

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

In the Matter of Timber Creek Sewer)	
Company, Inc.'s Tariff Designed to)	Case No. SR-2008-0080
Increase Rates for Sewer Service.)	

SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION

COMES NOW the Staff of the Missouri Public Service Commission and, submits the following Suggestions in Support of Unanimous Stipulation.

On January 4, 2008, Timber Creek Sewer Company ("Timber Creek" or "Company"), Hunt Midwest Real Estate Development, Inc. ("Hunt Midwest"), the Staff, and the Office of the Public Counsel ("OPC") filed their Unanimous Stipulation ("Stipulation") in this case. (See EFIS Document 45.) Paragraph 16 of the Stipulation provides that the Staff will file either a pleading or a case file memorandum containing its suggestions in support of the Stipulation, and explaining its rationale for entering into the Stipulation. The Staff files these Suggestions to fulfill that commitment.

The sole issue addressed by the Stipulation is the amount that Timber Creek should charge for each new connection to its sewer system. When Timber Creek submitted its rate increase request, the connection fee was \$1,600 per new connection. The Company sought to increase the connection fee to \$3,200 per connection. Eventually, the Company and the Staff executed a Disposition Agreement (in which OPC did not join), by which they agreed to increase the connection fee to \$2,650 per connection.

The payments that the Company receives as a connection fee constitute Contributions in Aid of Construction ("CIAC"), which is offset against Plant in Service when the Company's

Rate Base is determined. The amount of the connection fee does not affect current rates. However, the larger the connection fee is, the lower the rate base will be in the future, and the lower the rates will be in the future; and the lower the connection fee, the higher the future rate base and the higher the future rates. The connection fee is usually borne, initially, by the residential developers in the service territory, who then pass the cost along to the home buyers in the form of higher prices for the lots they sell.

Timber Creek's service territory is about one-half developed. The existing sewage treatment facility is sufficient to serve the developed lots, and has been largely paid for by the existing \$1,600 connection fee per customer. However, Timber Creek will have to develop additional treatment capacity, which the new customers should pay for. The existing customers should not have to pay for this additional capacity, since they have already paid for the cost of the treatment facility that serves them.

The cost of the additional treatment capacity – and the determination of the appropriate connection fee – is not known, and can only be estimated. Staff member Jim Russo estimated the appropriate connection fee to be \$2,650 per new connection, as shown on the CIAC Fee Calculation Worksheet, which was attached to the Notice of Agreement Regarding Disposition of Small Company Rate Increase Request (EFIS Document No. 3) as Attachment F.

As that worksheet shows, the existing plant has a capacity of 530,000 gallons per day ("GPD"), and cost \$1,836,081, so the cost of the existing treatment plant was \$3.46 per GPD. At a design usage of 370 GPD per customer, the CIAC required for the existing plant was \$1,282 per customer. But the Company collected \$1,600 per customer, so it "over-collected" CIAC by \$318 per customer (\$1,600 - \$1,282).

The Staff sought to determine how much the Company should “under-collect” from future customers, in order to set the total CIAC collected through the connection charges equal to the total cost of Plant in Service for both existing plant and new plant.

Mr. Russo determined this amount to be \$310 per new connection, as shown in the CIAC Fee Collection Worksheet. He explained his rationale in his Direct Testimony (EFIS Document 43), at page 5, lines 3-10. The existing plant has the capacity to serve 659 customers, and the next phase of the plant will have the capacity to serve 675 customers. So the Company will need to “under-collect” by $\$318 \times 659 / 675 = \310 per new connection.

Staff member Jim Merciel estimated the construction cost for the new construction will be \$8.00 per GPD (compared with \$3.76 per GPD for the existing plant). See Merciel Direct Testimony (EFIS Document 42). Department of Natural Resources regulations generally assume that each connection will require a capacity of 370 GPD, so the capacity charge per new connection would be \$2,960. After offsetting this amount by the “under-collection” mentioned above, the CIAC charge for new connections should be \$2,650 per connection.

However, the parties have agreed, in Paragraph 7 of the Unanimous Stipulation, that the connection fee for each of the remaining 47 lots in Hunt Midwest’s Running Horse Phase 3 Subdivision will be limited to the \$1,600 that has heretofore been paid for all new connections. As a result, the total CIAC that Timber Creek will collect will be $(\$2,650 - \$1,600) = \$1,050$ per lot (for each of 47 lots) less than the *estimated* total construction cost of the treatment plant.

The ratepayers will not, however, have to bear the burden of this “under-collection.” Timber Creek agreed, in Paragraph 9 of the Stipulation that it will not at any time in the future seek to collect this \$1,050 difference from the ratepayers.

The CIAC that Timber Creek collects will be slightly less than the estimated total cost of all treatment plant, but this cost cannot be passed on to the ratepayers. Timber Creek, the Staff, and OPC have all agreed upon this connection fee, and it will not harm ratepayers. The Commission should therefore approve the proposed \$2,650 connection fee for all future connections in Timber Creek's service territory, except for the 47 remaining lots in Hunt Midwest's Running Horse Phase 3 Subdivision, where the connection fee will stay at \$1,600.

WHEREFORE, the Staff submits these Suggestions in Support of Unanimous Stipulation for the Commission's information and consideration in this case.

Respectfully submitted,

/s/ **Keith R. Krueger**

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or e-mailed to all counsel of record on this 10th day of January 2008.

/s/ **Keith R. Krueger**