

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Bilyeu)
Water Co., LLC for a certificate of)
convenience and necessity authorizing it to)
construct, install, operate and maintain a water)
system and to supply and render water service)
to the public located in and around an)
unincorporated area in Christian County,)
Missouri.

Case No. WA-2007-0270

RECOMMENDATION FOR APPROVAL OF APPLICATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through counsel, and for its Recommendation for Approval of Application ("Recommendation"), states the following to the Missouri Public Service Commission ("Commission").

1. On January 17, 2007, Bilyeu Water Company, LLC ("Company") filed an Application with the Commission, requesting that it be issued a Certificate of Convenience and Necessity (Certificate) to provide water service to the public in an existing development in Christian County known as Bilyeu Ridge Hills Subdivision.

2. Section 393.170(3), RSMo 2000, provides, among other things, that the Commission may issue a Certificate if it is "necessary or convenient for the public service." See also *In the Matter of Tartan Energy Company, et al.*, 3 Mo. PSC 3d 173, 177 (1994), wherein the Commission set forth five criteria that should be met before a Certificate is issued.

3. The Staff believes that the Company has met the requirements set forth in Section 393.170 (3), as well as the criteria established by the Commission in the Tartan Energy case. As a result, the Staff believes the Commission should approve the Company's Application.

4. The Staff's specific recommendations to the Commission regarding approval of the Company's Application are found on Page 4 of the Staff Memorandum that is included in Appendix A attached hereto.

WHEREFORE, the Staff submits this Recommendation for the Commission's consideration and respectfully requests that the Commission issue an order consistent with the recommendations contained in the Staff Memorandum that is included in Appendix A.

Respectfully Submitted,

/s/ **Kevin A. Thompson**

Kevin A. Thompson
General Counsel
Missouri Bar No. 36288

Attorney for the Staff of the
Missouri Public Service Commission

P.O. Box 360
Jefferson City, MO 65102
573-751-6514 (telephone)
573-526-6969 (facsimile)
kevin.thompson@psc.mo.gov (e-mail)

CERTIFICATE OF SERVICE

I hereby certify that copies of this Recommendation have been mailed with first-class postage, hand-delivered, transmitted by facsimile or transmitted via e-mail to all counsel and/or parties of record this 19th day of April 2007.

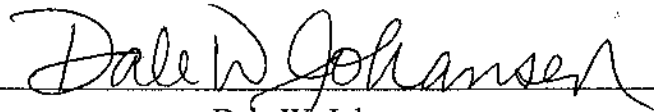
/s/ **Kevin A. Thompson**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI


AFFIDAVIT OF DALE W. JOHANSEN

STATE OF MISSOURI)
) SS CASE NO. WA-2007-0270
COUNTY OF COLE)

COMES NOW Dale W. Johansen, being of lawful age, and on his oath states the following: (1) that he is the Manager of the Missouri Public Service Commission's Water & Sewer Department; (2) that he participated in the preparation of the foregoing Recommendation and the Case File Memorandum that is included in the following appendix; (3) that he has knowledge of the information presented in the foregoing Recommendation and the Case File Memorandum that is included in the following appendix; and (4) that the information presented in the foregoing Recommendation and the Case File Memorandum that is included in the following appendix is true and correct to the best of his knowledge, information and belief.


Dale W. Johansen

Subscribed and sworn to before me this 19th day of April 2007.


Notary Public



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

My Commission Expires: 9-21-10

APPENDIX A

STAFF MEMORANDUM & ATTACHMENTS

CASE No. WA-2007-0270

Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WA-2007-0270
Bilyeu Water Company, LLC

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
James Merciel – Water & Sewer Department
Jerry Scheible – Water & Sewer Department
Bill Nickle – Water & Sewer Department
Kofi Boateng – Auditing Department
Paul Harrison – Auditing Department
Ron Bible – Financial Analysis Department
Greg Macias – Engineering and Management Services Department

/s/ Dale W. Johansen **04/19/07**
Project Coordinator Date

/s/ Kevin A. Thompson **04/19/07**
General Counsel's Office Date

SUBJECT: Recommendation Regarding Application for
Certificate of Convenience and Necessity

DATE: April 19, 2007

BACKGROUND

On January 17, 2007 (unless noted otherwise, all dates herein refer to the year 2007), Bilyeu Water Company, LLC ("Company") filed an Application with the Commission, seeking a Certificate of Convenience and Necessity ("certificate") to provide water service to an existing development in Christian County known as Bilyeu Ridge Hills Subdivision.

