"	1	\$42.82	\$514	\$860	\$434		\$2,437
Commercial 2"	3	\$65.19	\$2,347	\$557	\$1,303		\$2,608
Commercial 4"	3	\$191.95	\$6,910	\$723	\$1,303		\$10,486
Commercial 6"	1	\$378.37	\$4540	\$16	\$434		\$4,022
Total	654		\$132,371	\$84,185	\$274,465		\$19,597

The monthly flat rate and commodity charges will result in revenues of approximately \$510,619 for Shawnee Bend operations. The table below illustrates the monthly flat rate and commodity revenues for Horseshoe Bend Sewer:

	Number of Customers	Monthly Flat Rate	Annualized Sewer Flat Rate	Sewer Commodity	Annualized Sewer Commodity
Residential	225	\$29.39	\$79,353	N/A	N/A
Commercial	18	\$29.39	\$6,348	\$5.26 per 1,000 gal/month	\$359,434
Total	243		\$85,701		\$359,434

The monthly flat rate and commodity charges will result in revenues of approximately \$445,136 for Horseshoe Bend sewer operations, resulting in overall revenues of \$955,753 for Lake Region.

Staff Expert/Witness: Erin M. Carle

## 2. Miscellaneous Revenues

In addition to collecting rate revenues, Lake Region also collects various miscellaneous revenues. For Lake Region, miscellaneous revenues are made up of non-utility income (acct 421), other water revenue (acct 474), late fees (accts 470.10 and 532.15), water connection fees and sewer connection fees (accts 471 and 536, respectively). Staff analyzed three years' of data ending June 30, 2013, for each of the prior mentioned accounts. Staff found that the late charges for water have steadily decreased, while the late charges for sewer were steadily increasing. Therefore the test year ending value was the most appropriate amount to include in rates for both water and sewer. Accounts 421.00 and 474.00 did not have a discernible trend; therefore, Staff used a three year average to determine the most appropriate amount of revenues to include in rates for these two accounts. Accounts 471 and 536 are clearing accounts for miscellaneous revenues that zero out on a calendar year basis. Due to the test year not being a calendar year, Staff included an adjustment that zeroes out the test year value to reflect the clearing purpose of these two accounts.

*Staff Expert/Witness: Erin M. Carle*

## 3. Availability Fees

Staff is including revenue in its case that is derived from "availability charges," also called "availability fees." Availability charges are monthly payments that lot owners agree to pay after the water or sewer systems become available to their unimproved lots but prior to the time they construct homes and connect to the water or sewer systems. The amount of revenue that Staff is including in its case for availability charges is an estimate of \$342,090. Staff's calculation of the availability fees is based upon the number of unimproved lots sold as of March 31, 2010, information that was provided by the Four Seasons Lakesites Property Owners Association in Lake Region's last rate case, SR-2012-0110. Staff then subtracted the number of new connections that have been made to Lake Region Water & Sewer in its Shawnee Bend operating area since March 31, 2010, through June 30, 2013, to arrive at an estimated number of unimproved sold lots. The annual per lot availability charge is \$120 for water and \$180 for sewer.

The availability charges applicable to most lot owners in Lake Region's service area are specified and required to be paid to the owner of the utility system in two subdivision

1 documents: 1) the *Fourth Amended and Restated Declaration of Restrictive Covenants*,  
2 which is dated October 1, 2009, and recorded in the Camden County Recorder's Office on  
3 October 06, 2009, in Book 684, Page 544, and 2) the *Amendment to Third Amended and*  
4 *Restated Declaration of Restrictive Covenants Relating to Water and Sewer Systems*, which is  
5 dated July 22, 2009, and recorded in the Camden County Recorder's office on July 29, 2009,  
6 in Book 681, Page 760. Other subdivision documents and amendments relating to availability  
7 fees exist and are referred to within these specific documents.

8 Currently, availability fees are being paid by lot owners to Lake Utility Availability 1,  
9 an unregulated affiliate of Lake Region Water & Sewer Company. Prior to August 17, 1998,  
10 lot owners in the Lake Region service territory paid availability fees directly to the utility  
11 company.

12 Staff's proposed treatment of funds derived from availability charges – that they be  
13 included as Lake Region revenue – is substantially consistent with treatment of such funds in  
14 past cases including Case No. 17,954, the Company's original certificate case in 1972; Case  
15 No. WR-99-183, a rate case filed by Ozark Shores Water Company, Inc. a successor owner of  
16 some of the Company's past assets; Staff's stated intentions in Case No. WA-95-164, a  
17 certificate expansion case filed by Four Seasons Lakesites Water & Sewer Company, which  
18 was Lake Region's original name; Staff's recommendation in Case No. SR-2010-0110,  
19 Lake Region's previous rate case; and treatment of availability charges applicable to lots in  
20 service areas of at least two (2) other regulated water or sewer utilities.

21 Staff believes that, since Lake Region is the entity that is providing a guarantee of  
22 water and sewer service availability to lot owners in Lake Region's service territory, the  
23 availability fee revenue should be included in Lake Region's cost of service. Lake Utility  
24 Availability 1 is a fictitious name used by RPS Properties and Sally Stump and serves merely  
25 as a collection entity for these charges, and the funds it collects are for no other service than  
26 that which is provided by Lake Region. RPS Properties is also an owner of Lake Region and  
27 Sally Stump was also an owner of Lake Region until December 31, 2012. Now,  
28 Vernon Stump, Sally Stump's husband, and RPS Properties are the owners of Lake Region.  
29 Lake Utility Availability 1 is not the entity that owns the water works system and central  
30 sewer system that make it possible for the customers to connect and receive water and sewer

1 utility service in the future, and Lake Utility Availability 1 does not have a certificate to serve  
2 this area.

3 *Staff Experts/Witnesses: Kimberly K. Bolin and James A. Merciel, Jr.*

## 4 **B. Operations Expense**

### 5 **1. Purchased Power**

6 In order to provide water and sewer utility service Lake Region must purchase  
7 electricity from AmerenUE and Co-Mo Electric Cooperative, Inc. (CMEC). Staff has  
8 reviewed the electric bills from AmerenUE and CMEC to determine the annualized amount of  
9 electricity expense to include in the current rates. Staff annualized this expense using kilowatt  
10 hour usage data from the test year, the twelve (12) months ending June 30, 2013, and the  
11 current rates charged by the electric companies.

12 Staff made adjustments to remove amounts paid to Ozark Shores Water for  
13 water usage for the Horseshoe Bend sewer) operations. These amounts were incorrectly  
14 booked as purchased power. Staff has included an amount for this water usage (refer to  
15 Section VII, C.5. of the COS Report). Staff also made adjustments to remove an  
16 amount (bill) from Lake Region to PWSD4. This bill should have been paid by PWSD4, not  
17 Lake Region. Finally, Staff made adjustments to move electric expenses that were  
18 incorrectly booked for the wrong systems (Horseshoe Bend Sewer and Shawnee Bend Sewer)  
19 to the right systems.

20 *Staff Expert/Witness: Ashley Sarver*

### 21 **2. Chemicals**

22 Staff analyzed historical data regarding chemical expense beginning January 1, 2010,  
23 through June 30, 2013. Based on the analysis, Staff utilized the test year ending June 30,  
24 2013, level of this expense as the appropriate level of chemicals that is currently required to  
25 maintain the water and sewer systems.

26 *Staff Expert/Witness: Ashley Sarver*

### 27 **3. Testing Expense**

28 The Staff reviewed all invoices within the test year related to the water and sewer  
29 testing expense. Staff made adjustments to change amounts for Water Pollution Control  
30 Services invoices that were incorrectly or inconsistently booked to the wrong accounts.

31 *Staff Expert/Witness: Ashley Sarver*

1                                   **4. Payroll, Employee Benefits, Payroll Taxes and Workers'**  
2                                   **Compensation**

3           Staff has adjusted Lake Region's test year payroll expense to reflect an annualized  
4 level of payroll, employee benefits, payroll taxes, and workers' compensation as of June 30,  
5 2013, which is the endpoint of the test year period ordered for this case by the Commission.

6           All employees working on the Lake Region operations are employed by the PWSD4,  
7 with a fixed contracted monthly labor fee paid by Lake Region to PWSD4. The monthly  
8 labor fee is inclusive of each PWSD4 employee's pay (including overtime pay), payroll taxes,  
9 workers' compensation, and employee benefit costs including health and dental insurance and  
10 retirement plan (100% funded) costs. Each year, the General Manager prepares a budget that  
11 determines the monthly labor fee that will be charged to Lake Region as well as the fee that  
12 will be charged to Ozark Shores. With the exception of two employees, labor costs are  
13 allocated to each of the three utilities (PWSD4, Lake Region, and Ozark Shores) by the  
14 percentage of actual total employee cost charged to each utility in a prior period. For the  
15 Accountant and the General Manager's base pay, the labor costs are split evenly across all  
16 three utilities. There is an additional consulting fee of \$38,896 (excluding payroll taxes and  
17 retirement plan costs) included for the General Manager that is allocated 30% to Ozark Shores  
18 and 70% to Lake Region. This fee has not previously been included in rates. Staff compared  
19 the General Manager's base salary against the annual wage for General and Operations  
20 Managers for the Central Region as published by the Missouri Economic Research an  
21 Information Center (MERIC) and found that the base salary was comparable to the annual  
22 wage for an experienced individual. Based on Staff's investigation, Staff determined that the  
23 consulting fee was neither a necessary nor reasonable additional expense to be funded by  
24 ratepayers and, therefore, Staff excluded this fee in the calculation of payroll adjustments.

25           PWSD4 employees, with the exception of the General Manager, are required to  
26 complete detailed timesheets for each two-week pay period. With the exception of the two  
27 other office employees, the timesheets have sections to be completed for each of the three  
28 utilities. Staff reviewed, in detail, the timesheets for all PWSD4 employees for the test year  
29 period. Using the timesheet entries, Staff calculated the actual recorded hours for each  
30 employee and, where appropriate, the utility for which time was reported. Some adjustments  
31 were made by Staff to these reported hours, primarily for overtime hours claimed in weeks

1 when an employee claimed vacation and/or sick leave. Staff's total calculated hours for the  
2 twelve (12) months within the test year were then applied to the current pay amounts for each  
3 employee to determine an annualized total payroll amount for the PWSD4. The General  
4 Manager's base salary was included in the annualized total payroll amount. Staff then used  
5 the actual percentage of hours each employee reported on the timesheets for each utility and  
6 applied it to the corresponding employee's total pay to allocate the costs to each utility. Staff  
7 used the percentage of total customers at June 30, 2013, for each utility to allocate the  
8 Billing Clerk's pay. The General Manager's and Accountant's pay were allocated equally  
9 across the three utilities. With payroll costs now allocated to Lake Region, Staff then  
10 allocated the costs to each of Lake Region's three operating systems. The actual time  
11 reported on the timesheets by the operations staff for each operating system was used to  
12 allocate the Lake Region payroll to each system. For the General Manager and two office  
13 staff, the pay was allocated based on the number of customers for each operating system.

