

# STAFF RECOMMENDATION REGARDING DISPOSITION OF SMALL SEWER COMPANY RATE INCREASE REQUEST

## APPENDIX A

### Official Case File Memorandum and Attachments

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## Roark Water & Sewer Company

MO PSC Case No. SR-2005-0153

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## Official Case File Memorandum

## **MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
Case No. SR-2005-0153 (Tariff File No. YS-2005-0424)  
Roark Water & Sewer Company, Inc.

FROM: Dale W. Johansen – Project Coordinator  
Water & Sewer Department  
Paul Harrison – Auditing Department  
Deborah Bernsen – Engineering & Management Services Department  
Rosella Schad – Engineering & Management Services Department  
Matthew Barnes – Financial Analysis Department

<u>/s/ Dale W. Johansen</u>	<u>01/07/05</u>
Project Coordinator	Date

<u>/s/ Cliff E. Snodgrass</u>	<u>01/07/05</u>
General Counsel's Office	Date

SUBJECT: Staff Recommendation Regarding Disposition  
of Small Company Rate Increase Request

DATE: January 07, 2005

### **BACKGROUND**

Roark Water & Sewer Company, Inc. ("Company") initiated the subject small company rate increase request ("Requests") that is the subject of this case by submitting a letter to the Secretary of the Commission, which was received at the Commission's offices on August 9, 2002 (the Company subsequently amended its request letter by a letter that was received at the Commission's offices on September 16, 2002). The Company submitted its Request under the provisions of Commission Rules 4 CSR 240-3.330, Sewer Utility Small Company Rate Increase Procedure ("Small Company Rate Increase Procedure").

By its Request, as amended, the Company was seeking Commission approval of customer rates intended to generate an increase of \$206,030 in its total annual sewer service operating revenues. As stated by the Company in its Request letter, the reasons for the requested increase in its sewer service operating revenues included: increases in operation and maintenance expenses; increases in the Commission's annual utility assessments; increases in the Department of Natural Resources' annual sewer discharge permit fees; an increase in postal fees; an increase in energy costs; an increase in delivery and chemical costs; increased sludge disposal costs; and increased construction costs. In its request letter, the Company also noted that changes to the design of its customer rates, and the levels of its service connection fees and service charges should also be considered.

The Company provides sewer service to approximately 360 customers, the majority of which are residential customers. The Company's current rates (those resulting from the Company's last rate case) went into effect on May 13, 2001.

Upon receipt of the Company's letter that initiated the Request, personnel in the Commission's Data Center entered the letter into the Commission's electronic filing and information system ("EFIS") and the system assigned Tracking No. QS-2003-0006 to the Request. The Company's letter was then forwarded to the Commission's Water & Sewer Department ("W/S Dept") for processing under the Small Company Rate Increase Procedure. A copy of the Company's request letter and the letter amending the original letter are identified as item numbers 1 & 2 in the EFIS tracking file for the Request.

By a letter dated August 28, 2002, which Staff members in the W/S Dept had previously approved, the Company notified its customers of the Request. As a part of this initial customer notice, the Company requested that its customers' questions or comments be directed to the Commission Staff and/or the Office of the Public Counsel ("OPC"). A copy of the initial customer notice is identified as item number 3 in the EFIS tracking file for the Request.

### **STAFF'S INVESTIGATION AND CONCLUSIONS**

As noted at the beginning of this Memorandum, Staff members from the Auditing, Engineering & Management Services, Financial Analysis and Water & Sewer Departments participated in the Staff's investigation of the Company's Request. All Staff participants were provided the opportunity to review and comment on this Memorandum prior to it being filed. Dale Johansen of the W/S Dept created the initial draft of this Memorandum and comments received from the reviewers were incorporated therein to create this final version of the Memorandum.

Based upon an audit of the Company's books and records, a determination of the Company's rate base investments and necessary operating expenses, an evaluation of the Company's depreciation rates, an analysis of the Company's capital structure and cost of capital, and an investigation of the Company's business and system operations, the Staff concluded that an increase of \$14,841 in the Company's annual sewer service operating revenues is warranted. However, this increase in sewer operating revenues is subsidized by over-earnings in the water operating revenues, which is a matter that the Staff and the Company addressed in their resolution of the Request.

In addition to its conclusion regarding the increase in the Company's annual operating revenues, the Staff concluded that certain changes in the design of the Company's rates and in the Company's connection fees are needed.

Subsequent to the completion of its investigation of the Company's Request, the Staff forwarded information regarding the above items to representatives of the Company and the OPC for their review and response.

## **RESPONSES TO STAFF'S FINDINGS AND SUBSEQUENT ACTIONS**

Pursuant to negotiations held subsequent to the Company's and the OPC's receipt of the above-referenced information regarding the results of the Staff's investigation of the Company's Request, a written *Company/Staff Agreement Regarding Disposition of Small Sewer Company Rate Increase Request* ("Disposition Agreement") was reached between the Company and the Staff. The Company and the Staff also reached an agreement regarding the tariff revisions needed to implement the terms of the Disposition Agreement.

The Disposition Agreement includes the following agreements: (1) that an increase of \$14,841 in the Company's annual sewer operating revenues is necessary; (2) that certain changes to the design of the Company's rates are appropriate; (3) that changes to the Company's connection fees are appropriate; (4) that the rates included in the above-referenced agreed-upon tariff revisions are designed to generate revenues sufficient to recover the Company's total annualized cost of service, as subsidized by the water system over-earnings; and (5) that the rates included in the above-referenced agreed-upon tariff revisions are just and reasonable. (The specific agreements between the Company and the Staff are set out on pages 2, 3 & 4 of the Disposition Agreement, which the Staff filed in this case on December 15, 2004, and which can be found in the EFIS case file as item number 2.)

Since the above-referenced Disposition Agreement was only between the Company and the Staff, the Company was required to send a notice to its customers regarding the proposed tariff revisions resulting from the Disposition Agreement. By a letter dated December 8, 2004, which Staff members in the W/S Dept had previously approved, the Company notified its customers of its proposed tariff revisions. As a part of that notice, the Company requested that its customers' questions or comments be directed to the Staff and/or the OPC. In response to this second customer notice, the Staff and/or the OPC received three letters and one e-mail message.

