

MEMORANDUM

From: Shawn Lafferty, Public Utility Accountant – Office of the Public Counsel

Date: March 22, 2012

Re: Lincoln County Water and Sewer, LLC. Application for a Certificate of Convenience and Necessity
Case No. WA-2012-0018 / SA-2012-0019

On July 19, 2011, Lincoln County Water and Sewer, LLC (“LCSW”) filed an application for a Certificate of Convenience and Necessity (“CCN”) authorizing it to own, operate, maintain, control and manage Water and Sewer Systems in Lincoln County, Missouri. These areas generally encompass two existing developments, Bennington and Rockport.

On February 10, 2012, the Missouri Public Service Commission Staff (“Staff”) filed its recommendation requesting the Commission approve the *Application* for a Certificate of Convenience and Necessity.

The Missouri Office of the Public Counsel (“Public Counsel” or “OPC”) has concerns regarding Staff’s recommendation. Public Counsel’s issues are as follows:

Bennington Water Plant In-Service, Depreciation Expense and Accumulated Depreciation Reserve
Account 325.100 – Submersible Pumps reflects a cost of \$39,356 for pumps acquired in May, 2000. The depreciation rate on the pumps is 10%. For purposes of calculating rates, Staff has reflected accumulated reserve for depreciation of \$43,647. Additionally, Staff is reflecting annual depreciation expense in cost of service of \$3,936 for the pump despite the fact the plant has been fully depreciated. OPC recommends there be no depreciation allowed on the fully depreciated pump, and that the accumulated depreciation reserve be set at the cost of the plant or \$39,356.

The net impact of OPC’s recommended changes on Staff’s proposed Bennington water rates are as follows:

Change (reduction) in annual depreciation expense	\$ (3,936)
Change in RoR on rate base ¹	\$ 284
Net change (decrease) in proposed rates	\$ (3,652)

¹Calculated as follows

	Per Staff	Per OPC
Submersible Pump Plant in Service	\$39,356	\$39,356
Accumulated Depreciation Reserve	\$43,647	\$39,356
Net Rate Base	\$(4,291)	\$0
Allowed RoR	6.61%	6.61%
Net Impact on Rates	(\$284)	\$0

Additional Documentation

Additional documentation should be required from LCSW based upon items included in cost of service:

- Proof of attainment of insurance coverage
- Proof of attainment of computer equipment
- Maintenance of time sheets (for future rate cases)
- Maintenance of mileage logs (for future rate cases)

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Meter installation

Staff recommends requiring meter installations. It will not impact customer rates if LCSW does not install meters, but as a meter is installed a customer will convert from a flat-rate customer charge only to a combined customer and usage charge. Therefore, if LCSW does undertake meter installations over a period of time, status reports of meter installations, by customer should be provided to Staff and OPC.

Subdivision development fees:

Subdivision development fees have been collected to cover the cost of the water distribution mains and collecting sewers in both the Bennington and Rockport developments. Although Staff's memorandum indicates it considers this plant as "contributed assets" (see top of page 4), Staff excluded the plant and did not reflect CIAC in the records (for reasons identified at the bottom of page 3 and top of page 4 on Staff's memorandum). The record should more specifically spell out that the water distribution mains and collecting sewers were, and are, to be excluded from plant in-service/rate base because they are paid via the subdivision development fees.