14 Staff followed the same approach to calculate payroll taxes at current tax rates, health  
15 and dental insurance at the current rate (effective October 2013), retirement cost at the rate  
16 effective January 1, 2014, and current workers' compensation cost. All these costs were  
17 allocated in the same manner as the payroll and added to the payroll costs to determine Staff's  
18 adjustment for each Lake Region operating system.

19 *Staff Expert/Witness: Keith D. Foster*

## 20 **C. Maintenance Expense**

### 21 **1. Supplies and Materials**

22 The Staff reviewed all invoices within the test year related to supplies and materials  
23 expense. Based on the review, Staff utilized the test year to determine the most appropriate  
24 level of supplies and materials expense to be included in the cost of service. Staff made  
25 adjustments to remove items not necessary to provide service to customers and also to move  
26 amounts related to testing, transportation, and tools and shop supplies expense.

27 *Staff Expert/Witness: Ashley Sarver*

### 28 **2. Tools and Shop Supplies Expense**

29 Staff analyzed historical data regarding this expense beginning January 1, 2010  
30 through June 30, 2013. Based on the analysis, Staff utilized the test year level of expense as

1 the most appropriate level of tools and shop supplies expense to be included in the cost of  
2 service. Staff made adjustments to remove amounts booked in the wrong account.

3 *Staff Expert/Witness: Ashley Sarver*

### 4 **3. Equipment Rental**

5 Lake Region has an ongoing rental contract with PWSD4 a related entity, for access to  
6 multiple pieces of equipment that may be needed for new services, repairs, and maintenance.  
7 The contract began in February 2006 with a monthly fee of \$1,500 to be split between  
8 Horseshoe Bend Sewer, Shawnee Bend Water and Shawnee Bend Sewer systems.  
9 In August 2013, the monthly rental rate was increased to \$1,575 to accommodate the cost of  
10 a new blade for the skid loader already included in the rental agreement. Ozark Shores,  
11 PWSD4, and Lake Region all have equal access to the equipment included in the  
12 rental agreement.

13 Lake Region does not maintain any type of usage logs documenting the frequency of  
14 its use of the equipment it rents from PWSD4. The Company also informed Staff that  
15 PWSD4 does not maintain usage logs for the equipment; therefore, Staff was not able to do a  
16 cost analysis by determining the portion of the monthly rental cost that is applicable to the  
17 amount of Lake Region's actual usage of the rental equipment and comparing that to the cost  
18 to Lake Region of renting the equipment from a third party provider. In order to determine  
19 the reasonableness of the current expense associated with Lake Region's rental of this  
20 equipment from a related company, Staff compared the annual rental amount for the  
21 Company to the annual cost if the Company owned the equipment and then rented the  
22 equipment to Ozark Shores and PWSD4. To calculate the annual expense to the ratepayers if  
23 the Company owned the equipment, Staff began with the original purchase price of the  
24 equipment paid by PWSD4, and assumed that Lake Region could have obtained this  
25 equipment at the same value. Staff then calculated the annual depreciation expense based  
26 upon this original cost value, as well as the accrued depreciation associated with the  
27 equipment since the time it was purchased. Staff then offset the purchase price with the  
28 accrued depreciation to derive the current net plant value of the equipment. To calculate the  
29 return on plant, Staff used the rate of return ordered from Case No. SR-2011-0110, and  
30 multiplied that return by the net plant amount. This value was added to the annual  
31 depreciation expense to calculate the annual revenue requirement associated with ownership

1 of this equipment. Staff then made an adjustment to remove two-thirds of this value to  
2 represent rental revenue from Ozark Shores and PWSD4 for their use and access of the  
3 equipment under the Lake Region ownership assumption. Based upon this comparison, it  
4 appears that Lake Region's revenue requirement associated with use of this system would be  
5 significantly less under the ownership option as compared to the current rental arrangement.  
6 After performing this analysis, and considering the lack of equipment log information that  
7 would be necessary to perform an analysis of the cost to Lake Region of renting this  
8 equipment from an unrelated third party vendor, Staff has determined that it would be more  
9 economical to include the cost of the equipment in Lake Region's cost of service as if the  
10 Company had ownership of it and rented it out to Ozark Shores and PWSD4.

11 Staff recommends that the Company maintain equipment logs going forward  
12 regarding its use of the equipment it currently rents from PWSD4. This will enable Staff to  
13 do an analysis on the actual usage of the equipment in future rate cases.

14 *Staff Expert/Witness: Erin M. Carle*

#### 15 **4. Water Maintenance Expense**

16 The Audit Staff reviewed all invoices related to repairs and maintenance expense  
17 booked to water accounts 645.10, 645.11, 645.30 and sewer accounts 710 and 745.10. Staff  
18 analyzed historical data for these accounts beginning January 1, 2010, through June 30, 2013.  
19 Based on the analysis, Staff utilized a three-year average to determine the most appropriate  
20 level of maintenance expense to be included in the cost of service for the water accounts.

21 Staff noticed that the balance in the above mentioned sewer accounts is continually  
22 declining or had a zero balance during the past three years, while the balances in sewer  
23 maintenance accounts 720.5, 721.1, 721.2, 745.9, and 745.95 is increasing. It appears that the  
24 Company is discontinuing the use of accounts 710 and 745.10 and is instead using accounts  
25 720.5, 721.1, 721.2, 745.9 and 745.95 to book its sewer maintenance expenses. Staff  
26 determined that an adjustment to remove all expenses from accounts 710 and 745.1 is the  
27 most appropriate method to reflect the discontinued use of these accounts. Sewer  
28 maintenance expense will be reflected at normalized levels in sewer operating accounts 720.5,  
29 721.1, 721.2, 745.9, and 745.95. Please see the testimony from Staff Witness Kimberly K.  
30 Bolin of the Commission's Auditing Unit for further detail on this adjustment.

31 *Staff Expert/Witness: Erin M. Carle*



1                                   **5. Sewer Operating Expense**

2           Staff removed from the test year sewer operating expense, amounts for  
3   Water Pollution Control Services that were incorrectly or inconsistently booked to the wrong  
4   accounts. Staff also included in the sewer operating expense account an annualized water  
5   expense. The Company purchases water from PWSD4 for the operation of its sewer facilities.  
6   During the test year, the Company booked this expense in various accounts. Staff has  
7   removed these amounts from the various accounts and has included the annualized water  
8   expense in account number 721.1 for the Horseshoe Bend Sewer service area.

9   *Staff Expert/Witness: Kimberly K. Bolin*

10                               **6. Sewer Equipment Maintenance Expense**

11           Staff removed from sewer equipment maintenance expense Account No. 745.95  
12   two expenses that should have been capitalized and included in plant in service for the  
13   Shawnee Bend system. The two expenses related to the reconditioning of the lift station  
14   pump at Murfield Court and the replacement of the duplex control at the Shawnee Bend  
15   treatment plant. Staff included both of these amounts in its plant in service. Staff then used a  
16   three-year average of the sewer equipment maintenance expense minus the incorrectly booked  
17   capitalized items as its normalized sewer equipment maintenance expense. Staff also used  
18   a three-year average of sewer equipment maintenance expense for the Horseshoe Bend Sewer  
19   service area.

20   *Staff Expert/Witness: Kimberly K. Bolin*

21                               **D. Customer Account Expense**

22                               **1. Billing Expense**

23           Lake Region mails bills to its customers monthly. Staff reviewed all the invoices for  
24   billing expense incurred by Lake Region during the test year, and recorded the total number  
25   of bills processed by the U.S. Postal Service each month, noting the number sent at a  
26   presorted rate, and the number sent at a single piece rate. Staff annualized the number of bills  
27   calculating the postage cost at the current postal rates to determine an annualized cost for  
28   mailing the bills. In addition, Staff annualized the cost to print the card stock for the number  
29   of bills sent in the test year based on the Lake Region supplier's last bill. The sum of these  
30   two annualized expenses was used as the basis of the Staff's adjustment to the billing expense

1 account. Staff used the customer allocation factor to allocate the billing expense adjustment  
2 to each operating system (Horseshoe Bend Sewer, Shawnee Bend Sewer, and Shawnee Bend  
3 Water).

4 *Staff Expert/Witness: Keith D. Foster*

## 5 **2. Uncollectible Expense**

6 Uncollectible expense is the portion of retail revenues that Lake Region is unable to  
7 collect from retail customers by reason of bill non-payment. Staff reviewed account 950 to  
8 analyze the bad debt expense that Lake Region has incurred for the past three years. There  
9 was no discernible trend from year to year; therefore, Staff determined that a three year  
10 average of bad debt expense was the most appropriate level to include in the cost of service.

11 *Staff Expert/Witness: Erin M. Carle*

## 12 **E. Administrative and General Expense**

### 13 **1. Legal Fees**

14 Staff reviewed all the invoices for legal fees incurred by Lake Region during the  
15 test year. Staff adjusted out all legal fees related to the Shawnee Bend Development  
16 Company, LLC v. Lake Region Water & Sewer (09CM-CC00372) appeal, as this is a litigated  
17 issue between the developer and Lake Region that has no impact on the provision of utility  
18 service to the ratepayers and, therefore, is a cost that should not be borne by the ratepayers.  
19 Staff also removed all legal fees related to the Company's 2012 Finance Case (Commission  
20 Case No. WF-2013-0018), and then adjusted back in one-third of the cost to allow the  
21 Company to recover the incurred legal fees at a normalized three-year average level. Staff  
22 also removed fees related to the Maywood Estates Wastewater Treatment Plant acquisition  
23 that belong in plant acquisition costs. Staff adjustments did not require allocation to the three  
24 different operating systems, because each operating system has its own unique account  
25 number for Legal Fees.

26 *Staff Expert/Witness: Keith D. Foster*

### 27 **2. Insurance**

28 Insurance expense is the cost of protection obtained from third parties by utilities  
29 against the risk of financial loss associated with unanticipated events or occurrences.

1 Utilities, like non-regulated entities, routinely incur insurance expense in order to minimize  
2 their liability (and, potentially, that of their customers) associated with unanticipated losses.

3 Staff proposed an adjustment to annualize Lake Region's insurance expense to  
4 reflect the premiums paid as of June 30, 2013, the end of the test year. Staff used an  
5 allocation based on plant in service as of June 30, 2013, to assign this cost among  
6 Lake Region's operating districts.