By a letter that was stamped received by personnel in the Commission's Data Center on December 3, 2004, the Company submitted revised tariff sheets including the agreed-upon tariff revisions that are necessary to implement the terms of the Disposition Agreement. Upon receipt of that tariff filing, Data Center personnel entered the filing into EFIS and the instant case was created (the transmittal letter and revised tariff sheets are included in item number 1 in the EFIS case file). As required by the Small Company Rate Increase Procedure, the subject revised tariff sheets bore an effective date that was more than 45 days past the issue date. As is also required by the Small Company Rate Increase Procedure, the above-referenced Disposition Agreement has been filed in the case papers. (As noted previously, the Staff filed the Disposition Agreement on December 15, 2004.)

The OPC has stated to Staff that it does not oppose Commission approval of the Company's proposed tariff revisions; however, the OPC has made no filing in the case to reflect that position.

### **ADDITIONAL INFORMATION**

In addition to the above-noted documents that are in the EFIS tracking file and EFIS case file, the following documents are included with this Memorandum: (1) the Staff's ratemaking workbook, which includes the Staff's revenue calculations at both the current and proposed rates, the Staff's ratemaking income statement, the Staff's rate design worksheet and a customer bill comparison are included in Attachment 1; (2) the Staff's overview of the Company and its customer service procedures and practices is included in Attachment 2; and (3) a copy of the Company's December 8 customer notice and copies of the customer responses are included in Attachment 3.

Pursuant to a review of available electronic information maintained by the Commission's Budget & Fiscal Services Department and Data Center, and in EFIS, the Staff notes that the Company was current on the payment of its Commission assessments and on the filing of its Commission annual reports when it submitted its Request, as is required by the Small Company Rate Case Procedure. The Staff also notes that the Company remains current on those matters as of the writing of this Memorandum. The assessment information reviewed covers fiscal years 1996 through 2005 (the Company is paying its FY2005 assessment on a quarterly basis), and the annual report information reviewed covers calendar years 1997 through 2003.

Additionally, the Staff notes that the only other matter that the Company has pending before the Commission is a companion water rate case (Case No. WR-2005-0154), and that the Commission's consideration of the two cases should be done in conjunction with one another.

Lastly, the Staff notes that it is not aware that the Company has received any notices of violation from the Missouri Department of Natural Resources during the time that the Company's Request has been pending.

### **STAFF'S RECOMMENDATIONS**

Based upon the above, the Staff recommends that the Commission issue an order in this case that:

- \* Approves the revised tariff sheets that the Company filed on December 3, 2004, which are pending in Tariff File No. YS-2005-0424, to be effective for service rendered on and after January 18, 2005;
- \* Approves the Disposition Agreement submitted in this case;
- \* Directs the Company to comply with the terms of the Disposition Agreement; and
- \* Approves the depreciation rates attached to the Disposition Agreement.

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**List of Attachments**

Attachment 1: Staff's Ratemaking Workbook

Attachment 2: Staff's Overview of Company and Customer Service Operations

Attachment 3: 2nd Customer Notice and Customers Responses



Attachment 1  
Staff's Ratemaking Workbook

# ROARK WATER & SEWER COMPANY

## Revenue Annualizations at Current Rates - Sewer Service

### Annualized Customer Counts and Service Charge Revenues

#### Retail Metered Customers

<b>Meter Size</b>	<b>Residential</b>	<b>Business</b>	<b>Total Meters</b>	<b>Monthly Minimum</b>	<b>Annual Revenue</b>
5/8"	255	65	320	\$ 33.37	\$ 128,141
3/4"	0	0	0	\$ 40.54	\$ -
1.0"	1	26	27	\$ 54.87	\$ 17,778
1.5"	0	12	12	\$ 90.69	\$ 13,059
2.0"	0	2	2	\$ 133.68	\$ 3,208
3.0"	0	0	0	\$ 233.99	\$ -
4.0"	0	0	0	\$ 377.29	\$ -
<b>Total</b>	<b>256</b>	<b>105</b>	<b>361</b>		<b>\$ 162,186</b>

Monthly Minimum Charge Includes First 4,000 Gallons of Usage

### Annualized Commodity Sales - Volumes and Revenues

Sales Shown in Mgallons - Rate is per 1,000 Gallons

<b>Meter Size</b>	<b>Residential</b>	<b>Business</b>	<b>Total Sales</b>	<b>Rate</b>	<b>Annual Revenue</b>
5/8"	-	2,645.3	2,645.3	\$ 4.76	\$ 12,592
3/4"	-	-	-	\$ 4.76	\$ -
1.0"	-	3,423.3	3,423.3	\$ 4.76	\$ 16,295
1.5"	-	1,450.0	1,450.0	\$ 4.76	\$ 6,902
2.0"	-	895.0	895.0	\$ 4.76	\$ 4,260
3.0"	-	-	-	\$ 4.76	\$ -
4.0"	-	-	-	\$ 4.76	\$ -
<b>Total</b>	<b>-</b>	<b>8,413.6</b>	<b>8,413.6</b>		<b>\$ 40,049</b>

#### Other Operating Revenues

Miscellaneous Revenues - Hauling	\$ 1,985
<b>Total Other Revenue</b>	<b>\$ 1,985</b>

#### Total Operating Revenues

Service Charges - Retail Customers	\$ 162,186
Commodity Revenues - Retail Customers	\$ 40,049
<b>Sub-Total Tariffed Rate Revenues</b>	<b>\$ 202,235</b>
<b>Other Operating Revenues</b>	<b>\$ 1,985</b>
<b>Total Operating Revenues</b>	<b>\$ 204,220</b>

# ROARK WATER & SEWER COMPANY

## Revenue Annualizations at Modified Current Rates - Sewer Service

Modified to Reflect 2,000 Gallons in Monthly Minimum vs. 4,000 Gallons in Monthly Minimum