On January 18, the Commission issued its **Order Directing Notice and Setting Date for Submission of Intervention Requests** requiring that notice of the Application be sent to legislators, county officials and newspapers serving the affected area. This order also set February 6 as an intervention deadline for interested parties. No applications to intervene were submitted by the established deadline, nor have any been submitted since.

On February 7, the Commission issued its **Order Directing Staff to File a Pleading Stating When it Will File a Recommendation in this Case** in which it set February 13 as the filing date for the status report.

On February 15, the Commission Staff ("Staff") filed its **Staff's Status Report and Motion for Leave to File Out-of-Time** in which it stated that it believed it would be able to file its recommendation by April 7. Also on February 15, the Commission issued its **Order Granting Leave to File Out of Time and Directing Staff to File a Recommendation** in which it set April 9 as the date by which the Staff was to file its recommendation.

On April 9, the Staff requested an additional extension regarding the filing of its recommendation. By an order that it issued on April 10, the Commission set April 19 as the date for the filing of Staff's recommendation.

STAFF'S INVESTIGATION

As noted at the beginning of this Memorandum, Staff members from the Auditing, Water & Sewer and Engineering & Management Services Departments participated in the Staff's investigation of the Application. All Staff participants and the assigned attorney from the General Counsel's Office were provided the opportunity to review and comment on this Memorandum prior to it being filed. Jerry Scheible of the Water & Sewer Department created the initial draft of this Memorandum and comments received from the reviewers were incorporated therein to create this final version of the memo.

Staff's investigation of the Application included a review of the included feasibility study and field visits. The Staff has also prepared audit and rate design evaluations.

DESCRIPTION OF THE FACILITIES

There are currently 53 residential customers on the water system. The owners of the Company, who are also the original subdivision developers, expect the entire 77 lot subdivision to be developed in the next three (3) years. For purposes of calculating the Company's initial customer rates, the Staff has assumed that the Company will have a total of 65 residential customers within the next two years ("the two-year level").

The water system consists of a groundwater well and well house, a pair of 6,700 gallon storage tanks, six small pressure tanks, two pressure booster pumps and distribution piping. Most of the facilities were originally put in service in 1992. The owners of the Company have been operating the water system as a non-regulated utility and initially did not charge for service. There have been no customer complaints submitted to the Commission by the Company's customers.

The subdivision residences are served by individual on-site septic systems for sewage disposal.

STAFF'S FINDINGS & CONCLUSIONS

Based upon its review of the documents and information provided by the Company and an inspection of the system, and its analysis of the "Tartan Energy Criteria" as discussed in the following section, the Staff has concluded that the Company's request for a certificate should be granted.

As it normally does in certificate cases, and specifically for existing systems that are becoming regulated, the Staff has treated the supply and storage facilities, and related real estate, and customer meters as rate base for purposes of calculating the Company's initial customer rates. Additionally, the Staff has considered the cost of processing the Company's application for a certificate as a recoverable cost. The Staff also notes that the Company intends to replace the existing storage facilities with larger storage facilities within the next couple of years, which will result in additional rate base for the Company.

The Staff's "ratemaking worksheet" is attached hereto as Attachment 1. This worksheet includes the Staff's calculation of the Company's rate base and CIAC, as well as the expenses used by the Staff in calculating the Company's initial customer rates. As shown on that worksheet, water rates are proposed to consist of a monthly customer charge of \$11.56 per customer equivalent and a commodity/usage charge of \$2.39 per 1,000 gallons. Under these rates, a residential customer using 6,000 gallons of water would have a bill of \$25.93 per month.

In addition to these monthly rates, the Staff also proposes a connection charge of \$610. This charge is based upon the cost of making a tap on the water main, and installing and connecting a service pipe to the property line along with a meter setting. It does not include the cost of the meter which is provided by the Company and will be rate base. This charge would apply to new customers where a service pipe and meter setting does not exist; it would not apply to existing customers, or for new customers where a service pipe and meter setting was constructed by a developer when the water system was constructed.

THE TARTAN ENERGY CRITERIA

Staff analyzed the Company's ability to meet the Tartan Energy criteria, as slightly modified by the Staff, as has historically been done in evaluating service area certificate applications. Conclusions regarding this matter are set out below.