7 *Staff Expert/Witness: Ashley Sarver*

### 8 **3. Office Supplies**

9 Staff analyzed historical data regarding office supplies expense beginning January 1,  
10 2010, through June 30, 2013. Based on the analysis, Staff utilized the test year ending  
11 June 30, 2013, level of this expense as the most appropriate level of office supplies expense to  
12 be included in the cost of service. Staff made adjustments to remove Alterra Bank's Account  
13 Analysis Charge because this charge was excessive and beyond normal bank service charges.  
14 Staff also removed office supplies expense, which was already included in Staff's payroll  
15 annualization, non-recurring expenses, and amounts booked in incorrectly in office supplies  
16 expense accounts. Staff moved a total of \$2,610.24 for one computer, three laptops, and  
17 software training services from office supplies expense to be capitalized into Account 391.10,  
18 Office Electronic Equipment.

19 *Staff Expert/Witness: Ashley Sarver*

### 20 **4. Executive Management Fees**

21 Lake Region does not have any employees. Lake Region contracts with the PWSD4  
22 to operate and manage the day-to-day operations of the Company, and PWSD4 also acts in  
23 the same capacity for Lake Region's affiliate, Ozark Shores. PWSD4 staff performs normal  
24 day-to-day administrative and operational functions and consists of a General Manager, an  
25 accountant, a billing clerk, a field supervisor, and six field operators.

26 The General Manager for PWSD4 oversees the day-to-day operations of both  
27 Lake Region and Ozark Shores and approves the payment of routine bills. He also  
28 recommends expenditures for the repair, maintenance, capital additions, and expansions of  
29 Lake Region and Ozark Shores plant and certificated service areas. The Executive  
30 Management Group, serving Lake Region and Ozark Shores, must then approve, amend or  
31 reject the proposed expenditures and expansions.

1 The Executive Management Group provides executive oversight for Lake Region and  
2 Ozark Shores and consists of Vernon Stump, Robert Schwermann, and Brian Schwermann.  
3 Vernon Stump is the President for both Lake Region and Ozark Shores. Brian Schwermann is  
4 the Secretary for both Lake Region and Ozark Shores. Robert Schwermann of  
5 RPS Properties, is on the Board of Directors for both Lake Region and Ozark Shores.  
6 Kelly Stump, who has attended PWSD4 board meetings but who otherwise acts in  
7 an unknown capacity in relation to Lake Region, may be another member of this group.  
8 Among other duties, Executive Management attends the monthly PWSD4 board meetings to  
9 represent Lake Region and/or Ozark Shores, and to determine if there are any issues affecting  
10 these two utilities.

11 Lake Region pays a flat monthly management fee for the Executive Management  
12 Group, and records this expense on its books to a Lake Utility Availability 1 account. Staff  
13 has adjusted the test year management fee to an annualized amount of expense associated  
14 with a reasonable estimate of the actual costs of this group to provide executive oversight and  
15 management of Lake Region. Staff is not aware of any significant changes in the duties and  
16 responsibilities of the Executive Management Group since the last rate case and has examined  
17 the costs that Staff included in that case for Executive Management oversight. As in the  
18 previous case, Staff has calculated an allowance for members of the group based on time  
19 spent to attend the monthly PWSD4 board meetings and at the home office related to  
20 conducting Lake Region and Ozark Shores business, recognizing that the total cost would be  
21 split evenly between Lake Region and Ozark Shores. Staff's adjustment to the Executive  
22 Management fee took into account executive pay for the monthly hours, travel-related costs to  
23 attend the board meetings, including air travel for Vernon Stump, corporate office lease costs,  
24 and communications expense. Staff's adjustments are based on the current annual wage for  
25 Chief Executives for the Central Region as published by the MERIC, current General Service  
26 Administration (GSA) per diem and mileage reimbursement rates, and averages of more  
27 recent lodging costs. Staff allocated the Executive Management costs equally between  
28 Lake Region and Ozark Shores. Staff further allocated its adjustment to the three  
29 Lake Region operating systems according to Staff's payroll allocation factor.

30 *Staff Expert/Witness: Keith D. Foster*

1                   **5. Telephone**

2           Staff examined the amounts of AT&T Wireless payments made by Lake Region to  
3 PWSD4 during the test year. PWSD4 allocates the bill to Lake Region, PWSD4, and  
4 Ozark Shores. The AT&T Wireless bill to PWSD4 was adjusted to reflect the payroll  
5 allocations between PWSD4, Ozark Shores, and Lake Region. Other adjustments include  
6 removal of wireless accounts no longer active and disallowance of wireless service not  
7 necessary to provide services to the customers.

8 *Staff Expert/Witness: Ashley Sarver*

9                   **6. Travel and Entertainment Expense**

10          Staff reviewed all the Travel & Entertainment Expense invoices allocated to  
11 Lake Region during the test year. The vast majority of expense was credit card bills for the  
12 Executive Management Group. Staff adjusted out all expenses attributed to the Executive  
13 Management Group because any allowable travel and entertainment costs are included in  
14 Staff's adjustment for Executive Management oversight in the Executive Management Fees  
15 account. In addition to other miscellaneous adjustments, Staff adjusted out expenses claimed  
16 by the General Manager related to the Shawnee Bend Development lawsuit, and two-thirds  
17 of expenses related to the Company's 2012 Finance Case (Commission Case No.  
18 WF-2013-0018) to allow the Company to recover the incurred expenses at a normalized three-  
19 year level. This treatment is consistent with how Staff handled adjustments to other accounts  
20 containing expenses related to these two issues. Staff used the Revenue Allocation Factor to  
21 allocate the remaining Travel & Entertainment Expense adjustments to each operating system  
22 (Horseshoe Bend Sewer, Shawnee Bend Sewer, and Shawnee Bend Water).

23 *Staff Expert/Witness: Keith D. Foster*

24                   **7. Transportation Expense**

25          Staff reviewed all of the transportation expense account transactions in the  
26 General Ledger allocated to Lake Region during the test year. Expenses in this account  
27 primarily include (1) PWSD4 charges to Lake Region for its portion of fuel costs and vehicle  
28 expense, (2) maintenance costs for vehicles owned by Lake Region, (3) bridge tolls to access  
29 the Shawnee Bend service areas, and (4) mileage reimbursements to the General Manager.  
30 Staff made adjustments primarily to remove misapplied expenses, and to remove any mileage

1 expenses related to the Shawnee Bend Development lawsuit. Staff used the revenue  
2 allocation factor to allocate the transportation expense adjustments to each operating system  
3 (Horseshoe Bend Sewer, Shawnee Bend Sewer, and Shawnee Bend Water).

4 *Staff Expert/Witness: Keith D. Foster*

#### 5 **8. Miscellaneous Expense**

6 During the test year, the Company had numerous miscellaneous costs booked to  
7 expense account 975.00 – miscellaneous general expenses. After reviewing these expenses,  
8 Staff removed costs associated with charitable contributions and items that had no supporting  
9 invoice. After these adjustments were made, Staff determined that a three-year average was  
10 required to calculate the most appropriate level of miscellaneous expense that should be  
11 included in the cost of service, as there was no discernible trend from year to year.

12 *Staff Expert/Witness: Erin M. Carle*

#### 13 **9. Rate Case Expense**

14 In the previous case, Staff included the costs actually incurred by the Company to  
15 process the case and normalized that cost over a three-year period. At the time of direct filing  
16 for this current case, Lake Region had incurred minimal rate case expense during the test year  
17 and has provided a set of invoices to update the cost through mid-October, 2013. Staff is  
18 proposing to evenly spread this expense across the three operating systems and then to  
19 normalize the cost over a three-year period. Rate case expense will be included in the true-up  
20 portion of this case. Accordingly, Staff will continue to examine the actual costs relating to  
21 the processing of the rate cases filed by Lake Region and include all prudently incurred  
22 expenses in the cost of service analysis.

23 Staff supports the use of the small company rate case procedures for all companies  
24 that qualify, which Lake Region does. The Commission developed the small rate case  
25 procedures in a manner that allows the process to be stream-lined. This process enables the  
26 companies to file rate cases while incurring minimal rate case expense. If certain issues  
27 within the case are not able to be settled between all parties, the small company procedures  
28 still allows the Company the option to take specific items to hearing. For future cases, Staff  
29 encourages Lake Region to consider use of the small company rate case procedures for filing  
30 purposes in order to minimize rate case expense.

31 *Staff Expert/Witness: Erin M. Carle*

1                   **F. Other Operating Expenses**

2                   **1. Licenses and Permits**

3           Staff examined all invoices regarding license and permit expense beginning January 1,  
4 2010 through June 30, 2013, to verify the renewal frequency of all licenses and permits and  
5 determined an annual expense for all licenses and permits that the Company is required to  
6 obtain in order to provide service to its customers. Staff then made adjustments to the  
7 test year to reflect these normal, ongoing cost incurred by Lake Region. One expense was a  
8 construction permit for the lodge UV treatment plant; therefore it was moved/capitalized to  
9 Treatment and Disposal Equipment HB Account 372.10. Staff made other adjustments to the  
10 test year to remove non-recurring expenses and other expenses booked to the wrong account.

11 *Staff Expert/Witness: Ashley Sarver*

12                   **2. PSC/OPC Assessment**

13           On an annual basis, the Company is assessed a fee from the Commission based upon  
14 its revenues from the previous calendar year. This assessment is issued to the Company in  
15 July of each year and payable either as one sum or in quarterly installments due in July,  
16 October, January, and April. In July of 2013, the Company was assessed a total of \$79,287  
17 for the fiscal year ending June 30, 2014. This value is split between a water and sewer  
18 assessment on the invoice. To determine the appropriate amount for each sewer system to be  
19 billed, Staff used a percentage based on the Company's annualized sewer revenues to allocate  
20 the sewer portion of the PSC and OPC assessments. Included in the \$79,287 assessment is  
21 the amount of \$11,172 to fund OPC. Missouri House of Representatives Bill 7, section 7.185,  
22 approved on June 10, 2011, established that OPC should be funded through the PSC budget.  
23 Therefore, the total assessment amount includes amounts to fund OPC as well as the PSC.  
24 Previously, the OPC was funded through the general revenue fund and therefore, was not  
25 included in the PSC assessment. Staff has included this most recent total assessment amount  
26 as the ongoing annual expense level to include in the cost of service.

27 *Staff Expert/Witness: Erin M. Carle*

28                   **G. Depreciation and Depreciation Rate Overview**

29           Staff's recommended depreciation rates for Lake Region's water and sewer operations  
30 are shown in Appendix 3, Schedule AWR-1 and AWR-2. The rules followed by Staff as a

1 basis for applying depreciation to Lake Region's water and sewer utility plant accounts are:  
2 For water, the Code of State Regulations, 4 CSR 240-50.030 specifies the use of the Uniform  
3 System of Accounts (USOA) issued by the National Association of Regulatory Utility  
4 Commissioners (NARUC) in 1973, as revised in 1976. For sewer, 4 CSR 240-61.020  
5 specifies the use of the USOA issued by the NARUC in 1976.