### Annualized Customer Counts and Service Charge Revenues

#### Retail Metered Customers

Meter Size	Residential	Business	Total Meters	Monthly Minimum	Annual Revenue
5/8"	255	65	320	\$ 23.85	\$ 91,584
3/4"	0	0	0	\$ 31.02	\$ -
1.0"	1	26	27	\$ 45.35	\$ 14,693
1.5"	0	12	12	\$ 81.17	\$ 11,688
2.0"	0	2	2	\$ 124.16	\$ 2,980
3.0"	0	0	0	\$ 224.47	\$ -
4.0"	0	0	0	\$ 367.77	\$ -
<b>Total</b>	<b>256</b>	<b>105</b>	<b>361</b>		<b>\$ 120,946</b>

Monthly Minimum Charge Modified to Include First 2,000 Gallons of Usage

### Annualized Commodity Sales - Volumes and Revenues

Sales Shown in Mgalloons - Rate is per 1,000 Gallons

Meter Size	Residential	Business	Total Sales	Rate	Annual Revenue
5/8"	5,605.2	3,287.4	8,892.6	\$ 4.76	\$ 42,329
3/4"	-	-	-	\$ 4.76	\$ -
1.0"	-	3,893.0	3,893.0	\$ 4.76	\$ 18,531
1.5"	-	1,707.1	1,707.1	\$ 4.76	\$ 8,126
2.0"	-	943.4	943.4	\$ 4.76	\$ 4,491
3.0"	-	-	-	\$ 4.76	\$ -
4.0"	-	-	-	\$ 4.76	\$ -
<b>Total</b>	<b>5,605.2</b>	<b>9,830.9</b>	<b>15,436.1</b>		<b>\$ 73,476</b>

#### Other Operating Revenues

Miscellaneous Revenues - Hauling	\$ 1,985
<b>Total Other Revenues</b>	<b>\$ 1,985</b>

#### Total Operating Revenues

Service Charges - Retail Customers	\$ 120,946
Commodity Revenues - Retail Customers	\$ 73,476
<b>Sub-Total Tariffed Rate Revenues</b>	<b>\$ 194,422</b>
<b>Other Operating Revenues</b>	<b>\$ 1,985</b>
<b>Total Operating Revenues</b>	<b>\$ 196,407</b>

#### Change in Revenues Due to Modification in Gallons Included in Monthly Minimum

Service Charges - Retail Customers	\$ (41,241)
Commodity Revenues - Retail Customers	\$ 33,427
<b>Sub-Total Tariffed Rate Revenues *</b>	<b>\$ (7,814)</b>
<b>Other Operating Revenues</b>	<b>\$ -</b>
<b>Total Operating Revenues</b>	<b>\$ (7,814)</b>

\* Rates Need to be Changed to Collect This Difference in Addition to the Changes Needed to Collect the Increased Cost-of-Service

# ROARK WATER & SEWER COMPANY

## Ratemaking Income Statement - Sewer Service

### Operating Revenues at Current Rates

1	Tariffed Rate Revenues	\$ 202,235
2	Other Operating Revenues	\$ 1,985
3	<b>Total Operating Revenues</b>	<b>\$ 204,220</b>

### Cost of Service

	Item	Amount
1	Purchased Power-Sewer	\$ 12,301
2	DNR Primacy Fees	\$ 713
3	Treatment & Disposal Expense-Chemicals	\$ 3,338
4	Maintenance of Structures & Improvements	\$ 5,357
5	Maintenance of Treatment & Disp. Plant	\$ 9,331
6	Maintenance of Sewer Collection System	\$ 45
7	Maintenance of Service to Customers	\$ 224
8	Maintenance of Pumping Equipment	\$ 36
9	Sludge Hauling	\$ 1,424
10	Miscellaneous General Plant	\$ 4,482
11	Billing & Collection	\$ 6,868
12	Administration & General - Salaries	\$ 3,600
13	Office Supplies	\$ 1,096
14	Bookkeeping	\$ 2,858
15	Vehicle Expenses	\$ 1,631
16	Outside Services Employed	\$ 733
17	Property Insurance	\$ 1,087
18	Regulatory Commission Expense	\$ 16,583
19	Rate Case Expense	\$ 600
20	Miscellaneous General Expenses	\$ 194
21	Franchise Requirements	\$ 998
22	Maintenance of General Plant	\$ 27,508
23	<b>Sub-Total Operating Expenses</b>	<b>\$ 101,007</b>
24	Property Taxes	\$ -
25	MO Franchise Taxes	\$ 10
26	Employer FICA Taxes	\$ -
27	Federal Unemployment Taxes	\$ -
28	State Unemployment Taxes	\$ -
29	State & Federal Income Taxes	\$ 22,221
30	<b>Sub-Total Taxes</b>	<b>\$ 22,231</b>
31	<b>Depreciation Expense</b>	<b>\$ 61,338</b>
32	<b>Return on Rate Base</b>	<b>\$ 90,877</b>
33	<b>Total Cost of Service</b>	<b>\$ 275,453</b>
34	<b>Revenue Increase Needed at Full C.O.S.</b>	<b>\$ 71,233</b>
35	Reduction Due to Water Service Overearnings	\$ (59,337)
36	Increase Due to Revenue Annualization Error	\$ 2,945
37	<b>Net Revenue Increase to be Applied</b>	<b>\$ 14,841</b>

# ROARK WATER & SEWER COMPANY

## Development of Tariffed Rates - Sewer Service

### Rate A

(1) Reduce the current monthly minimum charge to reflect a change from 4,000 gallons to 2,000 gallons being included in the charge. (2) Increase the current commodity rate to recoup the reduction in monthly minimum revenue that results from the change in the gallons included in the monthly minimum charge. (3) Increase the modified monthly minimum charge by a percentage equal to the agreed-upon operating revenue increase divided by the revenues generated by the modified monthly minimum charge.

