

FILED  
September 2, 2008  
Data Center  
Missouri Public  
Service Commission

**Report on Joint Application of Stoddard County Sewer  
Company, Inc.,  
R. D. Sewer Co., L.L.C. and Staff of the Missouri Public Service**

**Case No. SO-2008-0289**

**July, 2008**

Commission Exhibit No. 1  
Case No(s) SO-2008-0289  
Date 8-13-08 Rptr KF

**Bonadio & Co., LLP**  
Certified Public Accountants

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On March 4, 2008, Stoddard County Sewer Company, Inc. ('Stoddard County') and R.D. Sewer Co., L.L.C. ('R.D. Sewer') and Staff of the Missouri Public Service Commission (PSC Staff) (together, the 'Joint Applicants') Filed a Joint Application for an order approving an interim rate increase and authorizing Stoddard County to transfer its assets to R.D. Sewer. The Bonadio Group (Bonadio) has been retained to perform an accounting analysis of the case and provide evidence as to the adequacy of the existing rate and proposed transfer of assets. In order to evaluate the interim increase, Bonadio performed a limited financial review of Stoddard County's operations for the years ending December 31, 2007, 2006 and 2005.

A comparison of 2007 actual operating statements and 2008 amounts requested by R.D. Sewer is shown in Attachment A.

A comparison of 2007 actual operating statements and 2008 amounts recommended by Bonadio is shown in Attachment B.

A comparison of the requested and recommended revenue requirements are shown in Attachment C. R.D. Sewer determined its revenue requirement to be \$82,289, an increase over 2007 revenues of 179.39 percent. Bonadio recommends a revenue requirement of \$58,667, an increase of 99.19 percent over 2007 revenues.

Bonadio's recommended rates and resulting customer impact are shown in Attachment D.

Joint applicants did not propose any change to its current rate design between apartments and duplexes/houses, or the manner in which the proposed increase was calculated. Bonadio concurs that the current rate design is appropriate. The rates contained in Attachment D demonstrate Bonadio's recommended level of revenue.

**Background**

On June 19 and 20, 2008, Bonadio interviewed LaDawn and Rodger Owens, the current operators of Stoddard County. Bonadio reviewed the information provided relating to invoices and receipts for Stoddard County. Bonadio noted the Owens' also operate three other water districts. All operations are run out of one office and overhead costs are shared among all four operations resulting in efficiencies.

Currently, neither LaDawn, nor Rodger, are drawing any regular salary or dollars from their operation of Stoddard County. Each month, invoices are paid from the businesses that have enough cash to make the payment. Amounts are allocated between the Water and Sewer systems owned/operated by the Owens'. If any excess cash exists, then Rodger or LaDawn will draw a payment for services provided. At times, either Rodney Owens' (Roger's son) or Natalie Spitzer (LaDawn's daughter) will provide services to the system and may be paid for those services. The services provided include, but are not limited to, maintenance, lawn mowing, monitoring phone calls, plant observations.

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**Background (Continued)**

As a result, based on our analysis, many of the actual costs reported for 2007 may not necessarily be a true representation of costs and expenses of the system. Additionally, previously reported amounts have been prepared using the cash basis of accounting, which recognizes revenues when cash is received and expenses when cash is disbursed, regardless of when the revenue is earned, or expenses are incurred. The information provided by Bonadio's analysis has been prepared utilizing the accrual basis of accounting. The accrual basis of accounting recognizes revenues when the service is provided and expenses when the costs are incurred, regardless of when the cash is received or disbursed, and therefore presents a truer picture of actual operations.

The following captions relate to the adjustments proposed on Attachment B:

**(a) Operating Revenues**

R.D. Sewer reported in its annual report operating revenue in the amount of \$24,119 for 2007. Based on R.D. Sewer's current tariff rate of \$11.40 per month for houses/duplexes and \$9.12 per month for apartments and a customer level of 115 and 57 for houses/duplexes and apartments, respectively, Bonadio has calculated normalized operating revenues to be \$21,970. The customer base is expected to stay the same. This results in a decrease over 2007 reported revenues of \$2,149.

**(b) Operator Fees**

For 2007 R.D. Sewer reported \$1,628 in operator fees. An adjustment was proposed to increase this fee to a level of \$24,000. The primary purpose of the operator fee is to compensate the management for duties performed for the utility. Bonadio finds that the current operators of Stoddard County also operate 3 other water and sewer districts. If the system is upgraded as necessary, only a limited amount of time would be required by the owner/manager to take care of breakdowns, leaks and other operations of R.D. Sewer as it is a relatively small utility. Accordingly, Bonadio finds that \$13,800 is a reasonable fee for the owner/manager of this utility and has increased 2007 expense by \$12,172 to a level of \$13,800. To the extent necessary capital improvements are not provided for, or completed, these operator fees may be insufficient to cover the costs.