Is there a need for the proposed service, and is there a need for the Company to provide the proposed service? There is a need for service in the requested area in that there are existing customers and room for additional development. Regarding the matter of whether there is a need for the Company to be the entity providing service, the service area neither falls within any municipal limits nor within a public water supply district. The only other alternative available appears to be an association of customers that the developer could promote. The home

owners within the subdivision have expressed no interest in controlling the water system. As a result, the Staff believes there is a need for the Company to be the water service provider.

Is the Company qualified to provide the proposed service? The Staff believes that the Company has demonstrated technical and managerial ability to develop and operate the water system, in that the system is presently in existence and running. Jamie and Stacy Bilyeu (husband and wife), who are residents of the subdivision, are the licensed operators of the water system. Additionally, the Company's owner is the subdivision developer and thus has an interest in the successful operation of the system.

Does the Company have the financial ability to provide the proposed service? The Staff believes that the Company has the financial capability through owner equity investments and future bank financing (the Company currently has no debt) to successfully operate the system.

Is the Company's proposal economically feasible? The Staff, having evaluated both actual and estimated expenses, believes the proposal for the water system within the requested area is economically feasible – if the Staff's proposed rates are adopted.

Does the Company's proposal promote the public interest? The Staff believes the Company's proposal promotes the public interest because a reliable central water system is desirable for the involved customers. Additionally, the Staff believes this criterion has been met since the other criteria have been met.

ADDITIONAL MATTERS

The Company will need to keep its books and records in accordance with the Uniform System of Accounts, as is required of all regulated utilities. The Company will also need to prepare and file for approval a complete tariff for water service. The Staff will assist the Company in adapting the Water & Sewer Department's commonly used example tariff for small water utilities for the Company's use, and is also available to assist the Company in setting up its books and records.

The Staff has communicated its positions regarding the subject application to the Company via a letter faxed on April 5, with which it included the then-existing ratemaking worksheet. The Staff also faxed the ratemaking worksheet that is attached hereto to the Company's representatives on April 18. The Staff's letter stressed the need for the Company, as a regulated utility, to comply with obligations including, but not limited to: filing an annual report; paying an annual assessment fee; providing safe and adequate service at just and reasonable rates; complying with all relevant state and federal statutes and rules; and complying with all orders of the Commission. That letter also noted that the failure to comply with these, or other obligations, might result in

the assessment of penalties and/or in the placement of the Company in receivership upon petition to the Circuit Court. As of the writing of this Memorandum, the Company has not yet formally responded to the Staff's letter or ratemaking worksheet, but based upon conversations with the Company's owner the Staff does not anticipate any objections to this recommendation. The Staff also provided the ratemaking worksheet that is attached hereto to the Office of the Public Counsel ("OPC") on April 18, and a representative of the OPC responded to the Staff on April 19 stating that they had no questions or comments about the worksheet.

The Staff notes that Bilyeu Water Company, as a utility that is not yet regulated, has had no requirements to submit any annual reports or pay any annual assessments. To the Staff's knowledge, there are no compliance-related issues involving the Missouri Department of Natural Resources. Also, the Company is presently in good standing with the Missouri Secretary of State and has no other matters pending before the Commission.

STAFF'S RECOMMENDATIONS

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

1. Grants the Company's request for a Certificate of Convenience and Necessity to provide water service to the proposed service area;
2. Requires the Company to submit a complete tariff for water service, which include the customer rates described herein;
3. Requires the Company to submit semi-annual customer number reports to the Water & Sewer Department until such time that it submits its first rate increase request;
4. Requires the Company to keep its books and records in accordance with the Uniform System of Accounts; and,
5. Recognizes that nothing in this recommendation or in any order issued by the Commission in this case shall bind the Commission on any ratemaking issue in any future rate proceeding.

After the Company submits a complete tariff, the Staff will submit an additional recommendation regarding the approval of that tariff.

Attachment: Staff's Ratemaking Worksheet

Memo Attachment 1

Staff's Ratemaking Worksheet

**BILYEU WATER COMPANY - MO PSC CASE NO. WA-2007-0270
RATE BASE, EXPENSES AND RATE CALCULATION WORKSHEET**

Ultimate Project Design

77 Single family homes over 3 years
65 customers at year two level
4,680,000 gallons annual water use for 65 customers
12,822 gallons average daily use

6,000 gallons per customer per month
5,544,000 gallons total annual water use
15,189 gallons average daily use

Requested Rates - Annual Revenues(at year two customers) - Customer Bill

\$12.50 Monthly Minimum	Annual Revenue	\$ 24,024
\$3.05 Commodity per 1,000 gal.	Bill for 6,000 gallons	\$ 30.80