Commodity Revenues at Current Rate at Modified Sales Volume	\$	73,476
Increase Needed Due to Change in Monthly Minimum Revenues	\$	7,814
Percent Increase Needed in Commodity Charge		10.63%

Revenues Generated by Modified Monthly Minimum Charge	\$	120,946
Revenue Increase to be Applied to Sewer Service	\$	14,841
Percentage Increase Needed		12.27%

### Metered Customer Rates

Meter Size	Current Monthly Minimum	Proposed Monthly Minimum	Current Usage Rate	Proposed Usage Rate
5/8"	\$ 23.85	\$ 26.78	\$ 4.76	\$ 5.27
3/4"	\$ 31.02	\$ 34.83	\$ 4.76	\$ 5.27
1.0"	\$ 45.35	\$ 50.91	\$ 4.76	\$ 5.27
1.5"	\$ 81.17	\$ 91.13	\$ 4.76	\$ 5.27
2.0"	\$ 124.16	\$ 139.39	\$ 4.76	\$ 5.27
3.0"	\$ 224.47	\$ 252.01	\$ 4.76	\$ 5.27
4.0"	\$ 367.77	\$ 412.90	\$ 4.76	\$ 5.27

Current Monthly Minimum Charge Modified to Include First 2,000 Gallons of Usage

Proposed Monthly Minimum Charge Includes First 2,000 Gallons of Usage

Usage Rate is per 1,000 Gallons for Usage Over 2,000 Gallons

### Rate B

Based on the relationships that exist between the current Rate A and Rate B monthly minimum charges and commodity rates, adjust the proposed monthly minimum charge and commodity rate for Rate A so that the relationships that now exist between the Rate A and Rate B components will remain the same. (Adjusting the proposed Rate A components in this manner will result in Rate B components reflecting the inclusion of 2,000 gallons usage in the monthly minimum charge.)

### Calculation of Monthly Minimum Charge

Current Rate A Monthly Minimum Charge (5/8" meter)	\$	33.37
Current Rate B Monthly Minimum Charge (5/8" meter)	\$	29.88
Percent Reduction from Rate A to Rate B		10.46%
Proposed Rate A Monthly Minimum Charge (5/8" meter)	\$	26.78
Percent Reduction to Apply to Rate A Charge		10.46%
<b>Proposed Rate B Monthly Minimum Charge (5/8" meter)</b>	<b>\$</b>	<b>23.98</b>
(charges for other meter sizes to be calculated in the same manner)		

### Calculation of Commodity Rate

Current Rate A Commodity Rate	\$	4.76
Current Rate B Commodity Rate	\$	4.38
Percent Reduction from Rate A to Rate B		7.98%
Proposed Rate A Commodity Rate	\$	5.27
Percent Reduction to Apply to Rate A Rate		7.98%
<b>Proposed Rate B Commodity Rate</b>	<b>\$</b>	<b>4.85</b>

# ROARK WATER & SEWER COMPANY

## Revenue Annualizations at Proposed Rates - Sewer Service

### Annualized Customer Counts and Service Charge Revenues

#### Retail Metered Customers

Meter Size	Residential	Business	Total Meters	Monthly Minimum	Annual Revenue
5/8"	255	65	320	\$ 26.78	\$ 102,821
3/4"	0	0	0	\$ 34.83	\$ -
1.0"	1	26	27	\$ 50.91	\$ 16,496
1.5"	0	12	12	\$ 91.13	\$ 13,123
2.0"	0	2	2	\$ 139.39	\$ 3,345
3.0"	0	0	0	\$ 252.01	\$ -
4.0"	0	0	0	\$ 412.90	\$ -
<b>Total</b>	<b>256</b>	<b>105</b>	<b>361</b>		<b>\$ 135,786</b>

Monthly Minimum Charge Includes First 2,000 Gallons of Usage

### Annualized Commodity Sales - Volumes and Revenues

Sales Shown in M gallons

Meter Size	Residential	Business	Total Sales	Rate	Annual Revenue
5/8"	5,605.2	3,287.4	8,892.6	\$ 5.27	\$ 46,864
3/4"	-	-	-	\$ 5.27	\$ -
1.0"	-	3,893.0	3,893.0	\$ 5.27	\$ 20,516
1.5"	-	1,707.1	1,707.1	\$ 5.27	\$ 8,996
2.0"	-	943.4	943.4	\$ 5.27	\$ 4,972
3.0"	-	-	-	\$ 5.27	\$ -
4.0"	-	-	-	\$ 5.27	\$ -
<b>Total</b>	<b>5,605.2</b>	<b>9,830.9</b>	<b>15,436.1</b>		<b>\$ 81,348</b>

#### Other Operating Revenues

Miscellaneous Revenues - Hauling	\$ 1,985
<b>Total Other Revenue</b>	<b>\$ 1,985</b>

#### Total Operating Revenues

Service Charges - Retail Customers	\$ 135,786
Commodity Revenues - Retail Customers	\$ 81,348
<b>Sub-Total Tariffed Rate Revenues</b>	<b>\$ 217,134</b>
<b>Other Operating Revenues</b>	<b>\$ 1,985</b>
<b>Total Operating Revenues</b>	<b>\$ 219,119</b>

#### Revenue Check - Proposed Rates vs. Current Rates

Total Revenues at Proposed Rates	\$ 219,119
Total Revenues at Current Rates	\$ 204,220
Increase In Revenues at Proposed Rates	\$ 14,899
Agreed-Upon Increase in Operating Revenues	\$ 14,841

# ROARK WATER & SEWER COMPANY

## Residential Customer Bill Comparison - Sewer Service

### Rates for 5/8" Meter - Rate A

<u>Current Monthly Minimum Charge</u>	<u>Proposed Monthly Minimum Charge</u>	<u>Current Usage Rate</u>	<u>Proposed Usage Rate</u>
<b>\$23.85</b>	<b>\$26.78</b>	<b>\$4.76</b>	<b>\$5.27</b>