**(c) Repairs**

For 2007 R.D. Sewer reported \$975 in repair costs. The R.D. Sewer proposed operator fees include the repair costs. Estimated repair materials costs of \$2,400 were based on analysis performed by the engineering firm S. H. Smith & Co., Inc. Accordingly, Bonadio finds that \$2,400 is a reasonable cost for repairs and has increased the 2007 costs by \$1,425 to a level of \$2,400.

**(d) Utilities**

During 2007 R.D. Sewer incurred purchased power expense of \$7,372 and purchased water expense of \$119 for a total of \$7,491. An adjustment was proposed to increase this expense by \$1,009 to \$8,500 based on a projected increase for the year as a result of higher fuel costs. The engineering firm, S. H. Smith & Co., Inc. estimates the utility costs to be \$9,600. Accordingly, Bonadio finds that the proposed increase is reasonable and has increased 2007 expense by \$1,009 to a level of \$8,500.

**Report on Joint Application of Stoddard County Sewer Company, Inc.,  
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**Case No. SO-2008-0289**

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**(e) Sludge Hauling**

During 2007 R.D. Sewer incurred sludge hauling expenses of \$400. An adjustment was proposed to increase this expense by \$3,400 based on a projected hauling cost of \$600 per haul done 4 times a year and projected cost of hauling at \$175 per haul done 4 times a year at each of the two lift stations. The engineering firm, S. H. Smith & Co., Inc. estimates the sludge hauling costs to be \$1,800. Based on actual 2007 and 2006 costs incurred by R.D. Sewer and the engineering projection, Bonadio finds an estimated cost of \$1,800 to be more reasonable and has increased the 2007 expenses by \$1,400.

**(f) Effluent Testing**

For 2007 R.D. Sewer reported effluent testing expense of \$1,114. An adjustment was proposed to increase this expense to a level of \$1,252, based on a notice received from the supplier. Bonadio has reviewed the notice and has adjusted 2007 effluent testing expense by an increase of \$132.

**(g) Mowing**

R.D. Sewer reported mowing expense of \$66 for 2007 that it proposed to increase to \$750. The proposed increase was based on a projected \$150 monthly cost for five months at the plant. Bonadio reviewed the quotes for mowing and finds the amounts reasonable. Bonadio recommends an increase of \$684 to be allowed for rate-making purposes.

**(h) Billing Expenses**

R.D. Sewer reported billing expenses for 2007 of \$234. An adjustment was proposed to increase this expense to a level of \$9,600, based on the estimated expense of \$800 per month for billing clerk and collection expense. This is based on 100 hours/month at \$8 per hour. Based on the current amount of time spent on these activities, Bonadio is of the opinion that these services could be performed in substantially fewer than 1,200 hours per year. The time required to service 172 customers can be reasonably expected to be 40 hours/month or 480 hours/year. At \$8/hour, the expense is estimated at \$4,160. Accordingly, Bonadio recommends an increase of \$3,926 be allowed for rate-making purposes.

**(i) Office Supplies**

For 2007 R.D. Sewer reported office supplies expense of \$3,508 which it proposed to stay the same. Bonadio reviewed an itemized list of the supplies included in R.D. Sewer's operations. This includes some supplies used by other businesses. Bonadio estimated the costs for postage, paper, envelopes, cards, folders and printing at \$3,065. Bonadio recommends that a decrease of \$408 be made to 2007 expense for office supplies.

**(j) Telecommunications**

For 2007 R.D. Sewer reported no telecommunications expense. These costs were paid through some other company. R.D. Sewer proposed these expenses be increased to \$3,060. A review of actual 2007 telephone and internet bills indicated the total annual costs of these services was \$3,333. Bonadio is of the opinion these costs should be shared by the three water companies and the sewer company. Bonadio estimated the sewer company's share of these costs to be \$834. Bonadio recommends that an increase of \$834 be made to 2007 expense for telecommunications expenses.

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**Case No. SO-2008-0289**

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**(k) Rent**

For 2007 R.D. Sewer reported rent expense of \$2,694. R.D. Sewer proposed these expenses be increased to \$4,200 at \$350 per month. Bonadio is of the opinion these costs should be shared by the three water companies and the sewer company. Bonadio estimated the sewer company's share of these costs to be \$1,050. Bonadio recommends that a decrease of \$1,644 be made to 2007 expense for rent.

**(l) Insurance Expense**

R.D. Sewer's 2007 operations reflect insurance expense of \$530. R.D. Sewer proposed these expenses be increased to \$1,499. Documentation was provided to support liability insurance for the plant in the amount of \$1,011 and auto insurance in the amount of \$490 for a total of \$1,501. Therefore, for rate-making purposes, Bonadio has increased 2007 insurance expense by \$971 to \$1,501.