6 For Lake Region, the basis for Staff's recommended depreciation rates are the Staff's  
7 standard depreciation rates schedules for small water and sewer companies. Staff's standard  
8 depreciation schedules were created decades ago by engineering experts in the Commission  
9 Staff Water and Sewer Unit. Depreciation rates from depreciation studies of large water and  
10 sewer companies in St. Louis, Kansas City, and St. Joseph areas were used as a basis and  
11 were subsequently modified over years of observations by Staff experienced in the operation  
12 and maintenance of small water and sewer companies. Periodic reviews of these schedules are  
13 conducted by engineering experts from EMSU and the Water and Sewer Unit. The most  
14 recent review was conducted in March of 2013, with an emphasis on the net salvage  
15 component of the standard depreciation rates for each class of small water and sewer  
16 company.

17 The general USOA definition of depreciation is:

18 The loss in service value not restored by current maintenance,  
19 incurred in connection with the consumption or prospective  
20 retirement of utility plant in the course of providing service  
21 from causes which are known to be in current operation and  
22 against which the utility is not protected by insurance. Among  
23 the causes to be given consideration are wear and tear, decay,  
24 action of the elements, inadequacy, obsolescence, changes in  
25 the art, changes in demand, and requirements of public.

26 This broad definition does not provide guidance as to the practice of computing a  
27 regulatory depreciation rate and applying depreciation expense as a component of customer  
28 rates. The basic formula for Missouri regulatory depreciation utilized by staff was defined by  
29 the Commission in a Report and Order issued March 10, 2005, for Empire District Electric  
30 Company in rate case, Case No. ER-2004-0570. The Commission-defined depreciation rate  
31 equation and component definitions are consistent with the USOA definitions and are  
32 represented as follows:



Depreciation Expense = (Depreciation Rate) \* (Total Original Cost of Plant in Service)

$$\text{Depreciation Rate \%} = \frac{100 - (\text{Net Salvage \%})}{\text{ASL}} = \frac{100}{\text{ASL}} - \frac{\text{Net Salvage \%}}{\text{ASL}}$$

The average service life (ASL) is the average number of years the dollars in a specific account are expected to remain in service. ASL is determined using past plant retirement history from the utility in question if sufficient history is available from that utility. If sufficient plant retirement history is unavailable, Staff reviews and considers the retirement histories of utilities with similar operations. Net salvage (also referred to as Salvage Value) is gross salvage minus the cost of removal. Cost of Removal is the cost of demolishing, dismantling, tearing down or otherwise removing utility plant, including the cost of transportation and handling incidental thereto. Net salvage is also determined using past retirement history from the utility in question if sufficient history is available from that utility, or if that history is unavailable, from the retirement histories of utilities with similar operations. Net salvage percentage is computed as follows:

$$\text{Net Salvage} = \text{gross salvage} - \text{cost of removal}$$

$$\text{Salvage \%} = \frac{\text{Net Salvage \$}}{\text{Retirement \$}} * 100$$

Gross salvage and cost of removal information is collected whenever plant and equipment is retired. This includes interim net salvage where equipment is replaced in an ongoing "living" utility system or terminal net salvage when an entire facility is removed from service and disposed.

Under the above traditional depreciation rate equation, the depreciation rate is applied to the total plant account's original cost. Net salvage is thus applied to the total plant in service in a straight line method over the expected life of the dollars in service. If the expected cost of removal exceeds the expected gross salvage, (producing a negative net salvage), the amount that should be in the accumulated reserves at the end of the ASL will be greater than the original cost. Example: If net salvage is a negative 10%, then at the end of the average service life, the accumulated reserves should exceed the original cost by 10%. And yes, as the physical equipment approaches its average expected service life for an account, that account will contribute a negative rate base component to the computation of

customer rates. It is in this manner that customers are compensated for accrued depreciation expense funds being held by the company for future use.

### **1. Staff's Depreciation Issues**

- a. Lake Region plant in service bookings for Shawnee Bend water well number 2 legal settlement with Shawnee Bend Development Company.
- b. Retirement, disposal and cost of removal of the Shawnee Bend waste water treatment lagoon system.
- c. Water well number 2 lighting strike insurance and cost of removal.
- d. Fire Hydrants improperly recorded as Transmission and Distribution Plant.
- e. Pumping and Water Treatment Plant improperly recorded as Wells and Springs.
- f. Original cost plant of \$240,000 in 2002 and \$38,535 in 2007 recorded as plant in service in the Horseshoe Bend accounts that is actually installed in the Shawnee Bend system.
- g. Rebalancing of accumulated reserves between plant accounts to correct for over and under accrual for some accounts.
- h. Staff's review of the Lake Region 2010 rate case found the depreciation rates used in the Staff Accounting Schedules were not consistent with the Depreciation Schedules attached to the Staff Report filed as Direct Testimony.
- i. Staffs recommended depreciation rates for Lake Region's water and sewer plant in service.

#### **a) Shawnee Bend Water Well Number 2 Recorded Cost Of Plant In Service Issues**

Shawnee Bend water well number 2 was drilled (with pumping equipment and well house installed) in 1998 for a development called The Villages at Shawnee Bend by Shawnee Bend Development Company LLC (SBDC) and later placed in utility service by Four Seasons Water and Sewer Company (Four Seasons). An agreement existed between Four Seasons and SBDC regarding payment by Four Seasons to SBDC for the transfer of the well installation, plus other water and sewer infrastructure to the Utility. Lake Region acquired the assets of Four Seasons, including the well number 2, a water distribution system and a sewer collection system at The Villages. The original cost plant records of Lake Region show estimated cost additions for "well connections," "street crossings" and "service connects" that were installed by SBDC and not paid for by Four Seasons or subsequently by Lake Region as of the True-Up date of the prior Rate Cases WR-2010-0111 and SR-2010-0110. Subsequent to these last rate cases, payments as a result of court settlements have been made by

1 Lake Region to SBDC for these assets that include court imposed penalties for late payment.  
2 Staff obtained documentation describing the original cost of the water well installation but not  
3 the water distribution or sewer collection assets. Lake Region entered into its plant records  
4 estimated costs due SBDC as plant in service at various dates from 2000 to 2009.  
5 Lake Region also entered as plant in service the payments made in 2010 and 2012 as ordered  
6 by the courts that included court imposed penalties. These book entries need adjustment to  
7 correct the books to actual original cost because these estimated cost entries and the court  
8 imposed penalties do not represent actual installed cost.

9 First, Staff made adjustments to remove (reverse) all identifiable prior Company plant  
10 addition entries related to estimated plant entries for SBDC "The Villages" recorded as  
11 "well connects," "street crossings," and "service connects" for The Villages. Staff also  
12 made adjustments to reverse the plant addition entries made by the Company in 2010 and  
13 2012 that represented payments to SBDC as a result of the Court settlement because  
14 these payments included Court imposed penalties as well as original cost. Staff then made  
15 adjustments to replace the Company's 2010 and 2012 entries with original costs as defined  
16 below. All of these reversals and the replacement entries were made as Staff adjustments at  
17 the end of test year date (6/30/2013) in the Staff Accounting Schedules. Staff's evaluated  
18 original cost is as follows:

19 i. The Well: Staff obtained a copy of a 1998 letter from SBDC to Four Seasons  
20 describing the original \$111,673 cost for the well, the pumping equipment, and the pump  
21 house structure. Staff recorded the \$111,673 as original cost to Lake Region's plant in service  
22 within the Shawnee Bend accounts. The Court ruling defined original cost of these assets as  
23 "well connects" at \$107,000. Thus, Lake Region paid \$4,673 less than Staff recorded as the  
24 original cost of plant in service. This \$4,673 difference was recorded by Staff as a  
25 contribution by the developer to the Shawnee bend accounts, (such costs are otherwise known  
26 as CIAC) to offset this difference for rate making.

27 ii. The Water Distribution System: The court defined Transmission and  
28 Distribution system assets as "street crossings" at an original cost of \$42,375. Staff recorded  
29 the \$42,375 as original cost to the transmission and distribution mains plant account.

1       iii.     The Sewer Collection System: The court defined sewer collection system  
2 assets as "sewer line upgrade" at an original cost of \$28,950. Staff recorded the \$28,950 as  
3 original cost to the Shawnee Bend transmission and distribution mains plant account.

4       Staff made no adjustments to the accumulated reserves associated with the assets  
5 described in i., ii. and iii. above. The estimated cost entries made by the Company resulted in  
6 depreciation expense accrued by the Company. Staff included the estimated cost in prior  
7 ratemaking as plant and as contributing to depreciation expense.

8                               **b) Retirement, Disposal and Cost Of Removal Of The Shawnee**  
9                               **Bend Waste Water Treatment Lagoon System**

10       The Shawnee Bend waste water treatment lagoon and irrigation disposal system was  
11 removed from service, the waste sludge removed under Missouri Department of Natural  
12 Resources (DNR) permits, and the earthen structure leveled with new vegetation planted. The  
13 majority of this activity occurred in 2012. Staff's review of the Company Fixed Asset Record  
14 found a plant addition of \$52,186 for the lagoon cost of removal as if it represented an  
15 original cost of plant in service. Staff also found a retirement entry of \$198,886 for the lagoon  
16 removal, reducing the plant in service and reserves by \$198,886. This \$198,886 retirement  
17 included the \$52,186 cost of removal.

18       Staff disagrees with these entries. Cost of removal is not an addition to plant in  
19 service. Cost of removal is charged to accumulated reserves. Staff's review of the Company  
20 Fixed Asset Record found a total of \$54,376 in cost of removal and \$151,290 in lagoon plant  
21 retirements, for a total reduction in accumulated reserves of \$205,666.

22       The lagoon system's initial in service date vintage is 1998. The 4.5% Commission  
23 ordered depreciation rate applied over the 13.5 year actual life of this lagoon system results in  
24 approximately \$87,000 in depreciation accruals. This is far short of the actual lifetime cost of  
25 \$205,666. Due to another error in the recording of original cost for sewer collection system  
26 receiving wells as higher depreciable pumping equipment, the pumping equipment account  
27 has an over accrual of depreciation reserves sufficient to offset the deficiency in reserves for  
28 this lagoon system. Staff has included adjustments in the Staff Accounting Schedules to  
29 transfer \$125,000 of reserves from the sewer Pumping Equipment account 363 to the  
30 Treatment and Disposal Equipment account 372.