Both Monthly Minimum Charges Include First 2,000 Gallons of Usage

Usage Rate is per 1,000 Gallons for Usage Over 2,000 Gallons

### MONTHLY BILL COMPARISON

Calculated Based on Usage of 6,000 Gallons

<u>Current Rates</u>	<u>Billed Amounts</u>	<u>Proposed Rates</u>	<u>Billed Amounts</u>
Service Charge	\$23.85	Service Charge	\$26.78
Usage Charge	\$19.04	Usage Charge	\$21.08
Total Bill	\$42.89	Total Bill	\$47.86

### Changes in Billed Amounts

#### Service Charge

<b>\$ Change</b>	<b>\$2.93</b>
<b>% Change</b>	<b>12.27%</b>

#### Usage Charge

<b>\$ Change</b>	<b>\$2.04</b>
<b>% Change</b>	<b>10.71%</b>

#### Total Bill

<b>\$ Change</b>	<b>\$4.97</b>
<b>% Change</b>	<b>11.58%</b>

**Note:** Billing comparison is not shown for changes to Rate B since there are no customers currently receiving service in the area to which Rate B applies.

Attachment 2  
Staff's Overview of Company and Customer Service Operations



# **Engineering and Management Services Department Review of Roark Water and Sewer Company Customer Service Operations**

The Engineering and Management Services Department (EMSD) staff initiated an informal review of the customer service processes, procedures and practices at Roark Water and Sewer Company. (Roark Water or Company) on October 9, 2002. This review was prompted by a Company request to initiate a small company rate increase procedure to increase revenues for the water and sewer systems. Prior to on-site interviews, the EMSD staff examined Company tariffs, annual reports, Missouri Public Service Commission (Commission) complaint records and other documentation related to the Company's customer service operations.

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

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

- Customer Deposits
- Meter Reading
- Customer Billing
- Credit and Collections
- Complaint/Inquiries Handling and Documentation
- Customer Communication and Information

This report contains the results of the EMSD staff's review.

## **Overview**

Roark Water and Sewer provides water and sewer service to approximately 269 total customers in Stone and Taney counties. Water service is provided to 269 customers while sewer service is provided to 248 customers. Most of the Company's customers are located in and around the Branson area.

The Company is owned and operated by the White River Valley Electric Cooperative, Inc. (White River) also located in Branson. The operations of Roark Water and Sewer fall under the Director of Community Development who reports to the General Manager. The Director also has responsibility for White River Environmental Services, LLC. (Environmental Services Company) The Environmental Services Company is a separate entity that provides operator services under contract to Roark Water, as well as to other small water and sewer companies. The attached organizational chart illustrates the structure and reporting relationships between White River, the Environmental Services Company and Roark Water. Roark Water is the only one of these business entities regulated by the Missouri Public Service Commission.

Administrative and field operational functions for Roark Water are provided under contract by personnel from White River Valley Electric Cooperative and White River Environmental Services. Roark has a management contract with White River Valley Electric Cooperative. This contract calls for White River to provide “management and operational services” for the water and sewer company. Roark pays White River a fee of 3% of its gross sales for these services. Two customer service representatives at the office handle customer inquiries and requests for service. Company management stated that they receive approximately 12 phone inquiries per month on its water or sewer operations. Five billing information representatives and a supervisor focus on billing issues.

Field operations functions are provided under contract by employees of White River Environmental Services, LLC. An operating agreement between Roark and the Environmental Services Company specifies the services and charges to be provided. The contract specifies a set fee of \$5,980 per month for all normal routine operation, maintenance and management activities, up to 40 hours per week. Additional labor above this level will be billed at specified rates. These activities include functions such as meter reading, routine operation and maintenance, customer billing and collection, accounting and basic management. The operators provide monthly operating and accounting reports to the utility regarding services performed.

The Company has experienced significant growth over the last five years, attributable to the building and growth in the Branson area. For example, in April 2000, the Company reported 158 water customers. In January 2001, this increased to 179. By the end of 2001, the number of customers has increased to 225.

### **Customer Deposits**

The Company is allowed under its tariff to collect a deposit equal to one billing period plus 30 days. Interest would be paid at the rate of 6% per annum if the deposit is retained for at least 12 months. The Company stated that no customer deposits are collected. New customers are required to complete an application for service.

### **Meter Reading**

The Company's meters are manually read each month by an employee of the Environmental Services Company under its operating agreement. The Company stated that it takes approximately four hours to complete the readings. Route sheets are returned to the office for billing purposes. The Company's meters are read on the 15th of the month.

The Company stated that its policy is for meters to be read each month. Estimated meter readings are very rare and only due to extreme weather conditions. The billing system has usage perimeters within it so that if a reading falls outside of these ranges, the bill would be put aside for a manual review.

### **Customer Billing**

Since May 1999, the Company has utilized billing software. The system produces one monthly bill to the customer that includes charges for electric, water and sewer. Office personnel indicate that partial payments received by the Company are first credited to the electric service account.

Customer bills are generated on the 15<sup>th</sup> of the month and are mailed that same day. Bills are due on the 30<sup>th</sup> day of the month. If payment is not received by the second of the following month, a reminder is sent.

### **Credit and Collections**

A customer's payment is considered delinquent if the Company has not received the payment by the 2nd of the following month the bill is due. When payments are delinquent, the customer is mailed a reminder with an additional 10 days to pay the delinquent charges. Written notices may also be delivered to the customer at least 96 hours prior to the discontinuance. Collections are not worked until the bill is at least 30 days past due.

The Company's tariff allows it to charge a fee of \$25 for non-pay disconnection or reconnection activities. However, the Company stated that it has not performed any non-pay disconnections in the last year. Customers have consistently paid their bills before the bill has reached the point where disconnection would be conducted.

The Company can use a collection agency for the collection of delinquent bills. Their procedure is to allow approximately a total of 90 days after the bill is past due before it is sent to a collection agency. Company management indicated to Staff that they have not sent any water and sewer customer bills to a collection agency.

The Company stated that it is rare to have a delinquent bill. They also stated that if it appears that they may have to take action on a delinquent account, they would review the tariff to ensure that appropriate procedures and time frames were used.