**(m) Legal and Professional Fees**

R.D. Sewer reported legal and professional fees of \$592 in its 2007 operations. An adjustment was proposed to increase this expense to \$3,600. These fees were for accounting services and attorney fees. The average costs of these services for the last three years were \$650. The accounting services currently provided are inadequate and has resulted in inaccurate reporting and will need to be increased to ensure quality of service. Bonadio is of the opinion that the legal and professional fee should be increased by \$408 to \$1,000.

**(n) Regulatory Commission**

For 2007 R.D. Sewer reported regulatory commission expense of \$1,241 that it proposed to increase by \$978. The proposed increase was based on information from the Public Service Commission. Therefore, for rate-making purposes, Bonadio has increased 2007 regulatory commission expense by \$978 to \$2,219.

**(o) DNR Fees**

For 2007 R.D. Sewer reported no DNR Fees expense. This is proposed to increase by \$3,000 to reflect the actual permit operating costs. Therefore, for rate-making purposes, Bonadio has increased 2007 DNR Fee expense to \$3,000.

**(p) Property Taxes**

R.D. Sewer reported personal property tax expense of \$498 for 2007. An adjustment was proposed to decrease real estate tax expense at an estimated level of \$230. Calculations were provided to support estimated property tax bills to be \$230. Accordingly, Bonadio has included property tax expense of \$230 for rate-making purposes.

**(q) Depreciation Expense**

R.D. Sewer reported depreciation expense of \$5,407 for 2007 which it proposed to decrease by \$7, to the projected 2008 level of \$5,400. Bonadio concurs with the depreciation expense estimate and therefore recommends a decrease of \$7 be included for rate-making purposes.

**(r) Corporate Registration**

For 2007 R.D. Sewer reported Corporate Registration expense of \$50 which will stay the same. Bonadio concurs with the Corporate Registration expense estimate and therefore recommends \$50 expense be included for rate-making purposes.

**Report on Joint Application of Stoddard County Sewer Company, Inc.,  
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**Case No. SO-2008-0289**

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**(s) Return on Plant**

R.D. Sewer did not include any amount for return on plant for 2007. An adjustment was proposed to include return on plant expense at an estimated level of \$7,021. Bonadio calculated a return amount based on an 11% rate of return on the assets in service as of December 31, 2007. Net assets in service were \$63,826 as reported on the 2007 Public Service Commission Annual Report. Accordingly, Bonadio has included return on plant expense of \$7,021 for rate-making purposes.

**(t) Uncollectible Accounts**

R.D. Sewer reported uncollectible accounts expense for 2007 in the amount of \$2,980. Adjustments were proposed to decrease this expense to \$500 for rate-making purposes. This is a reasonable estimate of future bad debts based on past history. Prior annual reports provided to the Public Service Commission had reported overstated expenses for uncollectible accounts. The amounts reported represented the cumulative uncollected balances for the reported customers and did not change in 2005, 2006, or 2007. Therefore, Bonadio recommends that uncollectible accounts be decreased by \$2,480.

**(u) Other Expense**

For 2007 R.D. Sewer reported other expense of \$95, which it proposed to increase by \$5. Bonadio concurs with the other expense estimate and therefore recommends \$100 expense be included for rate-making purposes.

**Cost of Capital Expenditures**

Based on the engineering firm, S. H. Smith & Co., Inc.'s assessment, significant capital expenditures would be required. The costs of these improvements range from \$0 to \$524,500 based on scenarios which are proposed as part of the engineering assessment. Accordingly, the project would be considered material in nature and should not be reviewed within the scope of this rate increase.