1 Staff has not completed its investigation of the origin of the \$135,756 original cost  
2 shown on the Company books for the lagoon treatment system in 1999. Staff questions that  
3 the lagoon system original cost would be as high as \$135,756. Staff suspects that the cost of  
4 the land is included in this \$135,756. Staff notes that the total amount of land and land rights  
5 recorded for all of Shawnee Bend and Horseshoe Bend is low, at only \$5,985. If the cost of  
6 this land was recorded as Treatment and Disposal plant in service, then for rate making  
7 purposes, the land became depreciable plant with depreciation expenses included in customer  
8 rates. All depreciable plant when sold is treated as salvage, and the proceeds of the sale are to  
9 be recorded to reserves as salvage. If further investigation shows the sale or transfer of this  
10 land should be treated as salvage, the recording of the sale proceeds to the accumulated  
11 depreciation reserve should significantly reduce the deficiency created in reserves by the  
12 lagoon system retirement. Land is not normally a depreciable utility asset, but if the  
13 Company includes land in depreciable plant account, then the rate payers are due  
14 compensation when the land is sold.

15 **c) Water Well Number 2 Lighting Strike Insurance And Cost**  
16 **Of Removal**

17 In 2012, the well number 2 electrical system and submersible pump motor was  
18 damaged by lighting. The Company recorded the total cost to repair, \$15,239.86, as new plant  
19 in service to USOA account 325, Pumping Equipment. Staff estimated the cost of removal at  
20 \$1,000. Staff adjusted this amount by removing cost of removal from the plant addition and  
21 reducing depreciation reserves by \$1000.

22 The Company also recorded a reduction in plant for retirements and insurance  
23 proceeds of \$13,546. Using the Company's accountant's work papers, Staff found the  
24 retirement for the damaged equipment to be \$10,870 and the insurance proceeds to be \$9,200.  
25 Staff made adjustments to reverse the Company entry of \$13,546 and record a \$10,870  
26 retirement to reduce plant and reserves. For regulatory rate making purposes, insurance  
27 proceeds are generally treated as salvage and credited to reserves. (This treatment of  
28 insurance proceeds serves to recognize the compensation the Company has received for the  
29 insured plant and give customers credit for the payment in the reserves.) Staff applied the  
30 \$9,200 of insurance proceeds to increase the accumulated reserves for the account. In  
31 summary, Staff's entries resulted in an increase in Pumping Plant in service of \$14,239.86 and

1 a decrease in accumulated reserves of \$2,670, (\$9,200 insurance minus \$10,870 retirement  
2 and minus \$1,000 cost of removal).

3 **d) Fire Hydrants Improperly Recorded As Transmission And**  
4 **Distribution Plant**

5 Staff noted an entry in the Company books (\$1,187 in Structure and Improvements for  
6 2012) for the replacement of the internal parts of a fire hydrant. Staff also noted that the  
7 Company did not have a plant account for fire hydrants and did not show fire hydrants as an  
8 item in any plant account. Staff inquired as to the quantity and nature of fire hydrants in the  
9 Lake Region system. John Summers, Lake Region's General Manager, responded by email  
10 that the cost of fire hydrants were included as lump sum book entries for new distribution  
11 plant in service. Mr. Summers also stated the quantity and cost of fire hydrants as: one (1)  
12 installed in 1997, three (3) in 2004, and four (4) in 2007 at an estimated cost of \$2,500 to  
13 \$3,500 each.

14 Staff introduced the use of USOA account 348 for Hydrants and transferred \$24,000  
15 (\$3,000 multiplied by 8 hydrants) from Transmission and Distribution, plus the \$1,187 from  
16 Structures and Improvements, to the Hydrants Account 348. Staff recorded an adjustment to  
17 retire \$594, (estimated by Staff) for the replaced fire hydrant internal parts. Staff also made  
18 adjustments to transfer the associated accumulated reserves (\$3,840) to the newly created  
19 Hydrant account.

20 **e) Pumping And Water Treatment Plant Improperly**  
21 **Recorded As Wells And Springs**

22 Company records for the number 1 water well show pumping equipment and  
23 treatment equipment recorded improperly as USOA Account 314, Wells. Account 314 is only  
24 for such costs as DNR water well permits, geological engineering, well drilling, and the well  
25 casing. Account 314 is assigned a depreciation rate of 2.0%. The cost for items, such as the  
26 associated pipe and valves, pumps and motors, electrical supply, and instrumentation and  
27 controls, should be recorded in USOA Pumping Equipment Account 325. Pumping  
28 equipment is assigned a depreciation rate of 10%. USOA Water Treatment Account 332 is  
29 for the cost of any water treatment such as chlorination supply, mixing and associated  
30 controls. Account 332 is assigned a depreciation rate of 2.9%. Thus, the recording of plant

1 cost to improper plant accounts results in depreciation expense accruals for rate making that  
2 do not accomplish the goal of approximating actual consumption of installed plant.

3 For well number 1, Staff made adjustments, effective at the end of the test year  
4 (6/30/2013) to transfer costs identified by Staff as improperly recorded in USOA  
5 Account 314. Staff made adjustments for plant and depreciation reserves as follows:

6	Plant Amount	Reserve Amount	From Account	To Account
7	\$53,379	\$7,774	USOA 314	USOA 325
8	\$ 2,676	\$225	USOA 314	USOA 332

9 The reserve amounts appear low because they are low. The Wells Account 314 that  
10 these assets have been recorded in only carries a 2.0% depreciation rate.

11 For the well number 2 system, a similar situation exists in that many of the Company's  
12 estimated cost plant bookings were also recorded in improper accounts. As noted in issue a)  
13 above, the actual installed cost for the well number 1 system is entered by Staff as  
14 adjustments at the end of test year date June 30, 2013. Staff also made adjustments at the end  
15 of test year date to reverse all of the Company's well number 2 estimated cost entries  
16 identifiable by Staff.

17 Depreciation expense for well number 2 equipment was recorded by the Company as  
18 "well connects" in its plant in service costs, and Staff relied upon those records in prior rate  
19 cases to determine customer rates. Staff concluded that any reversal of accumulated reserves  
20 associated with the plant adjustments made by Staff for the Company's recorded  
21 "well connects" and also any imputation of reserve adjustments for the well number 2 costs  
22 by Staff at the June 30, 2013 date would be a form of retroactive rate making. Therefore,  
23 Staff made no attempt to evaluate or make adjustments to depreciation reserves for  
24 well number 2 original cost or any adjustments to reserves associated with the plant assets  
25 involved in the SBDC law suit(s).

26 **f) Original Cost Plant Of \$240,000 In 2002 And \$38,535 In**  
27 **2007 Recorded As Plant In Service In The Horseshoe Bend**  
28 **Accounts That Is Actually Installed In The Shawnee Bend**  
29 **System**

30 In 2002, the Company mistakenly recorded \$240,000 of Shawnee Bend Sewer lift  
31 station pumping equipment to Horseshoe Bend Sewer Pumping Equipment. In addition,

1 \$240,000 of CIAC was also recorded to the Horseshoe Bend Sewer accounts. Staff entered  
2 adjustments in this case at the test year end date (June 30, 2013) to transfer \$240,000 of plant  
3 and \$240,000 of CIAC from Horseshoe Bend Sewer to Shawnee Bend Sewer. In addition,  
4 Staff made adjustments to transfer the associated depreciation reserves, 12 ½ years of accrued  
5 depreciation at 10% (\$300,000), and \$44,895 of amortized CIAC.

6 Staff's review of the Company Fixed Asset Records identified \$305,649 of collection  
7 sewers improperly recorded in 2007 as Horseshoe Bend "Plant Sewers" and subsequently  
8 depreciated at 4.5% as if it was Treatment and Disposal Equipment. This collection sewer  
9 piping should have been recorded as Collection Sewer Account 352 with a depreciation rate  
10 of 2.0%. The Company and Staff in the prior rate case used the 4.5% depreciation rate for  
11 this equipment. Further review by Staff identified that \$38,535 of this plant was installed in  
12 the Shawnee Bend Sewer collection system, not the Horseshoe Bend Sewer collection system.  
13 The new plant addition included both force mains and gravity mains. The information Staff  
14 has indicates that part of this \$305,649 plant addition may have CIAC associated with it.  
15 At this time, the adjustments Staff shows in the Staff Accounting Schedules assume there is  
16 no CIAC associated with this \$305,649. Staff will continue to seek information to determine  
17 if the \$38,535 attributable to Shawnee Bend Sewer plant in service has CIAC that was also  
18 recorded to the Horseshoe Bend Sewer accounts. Staff made adjustments at the end of  
19 test year date (6/30/2013) to transfer this \$305,649 and its associated accumulated reserves  
20 as follows:

21

Plant Amount	Accumulated Depreciation Reserve Amount	From Account	To Account
\$38,535	\$9,537	Horseshoe Bend USOA 372	Shawnee Bend USOA 352.1
\$207,341	\$51,317	Horseshoe Bend USOA372	Horseshoe Bend USOA 352.2
\$59,744	\$14,794	Horseshoe Bend USOA372	Horseshoe Bend USOA 352.1

22  
23 USOA Account 352.1 is force (pressurized) collection mains, and Account 352.2 is  
24 gravity collection mains.



1                                   g) **Rebalancing Of Accumulated Reserves Between Plant**  
2                                   **Accounts To Correct For Over And Under Accrual For**  
3                                   **Some Accounts**

4           In addition to the \$125,000 reserve transfer to rebalance reserves in the Shawnee Bend  
5   Waste Water Treatment and Pumping accounts described in the Shawnee Bend lagoon  
6   retirement section above, a \$25,000 reserve transfer is recommended to rebalance reserves in  
7   the Horseshoe Bend accounts. Staff identified improper recording of lift station receiving  
8   well equipment as lift station pumping equipment by both the Company and by Staff in the  
9   prior rate case. The result is that the receiving well equipment, depreciable at 4.0%, was  
10   recorded as pumping equipment and depreciated at 10%. Transfer adjustments were made by  
11   Staff at the test year end date to move approximately \$77,000 plant and \$44,000 of associated  
12   reserves from the Pumping Equipment account (USOA 363) to the Receiving Wells account  
13   (USOA 362). This transfer resulted in reserves balances for these two accounts that are not  
14   consistent with the realized life and depreciation rates for these accounts. Staff made an  
15   additional adjustment to transfer \$25,000 of reserves from Account 362 back to Account 363  
16   to restore the reserves for these accounts to a more reasonable level consistent with the  
17   equipment ages within the accounts.

18                                   h) **Staff's Review Of The Lake Region 2010 Rate Case Found**  
19                                   **The Depreciation Rates Used In The Staff Accounting**  
20                                   **Schedules Were Not Consistent With The Depreciation**  
21                                   **Schedules Attached To The Staff Report Filed As Direct**  
22                                   **Testimony**

23           Depreciation Schedules for water and sewer were attached to the Staff report  
24   submitted as Direct Testimony. A review of the Staff Accounting Schedules show that the  
25   Depreciation Rate Schedules attached to the Staff report were not incorporated as the  
26   depreciation rates used to determine the revenue requirements for the 2010 water and sewer  
27   rate cases.