The Company estimates that approximately 98% of their customers pay their bills by mail. The remainder utilize one of the local banks authorized to accept payments or come by the business office.

The Company presently has a website that is used by a small number of customers to submit their meter readings. At this time, they are also looking at the application of credit cards and bill payment on line. These options may be instituted during 2003.

### **Complaints/Inquiries Handling and Documentation**

The Company stated that it is able to respond to customers' complaints and/or inquiries from 8 a.m. to 5 p.m. on a daily basis. After hours calls are answered by a dispatcher and handled by service personnel on call.

The PSC's Consumer Services Department reports that it has received no complaints on Roark Water and Sewer since 1999. The Water and Sewer Department of the PSC has also not received any service complaints on the company.

As the Branson area has grown, the Company has looked at developing a small office to be used for business and operations functions outside of Branson West. It is presently evaluating a site and trying to determine what facilities could be located there.

## **Findings, Conclusions and Recommendations**

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

- Complaint/Inquiries Documentation
- Payment Due Dates
- Time Sheets
- Review of Outside Contracts

### **Complaint/Inquiries Documentation**

Documentation of the complaints and inquiries received by Company personnel regarding services provided by Roark Water and Sewer is not being performed. Service representatives at White River Valley Electric Cooperative receive and handle calls for electric, water and sewer services. However, Roark specific inquiries and concerns and the subject of the call are not being identified for the regulated water and sewer company. The lack of a written complaint and inquiry log that includes complaint/or inquiry calls makes it difficult for the Company to provide accurate documentation of the nature of its complaints and inquiries.

Commission rule 4 CSR 240-13.040(5) states:

A utility shall maintain records on its customers for at least two (2) years which contain information concerning:

. . . .

(B) The number and general description of complaints registered with the utility;

In addition to compliance with the Commission rule, this would enable the Company to determine the number and type of inquiries it is receiving that are related to the regulated water and sewer company. This documented information would enable Company management to evaluate the reasons for customers contacting the Company and determine if any measures could be taken to reduce customer contacts and improve customer satisfaction. It could also be useful to maintain a log of all customer inquiries received in order to determine the percentage of these that are attributable to the various types of services being provided by the Company.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:*

*Develop and utilize a log that documents all the complaints and inquiries received by the Company's personnel.*

### **Payment Due Date**

The due date on the bill does not consistently allow the customer 21 days in which to make a bill payment before it becomes delinquent. The Company stated that the bills are normally produced and mailed on the 15<sup>th</sup> of the month and then become due by the 30<sup>th</sup>.

According to Commission rule 4 CSR 240-13.020(7):

...A monthly-billed customer shall have at least twenty-one (21) days and a quarterly-billed customer shall have at least sixteen (16) days from the rendition of the bill to pay the utility charges, unless a customer has selected a preferred payment date in accordance with a utility's preferred payment date plan....

Even though the Company has not encountered problems with the level of delinquencies and disconnections, the customer still must be guaranteed this minimum amount of time to pay under the billing rules cited. Therefore, in order to ensure that the customer has this time frame, the EMSD staff believes that it is appropriate to change its current billing practice.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Revise payment due dates noted on the bills to allow for a minimum of twenty-one days from bill rendition for the payment due date.*

### **Time Sheets**

The Company does not utilize detailed time sheets to track the time attributable to activities related to water and sewer specific functions. Without documented time reporting, it is difficult to determine what level of activity at the business office or in the field is related to the regulated water and sewer company. Business office personnel perform a wide range of activities for electric, water and sewer operations as well as the subsidiary, White River Valley Environmental Services. As these water and sewer operations represent the only regulated functions, it is even more important that time be recorded correctly.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Institute detailed time reporting for all employees involved in functions associated with the water and sewer operations.*

### **Outside Contracts**

The Company does not have an accurate and current basis on which to determine the actual value of the services it obtains by outside contracts. The contracts with White River Valley Electric Cooperative and White River Valley Environmental Services were initiated in 1995 to provide services for the water and sewer company. However, these contracts continue to be extended and fees have increased over time. The Company has not reassessed the level of services being provided and the present market cost of these services.

In addition, the management contract with the White River Valley Electric Cooperative, does not delineate specific services or functions it is providing for the fees it is charging. It simply refers to “management and operational services” and does not set out specific activities nor the volume of these services. This allows for possible duplication of services and doesn’t provide Roark with the information it would need to evaluate the cost effectiveness and necessity of its contracts with outside service providers. Overall, the Company needs to critically review the services and costs of its outside contracts.

*THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:*

*Conduct an annual assessment of the costs associated with the provision of outside services associated with the water and sewer company. Review the contracts for outside services to determine the appropriateness of charges and the level of services necessary.*

Attachment 3  
2nd Customer Notice and Customer Responses



**ROARK WATER & SEWER COMPANY**

P.O. BOX 969  
BRANSON, MO 65615  
417/335-9335

December 8, 2004

Dear Customer:

On August 9, 2002, Roark Water & Sewer Company (Company) submitted a request for a permanent increase in its sewer service and water service rates and charges, under the provisions of the Missouri Public Service Commission's small company rate increase procedure. Subsequently, on September 16, 2002, the Company submitted a revised request to the Commission to clarify the amounts of the increases it was seeking. By its request, as revised, the Company was seeking to establish customer rates that would generate an increase of \$206,030 (approximately 151%) in its annual sewer operating revenues and an increase of \$64,670 (approximately 51%) in its annual water service operating revenues. The Company's request was based upon its then existing levels of operating revenues, expenses and plant investments, with those items being reflective of service being provided to approximately 205 sewer customers and 225 water customers.

As a result of the Company's request, the Staff of the Public Service Commission (Commission Staff) conducted an independent audit of the Company's books and records, and an investigation of the Company's business and system operations. Based upon the results of its audit and investigation, the Commission Staff has concluded that an increase of approximately \$74,180 (approximately 36%) in the Company's annual sewer operating revenues is currently warranted and that a decrease of approximately \$59,340 (approximately 32%) in the Company's annual water operating revenues is currently warranted. The Staff's audit and investigation were based upon the Company's operating revenues, expenses and plant investments existing at March 31, 2004, with those items being reflective of service being provided to approximately 360 sewer customers and 375 water customers.