Very truly yours,

BONADIO & CO., LLP



by

Randall R. Shepard, CPA  
Principal

**CASE NO SO-2008-0289  
ATTACHMENT A**

**2007 ACTUAL AND 2008 R.D. SEWER RECOMMENDED OPERATING STATEMENTS**

	Actual R. D. Sewer <u>2007</u>	Recommended Adjustments <u>2008</u>	Proposed R.D. Sewer <u>2008</u>
<b>OPERATING REVENUE:</b>			
Single family (\$11.40/month; 115 bills)			\$ 15,732
Multi-family (\$9.12/month; 57 bills)			<u>6,238</u>
<b>Total operating revenue</b>	<b>\$ 24,119</b>	<b>\$ (2,149)</b>	<b><u>21,970</u></b>
<b>OPERATING EXPENSES:</b>			
Operator fees	1,628	22,372	24,000
Plant operations -			
Repairs	975	(975)	-
Utilities	7,491	1,009	8,500
Sludge hauling	400	3,400	3,800
Effluent testing	1,114	138	1,252
Mowing	66	684	750
Billing expenses	234	9,366	9,600
Office supplies	3,508	-	3,508
Telecommunications	-	3,060	3,060
Rent	2,694	1,506	4,200
Insurance	530	969	1,499
Legal and professional fees	592	3,008	3,600
Regulatory commission	1,241	978	2,219
DNR Fees	-	3,000	3,000
Property taxes	498	(268)	230
Depreciation	5,407	(7)	5,400
Corporate registration	-	50	50
Return on plant	-	7,021	7,021
Uncollectible accounts	2,980	(2,480)	500
Other	<u>95</u>	<u>5</u>	<u>100</u>
<b>Total operating expenses</b>	<b><u>29,453</u></b>	<b><u>52,836</u></b>	<b><u>82,289</u></b>
<b>Total operating loss</b>	<b><u>\$ (5,334)</u></b>	<b><u>\$ (54,985)</u></b>	<b><u>\$ (60,319)</u></b>
<b>Percent increase over 2007 actual</b>			<b><u>179.39%</u></b>

CASE NO SO-2008-0289  
ATTACHMENT B

2007 ACTUAL AND 2008 BONADIO RECOMMENDED OPERATING STATEMENTS

	<u>Actual 2007</u>	<u>Recommended Adjustments</u>	<u>Recommended 2008</u>
<b>OPERATING REVENUE:</b>			
Single family (\$11.40/month; 115 bills)			\$ 15,732
Multi-family (\$9.12/month; 57 bills)			<u>6,238</u>
 Total operating revenue	 <u>\$ 24,119</u>	 <u>\$ (2,149) a</u>	 <u>21,970</u>
<b>OPERATING EXPENSES:</b>			
Operator fees	1,628	12,172 b	13,800
Plant operations -			
Repairs, including supplies	975	1,425 c	2,400
Utilities	7,491	1,009 d	8,500
Sludge hauling	400	1,400 e	1,800
Effluent testing	1,114	138 f	1,252
Mowing	66	684 g	750
Billing expenses	234	3,926 h	4,160
Office supplies	3,508	(408) i	3,100
Telecommunications	-	834 j	834
Rent	2,694	(1,644) k	1,050
Insurance	530	971 l	1,501
Legal and professional fees	592	408 m	1,000
Regulatory commission	1,241	978 n	2,219
DNR Fees	-	3,000 o	3,000
Property taxes	498	(268) p	230
Depreciation	5,407	(7) q	5,400
Corporate registration	-	50 r	50
Return on plant	-	7,021 s	7,021
Uncollectible accounts	2,980	(2,480) t	500
Other	<u>95</u>	<u>5 u</u>	<u>100</u>
 Total operating expenses	 <u>29,453</u>	 <u>29,214</u>	 <u>58,667</u>
 Total operating loss	 <u>\$ (5,334)</u>	 <u>\$ (31,363)</u>	 <u>\$ (36,697)</u>
 Percent increase over 2007 actual			 <u>99.19%</u>



CASE NO SO-2008-0289  
ATTACHMENT C

COMPARISON OF REQUESTED AND RECOMMENDED REVENUES

	<u>Requested by R.D. Sewer</u>	<u>Recommended by Bonadio</u>
Adjusted operating expenses	\$ 82,289	\$ 58,667
Normalized 2007 revenue	<u>21,970</u>	<u>21,970</u>
Proposed increase to revenues	<u>\$ 60,319</u>	<u>\$ 36,697</u>

CASE NO SO-2008-0289  
ATTACHMENT D

**RECOMMENDED RATES AND CONSUMER IMPACT**

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**Houses and Duplexes:**

Proposed rates	\$	30.44
Current rates	\$	11.40
Difference	\$	19.04
Percent difference from current rates		167.02%

Total cost of sewer service (Attachment B)	\$	58,667
Times:		
House and duplex percentage		71.61%
Revenue to collect from houses and duplexes	\$	42,009
Divided by billings (customers x 12)		<u>1,380</u>
Estimated house and duplex rate	\$	<u>30.44</u>

**Apartments:**

Proposed rates	\$	24.35
Current rates	\$	9.12
Difference	\$	15.23
Percent difference from current rates		167.02%

Total cost of sewer service	\$	58,667
Times:		
Apartment percentage		28.39%
Revenue to collect from apartments	\$	16,658
Divided by billings (customers x 12)		<u>684</u>
Estimated house and duplex rate	\$	<u>24.35</u>

<u>Unit Type</u>	<u>Customers</u>	<u>Rate Factors</u>	<u>Weighting Factors</u>	<u>Weighting Percentage</u>
Houses and duplexes	115	11.40	1,311	71.61%
Apartments	<u>57</u>	9.12	<u>520</u>	<u>28.39%</u>
	<u>172</u>		<u>1,831</u>	<u>100.00%</u>