28           The Commission Report and Order for the 2010 rate case did not specify or reference  
29   depreciation rates. The Commission Report and Order did reference and specify under  
30   section D. Stipulations: item 1, "The Parties do not dispute the information contained within  
31   the Staff Accounting Schedules-Utility Service, filed on January 14, 2010, and subsequently  
32   updated as of February 8, 2010."

Staff's interpretation of this is that the depreciation rates used in the January 14, 2010, accounting schedules are the appropriate depreciation rates to use for Staff's review and audit of depreciation expenses and accruals includable in determining revenue requirement for the current rate case.

**i) Staff's Recommended Depreciation Rates For Lake Region's Plant In Service**

Staff's recommended depreciation rates are the Staff's Standard Small Water and Sewer company depreciation rates with modifications to two of the General Plant accounts.

For sewer, plant Account 392, Transportation Equipment, is over accrued by approximately 200% and has been assigned a depreciation rate of 0.0%.

Plant account 392.1, Transportation Equipment (Pump Truck), is an account for heavy trucks that is not normally used for small companies. A depreciation rate of 5.3% is recommended for this account. This 5.3% rate was derived for heavy truck equipment in a recent deprecation study conducted by Kansa City Power & Light (KCPL) on KCPL Greater Missouri Operations heavy truck equipment.

For small water and sewer companies, General Plant consists of equipment that is often shared between the water and sewer operations. It has become common practice to assign the same depreciation rates to the same USOA numbered accounts for both water and sewer. Thus, even though currently the water plant in service has no assigned plant for accounts 392.0 and the 392.1, the same rates (0.0% and 5.3%) are listed on the water depreciation schedules.

Staff's recommended depreciation rates for Lake Region's water and sewer operations are shown in Appendix 3, Schedule AWR-1 and AWR-2.

*Staff Expert/Witness: Arthur W. Rice*

**H. Property Tax**

Property taxes are those taxes assessed by state and local county taxing authorities on a utility's "real property" as of January 1<sup>st</sup> of each year. On the first of each year, utilities are required to file with the taxing authorities a valuation of its utility property owned as of the January 1 assessment date. Property tax bills are issued to the utilities with "due dates" by December 31 of the same year.

1 Staff determined its adjustment for property taxes by developing a property tax rate to  
2 be applied to total plant in service as of January 1, 2013. To develop the property tax rate for  
3 this case, the Staff divided the amount of total property taxes due in calendar year 2012 by the  
4 total plant in service for January 1, 2012. This property tax rate was then applied to total  
5 plant in service on January 1, 2013, to arrive at annualized property taxes. The annualized  
6 property tax expense was then subtracted from test year property tax expense to derive the  
7 adjustment.

8 *Staff Expert/Witness: Ashley Sarver*

## 9 **I. Income Tax**

### 10 **1. Current Income Tax**

11 The calculation of current income tax expense is necessary to include as part of the  
12 revenue requirement to ensure that any given dollar increase in revenues is actually collected  
13 in rates. In other words, because the Company has to pay some portion of its earnings as  
14 income taxes to the state and federal taxing authorities, a level of income tax expense has to  
15 be collected in rates. If income taxes were not considered in rates, then the Company would  
16 not fully collect sufficient revenues to cover all its costs and would not have an opportunity to  
17 earn its authorized rate of return. For the utility to recover the full revenue increase, it has  
18 to collect a portion of revenue for income taxes in its rate structure in addition to the  
19 revenue amount determined by the Commission to be appropriate before factoring up for  
20 income taxes.

21 Current income tax expense is calculated by applying the statutory state and federal  
22 tax rates to Staff's taxable income amount. Expenses, as adjusted by Staff, are deducted from  
23 revenues to arrive at the net operating income before income taxes. Then, adjustments are  
24 made to convert net operating income to taxable income. These adjustments include  
25 deductions for tax depreciation and interest expense. The interest tax deduction was calculated  
26 using the interest synchronization method of applying the weighted cost of debt in the capital  
27 structure (that was determined by Staff Witness Shana Atkinson of the Commission's  
28 Financial Analysis Unit) to the Staff's rate base. The depreciation deduction is derived by  
29 reflecting within the taxable income calculation the higher amount of depreciation expense  
30 using "accelerated tax depreciation" methods the Company can reflect on its income tax  
31 returns, compared to the amount of straight-line book depreciation expense included in Staff's

1 net operating income calculation. After all the expenses and tax deductions are made, the  
2 resulting amount is the taxable income to which the income tax rates are applied.

3 *Staff Expert/Witness: Keith D. Foster*

## 4 **2. Deferred Income Tax**

5 When a tax timing difference is reflected for ratemaking purposes consistent with the  
6 timing used in determining the taxable income amount for current income tax due under the  
7 Internal Revenue Code (IRC), the timing difference is given "flow-through" treatment. When  
8 a current year timing difference is deferred and recognized for ratemaking purposes in a way  
9 that is consistent with the timing used in calculating pre-tax operating income in the financial  
10 statements, then that timing difference is given "normalization" treatment for ratemaking  
11 purposes. Deferred income tax expense for a regulated utility reflects the tax impact of  
12 "normalizing" tax timing differences for ratemaking purposes. IRS rules for regulated  
13 utilities require normalization treatment for the timing difference related to accelerated tax  
14 depreciation.

15 The Exhibit Modeling System (EMS) used by Staff to calculate income taxes in small  
16 water and sewer cases calculates income tax expense as a whole and does not break out this  
17 amount between current income tax and deferred income tax.

18 *Staff Expert/Witness: Keith D. Foster*

## 19 **VIII. Service Quality**

### 20 **A. Customer Service and Business Operations Review**

21 The EMSU staff examined the Company's tariffs, Commission complaint and inquiry  
22 records, and other documentation related to the Company's customer service and business  
23 operations. In preparation of this testimony, the EMSU staff submitted data requests to the  
24 Company on August 21, 2013, and conducted interviews with Company personnel located in  
25 Lake Ozark, Missouri, on September 17, 2013.

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

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

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

- 8 • Meter Reading
- 9 • Customer Billing
- 10 • Payment Remittance
- 11 • Credit and Collections
- 12 • Complaints and Inquiries
- 13 • Customer Communication
- 14 • Records and Documentation Retention

15 This section of the Cost of Service Report contains the results of the EMSU staff's  
16 review.

#### 17 **B. Overview**

18 The Company has an office located at 62 Bittersweet Road in Four Seasons, Missouri,  
19 which is open from 8:00 a.m. to 4 p.m. Monday through Friday. The office is staffed during  
20 that time with one (1) to three (3) employees. Office personnel are responsible for all  
21 administrative functions associated with Lake Region such as billing, payment remittance,  
22 financial account posting, and credit and collection functions. Seven (7) field personnel are  
23 available for outside construction, maintenance and service calls. The employees that  
24 complete activities for Lake Region are actually employed by the PWSD4. These same  
25 employees also perform work for Ozark Shores. Employees do not have written job  
26 descriptions and, with the exclusion of the General Manager, complete time sheets which are  
27 submitted every two (2) weeks for payroll processing. Time sheets are reviewed by the  
28 General Manager or Accountant who may make alterations to the time sheets. Contracts are  
29 formalized between Lake Region and the PWSD4 for the labor and equipment utilized by  
30 Lake Region. Other external contractors are paid on a per project basis. Vehicle logs are not

1 used to track vehicle miles associated with performing work activities. The rates for PWSD4  
2 are not regulated by the Commission since it is a public water supply district.

3 Outside of normal office hours, the Company utilizes an automated attendant to  
4 answer calls and gives instructions for the customer to leave a message if it is not an  
5 emergency situation. For emergency service, the customer is prompted to input their phone  
6 number, and they will be contacted by service personnel. The Company forwards these calls  
7 to a pager because of unreliable cell phone service in the area. Pager rotation is weekly for all  
8 field employees. Field operators perform maintenance and repairs, as needed, on holidays and  
9 weekends. In addition, the Camden County Sheriff's office and a property management  
10 company have mobile phone numbers for a number of the Company personnel.

### 11 C. Meter Reading

12 The Company installed Hersey Easy Reader automated meter reading software in  
13 2009. A Company employee is able to drive by service locations to obtain radio reads of the  
14 meters. Reports generated by Easy Reader software are in Crystal Reports, QuickBooks Pro  
15 and Microsoft. Less than ten (10) meters each month require a manual read for various  
16 reasons. The Company attempts to read meters around the 25th of each month.

17 The Company currently does not have bill estimation procedures in its tariff.  
18 Lake Region indicated that the need to estimate usage is rare and that bad weather such as  
19 snow or ice would be an instance in which estimation would be necessary.

### 20 D. Customer Billing

21 Customers may initiate service by visiting or calling the office. If the customer visits  
22 the office, they will be required to complete an application for service at that time. Callers  
23 will be sent an application via mail, email, or fax which must be returned to the Company.  
24 The Company has received and processed the following number of applications over the last  
25 several years and believes that increases in housing construction have caused the number of  
26 new applications to slightly increase.

27

Year	Water	Sewer
2011	1	1
2012	5	6
2013 (ytd 8/28/2013)	5	5

28 *Source: Company response to Data Request #40*

1 Company personnel indicated they do not require a security deposit as a condition for  
2 providing service. The Company's tariff includes procedures allowing a credit check and  
3 security deposit in the event it is necessary. At this time, the Company is holding only one  
4 customer deposit of a commercial customer.

5 Continental Utility Billing Solutions, Inc. is the billing software utilized by the  
6 Company to maintain customer account records and prepare monthly billing statements.  
7 Hersey Easy Reader is used for reading meters. The current process used by the Company for  
8 billing requires the Billing Clerk to download the meter information from the automated  
9 Easy Reader which can take approximately three (3) to four (4) hours. Once the download is  
10 complete, the file is loaded into the billing system at which time any unread meters are  
11 compiled in an exception report for the field technician to manually read meters as close as  
12 possible to the 25th day of the month. A pre-billing report is generated once all meter  
13 information has been collected and is reviewed by the Billing Clerk. Discrepancies are  
14 provided to the field technician who verifies the data for accuracy prior to printing and  
15 mailing of customer bills. The Company does not use preset parameters to flag abnormalities.  
16 Large fluctuations in usage may occur as many homes are seasonal homes and do not exhibit  
17 normal usage patterns. Bills are generally mailed prior to the first day of the month.