In order to implement these audit results, the Staff has proposed that the net increase of approximately \$14,840 in the Company's annual operating revenues be applied to the sewer service rates and that the water service rates not be changed, except as necessary to implement a change in the design of the Company's monthly minimum charge. Regarding the monthly minimum charges, the Staff has proposed that these charges be modified to reflect inclusion of the first 2,000 gallons of usage rather than the first 4,000 gallons of usage that is currently reflected in the charges, and that the commodity rates be adjusted as needed to reflect this change. Also, the Staff has concluded that the Company's service connection fees should be modified to reflect the Company's current costs of installing on-premise customer service facilities such as meter sets, grinder pumps and service line installations.

Although the Company does not agree with all of the Commission Staff's positions regarding the calculation of the Company's cost of providing service, it has agreed with the Staff's proposals noted above, and has filed tariff revisions to implement those proposals. A table summarizing the proposed revisions to the Company's rates and charges affecting its current residential customers, which includes an example monthly residential customer bill comparison, is set out on the third page of this notice.

The Office of the Public Counsel (OPC), a state agency responsible for representing the interests of utility consumers before the Commission, has reviewed the results of the Commission Staff's investigation. However, the OPC has not yet taken a final position regarding those results.

Any customer that has questions or comments about the Company's proposed revisions to its rates and charges, or that has comments regarding recent service-related problems, should contact the Commission Staff and/or the OPC, within 20 days of the date of this notice. To do so, please use the mailing addresses, telephone numbers, fax numbers or e-mail addresses shown below, and please include a reference to Commission Case No. SR-2005-0153 or WR-2005-0154.

Public Service Commission  
Attn: Water/Sewer Dept.  
P.O. Box 360  
Jefferson City, MO 65102  
Phone: 800/392-4211  
Fax: 573/751-1847  
E-Mail: [pseisd@psc.mo.gov](mailto:pseisd@psc.mo.gov)

Office of the Public Counsel  
Attn: M. Ruth O'Neill  
P.O. Box 2230  
Jefferson City, MO 65102  
Phone: 573/751-4857  
Fax: 573/751-5562  
E-Mail: [mopco@ded.mo.gov](mailto:mopco@ded.mo.gov)

Depending upon the responses to this notice, the OPC may request that the Public Service Commission hold a local public hearing. However, regardless of whether a local public hearing is held, no increase in rates will take effect without the specific approval of the Public Service Commission.

Lastly, please be advised that all currently available information regarding the Company's proposed rate increase request may be obtained via the Public Service Commission's Website as follows, and please also note that this information will be updated as the subject cases move forward.

- \* Go to <http://www.psc.mo.gov>.
- \* On that page, click on the "EFIS" button near the top on the right side of the page.
- \* On the next page, after reading the disclaimer, click on "I agree to terms above" and then click "Yes" when asked if you want to display the unsecured information.
- \* On the next page, click on "Resources" near the top right of the page.
- \* On the next page, click on "Case Information".
- \* On the next page, click on "Case Filing/Submission" and then click "Yes" when asked if you want to display the unsecured information.
- \* On the next page, check the box to the left of "Case No."; enter SR-2005-0153 or WR-2005-0154 in the box to the right of "Case No."; scroll to the bottom of the page and click on "Search".
- \* On the next page, click on SR-2005-0153 or WR-2005-0154 and this will bring up a screen that contains all of the documents that have been filed in the case to date.
- \* To view a document, click on the number in the "Item No." column.

If you have questions about this notice, or about anything else with which I may be of assistance, please feel free to contact me at the telephone number listed at the top of the first page of this notice.

Sincerely,

**/s/ Cy Murray**

Cy Murray – Manager  
Roark Water & Sewer Company

**Summary of Proposed Revisions to Rates and Charges Affecting Residential Customers**

**Sewer Service Rates**

Monthly Minimum Charge

Current \*     \$23.85

Proposed     \$26.78

Commodity Rate

Current \*     \$4.76

Proposed     \$5.27

Monthly Bill with 6,000 gallons usage

Current     \$42.89

Proposed     \$47.86

Service Connection Fee

Current     \$2,400

Proposed     \$5,700

**Water Service Rates**

Monthly Minimum Charge

Current \*     \$13.84

Proposed     \$13.72

Commodity Rate

Current \*     \$3.14

Proposed     \$3.20

Monthly Bill with 6,000 gallons usage

Current     \$26.40

Proposed     \$26.52

Service Connection Fee

Current     \$1,100

Proposed     \$ 300

\* Current rates and charges modified to reflect the inclusion of the first 2,000 gallons of usage in the Monthly Minimum Charge rather than the first 4,000 gallons of usage.

-----Original Message-----

**From:** Darrell & Bonnie [mailto:dransdell@cox-internet.com]  
**Sent:** Wednesday, December 22, 2004 6:55 PM  
**To:** mopco@ded.mo.gov  
**Cc:** pscisd@psc.mo.gov  
**Subject:** CC No. SR-2005-0153 or WR-2005-0154

Attention: M. Ruth O'Neill

This is in regard to the notice dated Dec. 8, 2004 from Roark Water & Sewer Company. The letter was received on December 19th.

The parent Co. of Roark made decisions to invest in Roark to supplement their electric service to StoneBridge Village and saw an opportunity. This was a business decision based on reasonable risk. They bought (Cooper's) the original developer's story about number of customers, timing etc. and happily entered in to agreements to provide water and sewer service. The timing of the addition of customers to Roark did not meet the expectations of either party. Then Cooper sells it's developer interest to MPI (Missouri Partners) who have been more successful in selling lots and adding customers to Roark. In the notice letter the customers in September, 2002 were 205 sewer and 225 water and in March, 2004 increase to 360 sewer and 375 water customers. These rates of increased customers have continued since March and will continue into the coming months and years to reach the numbers in the original filings and beyond because the current developer has changed the original plans to increase sales and profits which as Yogi Berra would say is "just like money".