Plant In Service, Rate Base and Depreciation Expense

Description of Plant Item	Original Plant Costs	Net Plant at 12/31/06	Rate Base at 12/31/06	CIAC at 12/31/06	Depreciation/Amortization	
					Rate	Expense
1 Pipelines - distribution *	\$ 75,705	\$ 52,994	\$ -	\$ 52,994	2.00%	N/A
2 Water Meters **	\$ 2,520	\$ 2,268	\$ 2,268	\$ -	10.00%	\$ 252
3 Land *	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	N/A	N/A
4 Well *	\$ 11,935	\$ 8,355	\$ 8,355	\$ -	2.00%	\$ 239
5 Wellhouse *	\$ 5,100	\$ 3,188	\$ 3,188	\$ -	2.50%	\$ 128
6 Pumps/Controls **	\$ 2,900	\$ 2,610	\$ 2,610	\$ -	10.00%	\$ 290
7 Storage-ground tank *	\$ 7,850	\$ 4,906	\$ 4,906	\$ -	2.50%	\$ 196
8 Storage-bladder tanks **	\$ 1,200	\$ 1,170	\$ 1,170	\$ -	2.50%	\$ 30
9 Engineering *	\$ 8,500	\$ 5,313	\$ 1,541	\$ 3,772	2.50%	\$ 62
10 Office Furn/Equip **	\$ 540	\$ 513	\$ 513	\$ -	5.00%	\$ 27
11 Organization ***	\$ 3,000	\$ 3,000	\$ 3,000	\$ -	20.0%	\$ 600
TOTALS	\$ 125,250	\$ 90,315	\$ 33,550	\$ 56,765		\$ 1,823

* Net Plant calculation based on assumed in-service date of 01/01/1992 (15 years of depreciation/amortization).
 ** Net Plant calculation based on assumed in-service date of 01/01/2006 (1 year of depreciation).
 *** To be amortized over 5 years beginning with issuance of certificate, with rate base treatment for unamortized balance.

Note: For the Company's books, the "Rate Base at 12/31/06" balances shown will be the beginning plant/rate base balances and the "CIAC at 12/31/06" balances shown will be the beginning plant/CIAC balances.

Ratemaking Income Statement and Rate Design Allocations

Expenses - Descriptor (most from Company's year two level)	Total	Customer	Commodity
1 Salaries (operations)	\$ 2,400	\$ 1,200	\$ 1,200
2 Salaries (management)	\$ 1,200	\$ 600	\$ 600
3 Billing and Collection	\$ 1,130	\$ 1,130	\$ -
4 Meter Reading	\$ 780	\$ 780	\$ -
5 Electric and Phone	\$ 2,100	\$ 735	\$ 1,365
6 Chemicals/Treatment	\$ -	\$ -	\$ -
7 Monitoring and Sampling (mileage to well 6 days/week)	\$ 600	\$ -	\$ 600
8 Materials and Supplies	\$ 900	\$ -	\$ 900
9 Maintenance	\$ 2,000	\$ 700	\$ 1,300
10 Office Supplies	\$ 400	\$ 400	\$ -
11 Postage	\$ 210	\$ 210	\$ -
12 Office Rent	\$ 600	\$ 600	\$ -
13 Legal and Accounting	\$ 500	\$ 500	\$ -
14 Fees - Lab	\$ 80	\$ -	\$ 80
15 Fees - MDNR	\$ 370	\$ -	\$ 370
16 Operator Certification	\$ 300	\$ -	\$ 300
17 Property Taxes	\$ -	\$ -	\$ -
18 Insurance	\$ 600	\$ 300	\$ 300
19 Contingencies/Miscellaneous	\$ 500	\$ 250	\$ 250
20 Interest 0% 0% debt	\$ -	\$ -	\$ -
21 Return 9% 100% equity	\$ 3,019	\$ 520	\$ 2,499
22 Depreciation/Amortization (amortization of cost of certificate case)	\$ 1,823	\$ 879	\$ 944
23 Income Tax	\$ 604	\$ 104	\$ 500
24 PSC Assessment 0.5490% of revenue	\$ 110	\$ 110	\$ -
25 Total Cost of Service	\$ 20,227	\$ 9,019	\$ 11,208

Proposed Rates - Customer Bil (at year two customers)

Customer Charge	Commodity Rate	Customer Bill for 6,000 gal.
\$11.56	\$2.39	\$25.93