#### 18 **E. Payment Remittance**

19 Customers' payment options include cash, check, money order and Auto Pay  
20 Company management estimates that approximately 65% of the customers pay by check.  
21 The Auto Pay option allows the customer to have the total due deducted from their checking  
22 account on the 20th of each month, or the first business day thereafter. Currently, 105 or  
23 approximately 20% of total customers are participating in the Auto Pay option. Payments  
24 may be received at the office location, and a drop box is available for payments during non-  
25 business hours. Customers may also remit payment by mail. The Company picks up mail  
26 and checks the drop box daily. Payments are normally posted the day received. After the  
27 payments have posted, any payments that are received will be posted the following business  
28 day. Payments may be held during the billing period for up to one (1) to two (2) days, but all  
29 payments will be deposited and recorded prior to generating new bills to reflect the correct  
30 amount due.

1                   **F.     Credit and Collections**

2           Customers are allowed a minimum of twenty-one (21) days from the rendition of the  
3 bill to pay the utility charges before they are considered delinquent each month. A late fee of  
4 \$6.50 is added per notice per month and only applies when the discontinuance notice is  
5 mailed. Only one charge applies to a customer that is billed for water and sewer on the same  
6 bill. A letter is sent with a due date of ten (10) days from the date mailed for customers to pay  
7 100% of past due balance. The Company indicates it works with customers on a case-by-case  
8 basis if the customer contacts them. If the Company has not received payment by the  
9 10<sup>th</sup> day, the Company will deliver to the customer a notice that service will be discontinued  
10 in 24 hours if the balance is not paid. If payment is not received within 24 hours of the notice,  
11 service is discontinued and a final shut-off notice is delivered. Reconnection fees per the  
12 tariff will be added to the balance due. Once payment is received or an agreement on a  
13 payment schedule is reached, service is restored.

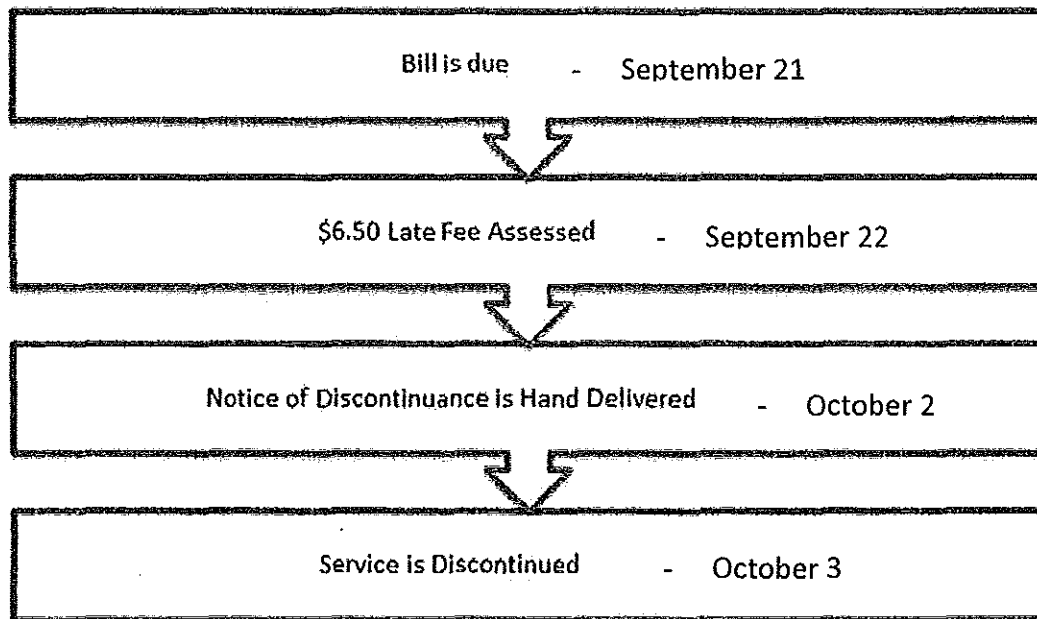
14           Lake Region currently hand delivers a Notice of Discontinuance that is prepared after  
15 the delinquent date has passed and at least twenty-four (24) hours before discontinuance of  
16 service. This notice includes information regarding all fees associated with discontinuance  
17 of service and restoration of service, the date on which services will be terminated for  
18 non-payment, and instructions to avoid discontinuance of service. The Company technician is  
19 authorized to accept a check for the full amount that the customer owes. If a customer pays  
20 the technician at the time of disconnection, the customer would avoid the discontinuance of  
21 service and the associated fee of \$31. Under its tariffs, the Company is allowed to collect a  
22 \$31 disconnect fee and a \$31 reconnect fee.

23           A notice is left at the premise whenever service is discontinued. When service is  
24 discontinued due to a delinquent non-pay account, the customer is required to pay the balance  
25 due including the late fee that was previously applied, a \$31 disconnect fee, and a  
26 \$31 reconnect fee during normal business hours. During non-business hours, the customer  
27 will be assessed a reconnect fee of \$70.00. Service is restored as soon as possible once  
28 payment has been received. There is no charge to customers for routine requests of  
29 termination or reconnection that allows the company a lead time of five (5) business days.

30           The following illustrates the actions the Company would follow on a delinquent  
31 account. This illustration reflects a bill that was mailed August 30, 2013, with a due date of



3 September 21, 2013. The Company's billing system automatically adds 21 days to the  
4 statement date in order to establish the due date at least 21 days out.  
4



5  
13 The Company indicated it attempts to avoid discontinuance of service late in the week  
14 to ensure customers are not without service on non-business days. Lake Region does not  
15 track the number of disconnection notices delivered for non-payment. Notices are discarded  
16 once the account is settled and appropriate notes are made in the billing system.  
17 The Company indicated approximately 90-100 late fees are assessed per month and  
18 that delinquent paying customers generally pay before the discontinuance notice is delivered.  
19 Of the mailed notices, approximately 20 are for customers who are two (2) months behind and  
20 generally half of those will respond with payment after the letter.

19 The Company indicated it received two (2) insufficient funds checks in 2010, one (1)  
20 in 2011, and one (1) in 2013. The Company tariff allows for a \$25.00 returned check fee.  
21 The Company reported \$9,115 in bad debt write-offs for the period of February 2011 through  
22 August 2013. A log is kept in a Microsoft Excel spreadsheet that details account numbers,  
23 names, amounts, gallons and reasons for adjustments. The Company does not use a collection  
24 agency and does not have plans to pursue the use of one.

1                   **G. Complaints and Inquiries**

2           Customers may call, mail, fax or email complaints or inquiries to the Company. Most  
3   contacts begin with a phone call. Calls are generally answered by the Billing Clerk who can  
4   access customers' billing history and attempt to resolve their inquiries. If the Billing Clerk is  
5   unable to resolve the issue, the call is transferred to the General Manager. If the  
6   General Manager is unable to resolve the issue, the number to the Commission's Utility  
7   Consumer Hotline is provided. The Company currently does not maintain a customer  
8   complaint log.

9                   **H. Customer Communication**

10          The Company has a written information brochure which contains necessary  
11   information required by Commission Rule 4 CSR 240-13.040. Brochures are available to  
12   customers at the office and new customers are given one when applying for service.

13                  **I. Records and Documentation Retention**

14          Lake Region maintains a folder on each service location containing the applications  
15   received. Customer history, payments, and meter information is maintained in the billing  
16   system. The Company indicated it follows the guidelines found in 4 CSR 240-50.020 for  
17   record preservation. The Company indicated it has not discarded any records since  
18   October 2004 except paper records which duplicate information kept electronically.

19                  **J. Findings, Conclusions, and Recommendations**

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

- 24                   • Job Descriptions
- 25                   • Time Records
- 26                   • Vehicle Logs
- 27                   • Billing Estimation Procedures
- 28                   • Customer Complaint/Inquiry Log
- 29                   • Credit and Collections

## 1. Job Descriptions

Employees that complete the work activities for Lake Region do not have written job descriptions defining their activities and responsibilities. It is a basic business practice to have job descriptions for each position as they provide employees and supervisors a framework for understanding each employee's role at the Company. The job description can assist in employee training and development, workflow analysis, the clarification of relationships between jobs and work assignments, as well as determining appropriate staffing levels. Other factors to be considered in a job description include the employee evaluation process, promotion and disciplinary action, and salary structure. The lack of job descriptions makes it more difficult to determine each employee's job functions. Written job descriptions become even more important within companies that perform regulated and unregulated activities to document expectations and responsibilities.

The EMSU staff encourages the Company to develop job descriptions for all personnel to adequately reflect the employees' current job duties and responsibilities.

### **THE EMSU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

Develop written job descriptions for each position at the Company that adequately reflects the employees' current job duties and responsibilities. This recommendation should be completed within ninety (90) days of the effective date of any Commission order issued in this case, WR-2013-0461.

## 2. Time Records

Time records are not kept by all employees conducting work activities for Lake Region and records are routinely altered by supervisors during the review process. The Company's General Manager does not maintain time records to document his time to complete his work activities for the Company. A time record provides an important method to document the specific work and time attributable to it and should be utilized by all employees.

Maintaining accurate time records can serve and support several purposes such as planning, budgeting, and staffing. Time records assist in tracking the amount of time employees expend on all projects, enabling schedules of required work to increase operational efficiencies. Accurate and detailed time sheets create a record and serve as visual feedback to personnel and the employees of the work and projects that have been accomplished. Data

1 contained in time records should be linked to accounting records and provide the necessary  
2 support for financial reporting and allocation of costs. Employee time records are useful in  
3 the regulatory process to support the salaries and benefits that regulated utilities will receive  
4 in customer rates. In situations where employees' work activities are shared among several  
5 different companies, it becomes even more important to utilize time sheets that reflect the  
6 actual work performed.

7 It is the opinion of the EMSU staff that the Company could improve the accuracy and  
8 usefulness of its employee time records by using a standard form time sheet to track the  
9 specific work activities of employees with the hours and location of those activities. Time  
10 sheets should include a signature certifying that the information is true and correct. If any  
11 corrections are made to the sheet by supervisors, this should be verified by the employee with  
12 an additional signature.

13 **THE EMSU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

14 Develop and utilize time sheets for all employees to record work assignments and the  
15 time associated with each work assignment. Incorporate signatures to verify the  
16 accuracy of the information recorded. This recommendation should be completed  
17 within ninety (90) days of the effective date of any Commission order issued in this  
18 case, WR-2013-0461.

19 **3. Vehicle Logs**

20 Company employees do not currently log the mileage associated with jobs while using  
21 Company vehicles. This lack of written documentation makes it difficult to ensure that  
22 Company vehicles are being used for Company-related activities. An appropriate vehicle log  
23 would provide useful information including the vehicle type, date, a general description and  
24 location of the task, and the miles driven attributable to the task.