My point is that Roark went into this as a business venture and they, as it has turned out, made a good decision but the timing could have been better. They would love the rate increase as the Commission has approved and because of the continuing increases in customers will get a windfall from the increase til the next case is heard and those rates implemented. Instead of making the current and future customers pay for the timing problem Roark experienced those costs should have to be born as early costs of development as part of the risk they took in the beginning.

If the rates were recalculated again today the sewer rates would be at a breakeven and the water rates should experience nearly a 50% reduction. It would be in Roark's interest to have reasonable rates for the marketing of additional customers instead of having the highest rates in the state.

The property owners in StoneBridge would like to have the opportunity to bring their concerns out in a public hearing rather than have our rates continue at this extremely high level with no voice in the matter.

We agree with the PSC's decision to reduce rates from the first request but feel StoneBridge should not be treated as a fully built community with level costs and revenues to Roark. Some realistic projections need to be included for the continuing development that will take place over the next 3-5 years.

Darrell Ransdell  
925 SilverBluff Cr  
Branson West, MO 65737  
417/336-5132

Greg and Cherie Snyder  
1001 Silvercrest Place  
Branson West, MO 65737

RECEIVED  
DEC 27 2004

UTILITY OPERATIONS  
DIVISION

Public Service Commission  
Water/Sewer Dept.  
PO Box 360  
Jefferson City, MO 65102

December 18, 2004

To Whom it may Concern:

This letter is in regards to Commission case no. sr-2005-0153 or wr-2005-0154. It appears Roark Water and Sewer and its parent company White River Valley Electric Cooperative has secured an increase in its sewer rates. I respectfully ask that you consider carefully the impact this increase will have on the families living in StoneBridge Village. Please understand that any increase will place an extra burden on our family's tight budget. I believe the rates for our utilities are higher then they should be even before the increase is approved.

In conclusion, I kindly ask that you be gentle with us here in Branson. I'm sure you understand we have no other options for our utility services. We are unable to take advantage of any free market competition in this area.

Sincerely,



Don and Kay Johnston  
1314 StoneyCreek Lane  
Reeds Spring, MO 65737  
Phone: (417)239-1040

RECEIVED  
DEC 27 2004

UTILITY OPERATIONS  
DIVISION

22 December 2004

Public Service Commission  
Attn: Water/Sewer Department  
P. O. Box 360  
Jefferson City, MO 65102

**Subject: Water/Sewer Rate Increase Request**

We are the Johnston family and live in Stonebridge Village in Stone County. We are writing in response to a lengthy three page letter sent on December 8<sup>th</sup>, 2004 by Cy Murray, Manager of the Roark Water & Sewer Company. We definitely believe the Public Service Commission should hold a public hearing on the proposed water/sewer rate increases for the following reasons.

First of all, we understand that the Missouri Public Service Commission granted a rate increase to Roark Water & Sewer Company in November 2004. The actual three page letter was written on December 8<sup>th</sup>, 2004 but not postmarked until December 15<sup>th</sup>, 2004; yet Roark Water & Sewer Company stated in their letter, that responses must be made "within 20 days of the date of this notice" which would be December 28<sup>th</sup>, 2004. It appears that this letter was designed to arrive in the mail boxes of Stonebridge Village residents over the Christmas holidays when many of the people are extremely busy or travelling to see relatives which limits the time and people available to make responses.

There are at least two confusing issues in the lengthy Roark Water & Sewer Letter that need further clarification through a Public Hearing. First, is the new established lower base rate of 2000 gallons of water for a base charge versus the former 4000 gallons. Is Roark Valley then allowed to apply a commodity rate to each additional 1000 gallons of water used above the basic 2000 gallons? If so, then this would raise the monthly rate of water cost. Second, there is no mention of whether the sewer rate of water usage is tied directly to the monthly rate of water use. Many of us have in-ground sprinkler systems and the water used in summer months for watering lawn does not go into the sewer.

As residents of Stone County, we already pay some of the highest water/sewer charges in the local area. Before these high charges are increased even further, there needs to be a public hearing on the proposed water/sewer increases to allow Roark Valley customers an opportunity to air their many concerns.

Sincerely,

Donald D. Johnston  
Kathleen D. Johnston

FILE COPY

December 20, 2004

Office of the Public Counsel  
Attn: M. Ruth O'Neill  
P.O. Box 2230  
Jefferson City, MO 65102

Dear Ms. O'Neill:

As chairperson for the Public Works Committee in Stonebridge Village, I'm writing to request a Public Hearing regarding the proposed rates for Roark Water and Sewer Company.

I received their notice in the mail on December 17, 2004. I believe their timing could have been better since they have known for over a month what the commission had approved.

I've enclosed a copy of my 2004 sewer and water rates and have also calculated the proposed new rates for comparison.

Since our rates are probably the highest in the state I hope you will agree a Public Hearing in warranted.

After all the calculations using my increase for the year and their 205 sewer customer figure I believe that is more than the Commission allowed. This does not even consider the \$2,500 increase for new service hookups.

Please give this you attention as soon as possible.

Sincerely,



Ramona Russell

Enc. Roark Notice  
Personal rate charges

DEC 27 2004

## Sewer Usage

## WaterUsage

Current	Proposed		Current	Proposed
33.37	32.05	Dec.	20.32	16.92
33.37	32.05	Nov.	20.32	16.92
33.37	90.02	Oct.	51.52	52.12
33.37	68.94	Sept.	38.96	39.32
33.37	58.40	Aug.	32.68	32.92
33.37	74.21	July	42.10	42.52
33.37	74.21	June	42.10	42.52
33.37	37.32	May	20.32	20.12
33.37	37.32	April	20.32	20.12
33.37	37.32	March	20.32	20.12
33.37	37.32	Feb.	20.32	20.12
33.37	42.59	Jan.	23.49	23.32
<hr/>			<hr/>	
\$400.44	\$621.75		\$352.77	\$347.04

\$231.31 increase

\$5.73 less