25 **THE EMSU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

26 Develop and utilize a written vehicle log to maintain information regarding vehicle  
27 usage. The log should include information regarding the date, description and  
28 location of the task and the miles attributable to it. This recommendation should be  
29 completed within ninety (90) days of the effective date of any Commission order issued  
30 in this case, WR-2013-0461.

31 **4. Billing Estimation Procedures**

32 The Company has not submitted its billing estimation procedures for approval to the  
33 Commission per CSR 240-13-020 (2), which states:

1 (2) Each billing statement rendered by a utility shall be computed on the  
2 actual usage during the billing period except as follows:

3 (C) Under no circumstances shall a utility render a bill based on  
4 estimated usage –

5 1. Unless the estimating procedures employed by the utility and  
6 any substantive changes to those procedures have been  
7 approved by the commission;

8 The Company indicated it seldom has a need to estimate bills except under conditions  
9 of extreme weather. However, there are benefits to having an approved procedure in the  
10 event the Company is forced to estimate bills. Given the existence of the rule requiring  
11 Commission approval of the procedures, the Company needs to address formalizing a  
12 procedure and submitting it for Commission approval.

13 **THE EMSU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

14 Develop and maintain billing estimation procedures for Commission approval which  
15 would ensure the Company adheres to Commission Rule 4 CSR 240-13.020(2)(C. This  
16 recommendation should be completed within (30) days of the effective date of any  
17 Commission order issued in this case, WR-2013-0461.

18 **5. Customer Complaint/Inquiry Contact Log**

19 The Company does not maintain a record of customer contacts regarding complaints  
20 or inquiries. The Commission's Utility Billing Practices 4 CSR 240-13.040 specifies that  
21 utilities are required to maintain records on their customers for at least two (2) years relating  
22 to "The number and general description of complaints registered with the utility."

23 In addition to the Commission rule which applies to water utilities, Commission Rule  
24 4 CSR 240-60.010(4) applicable to sewer companies' states:

25 The utility shall maintain a file of customer complaints received  
26 on the service it provides. The file shall include the name and  
27 address, as well as the nature of the complaint and date of  
28 occurrence. A detailed explanation of what the utility did to  
29 correct the trouble which originated the complaint shall be  
30 recorded.

31 The availability of documented complaint information is a good tool which would  
32 enable Company management to evaluate the reasons customers contact the Company and  
33 determine if any measures could be taken to improve customer satisfaction. This would also  
34 illustrate the Company's responsiveness in addressing customer issues.

1       **THE EMSU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

2       Develop and implement a process to ensure all customer complaints received by  
3       Company personnel are documented and maintained for at least two (2) years.  
4       Documentation requirements shall adhere to Commission Rules 4 CSR 240-13.040  
5       and 4 CSR 240-60.010(4) and include the customer name, address, nature of  
6       the complaint, date of occurrence, as well as an explanation of what the Company  
7       has done to address the complaint. This recommendation should be completed  
8       within thirty (30) days of the effective date of any Commission order issued in  
9       case WR-2013-0461.

10       **6. Credit and Collections**

11       The Company does not assess the customer fees and charges that have been approved  
12       in its tariffs in instances where the customer has caused a trip to the premise for a non-pay  
13       discontinuance of service. Once all of the appropriate actions have been taken prior to a  
14       non-pay discontinuance of service, the Company will send a serviceman to the residence with  
15       the intent to discontinue service. A notice is left at the residence to inform the customer what  
16       has occurred. In some instances, the customer will pay the Company the balance due at this  
17       time in order to avoid the discontinuance of service. The Company employee is authorized to  
18       accept the total amount in a check and forgo discontinuing the service. However, the  
19       customer is not charged for the trip the employee made to the residence to discontinue the  
20       service. Customers causing the costs of the trip to discontinue service due to delinquent  
21       nonpayment should be held responsible for the costs. The customers who cause the costs bear  
22       the expense if such an arrangement is specifically provided for in the Company's tariffs,  
23       which is the case with Lake Region.

24       **THE EMSU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:**

25       Utilize the Company's tariffs to charge customers the disconnect charge when the  
26       Company makes a trip to the location to discontinue service and the customer then  
27       pays the total due to avoid the discontinuance of service. This recommendation should  
28       be completed within thirty (30) days of the effective date of any Commission order  
29       issued in this case, WR-2013-0461.

30       **K. Implementation Review**

31       The EMSU staff will conduct a review of the Company's progress regarding the  
32       implementation of the recommendations made in this report.

33       Staff Expert/Witness: Deborah A. Bernsen

**IX. Appendices**

Appendix 1: Staff Credentials

Appendix 2: Support for Staff Cost of Capital Recommendation – Shana Atkinson

Appendix 3: Allocation Factors Used – Keith D. Foster

Depreciation Rates – Arthur Rice

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**


In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a )  
General Rate Increase in Water & Sewer )  
Service )

Case No. WR-2013-0461

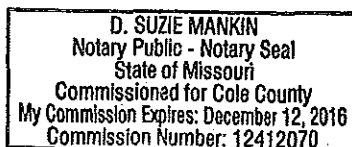
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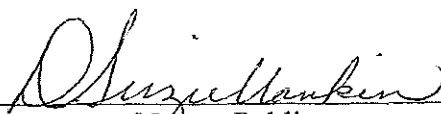
STATE OF MISSOURI     )  
                                  )  
COUNTY OF COLE     )     ss.

Shana Atkinson, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

  
\_\_\_\_\_  
Shana Atkinson

Subscribed and sworn to before me this 14<sup>th</sup> day of November, 2013.



  
\_\_\_\_\_  
Notary Public



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

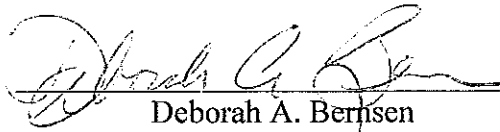
In the Matter of Lake Region Water & Sewer )  
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Service )

Case No. WR-2013-0461

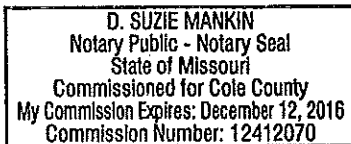
AFFIDAVIT OF DEBORAH A. BERNSEN

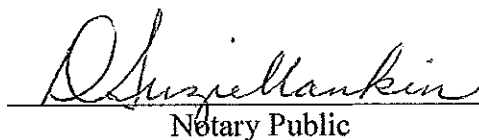
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Deborah A. Bernsen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

  
Deborah A. Bernsen

Subscribed and sworn to before me this 15<sup>th</sup> day of November, 2013.



  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

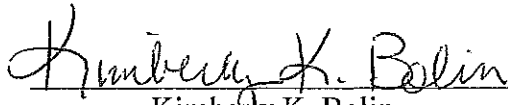
In the Matter of Lake Region Water & Sewer )  
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Service )

Case No. WR-2013-0461

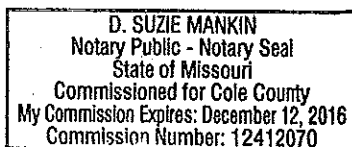
**AFFIDAVIT OF KIMBERLY K. BOLIN**

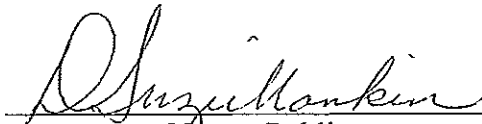
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

  
Kimberly K. Bolin

Subscribed and sworn to before me this 15<sup>th</sup> day of November, 2013.



  
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a )  
General Rate Increase in Water & Sewer )  
Service )

Case No. WR-2013-0461

AFFIDAVIT OF ERIN M. CARLE

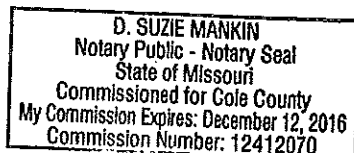
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Erin M. Carle, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Erin M. Carle

Erin M. Carle

Subscribed and sworn to before me this 15<sup>th</sup> day of November, 2013.



D. Suzie Mankin  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a )  
General Rate Increase in Water & Sewer )  
Service )

Case No. WR-2013-0461

**AFFIDAVIT OF KEITH D. FOSTER**

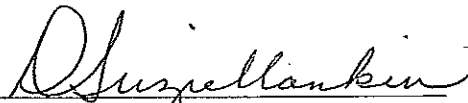
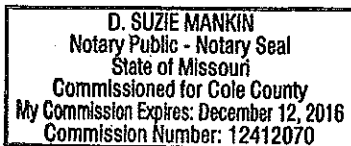
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Keith D. Foster, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.



Keith D. Foster

Subscribed and sworn to before me this 15<sup>th</sup> day of November, 2013.



Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a )  
General Rate Increase in Water & Sewer )  
Service )

Case No. WR-2013-0461

AFFIDAVIT OF JAMES A. MERCIEL, JR., P.E.

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

James A. Merciel, Jr., P.E., of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

  
James A. Merciel, Jr., P.E.

Subscribed and sworn to before me this 15<sup>th</sup> day of November, 2013.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 12, 2016  
Commission Number: 12412070

  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

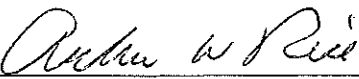
**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a ) Case No. WR-2013-0461  
General Rate Increase in Water & Sewer )  
Service )

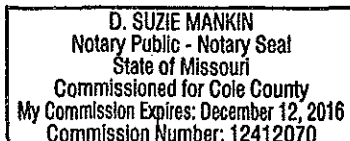
**AFFIDAVIT OF ARTHUR W. RICE, PE**

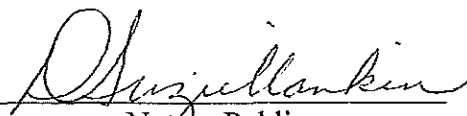
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Arthur W. Rice, PE, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

  
\_\_\_\_\_  
Arthur W. Rice, PE

Subscribed and sworn to before me this 15<sup>th</sup> day of November, 2013.



  
\_\_\_\_\_  
Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Lake Region Water & Sewer )  
Company's Application to Implement a )  
General Rate Increase in Water & Sewer )  
Service )

Case No. WR-2013-0461

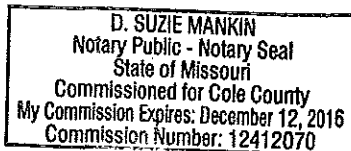
**AFFIDAVIT OF ASHLEY SARVER**

STATE OF MISSOURI     )  
                                      )  
COUNTY OF COLE     )     ss.

Ashley Sarver, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report as identified in the individual sections as identified in the Table of Contents of said Report; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Ashley Sarver  
Ashley Sarver

Subscribed and sworn to before me this 15<sup>th</sup> day of November, 2013.



Suzie Mankin  
Notary Public