

STAFF RECOMMENDATION

APPENDIX A

Case File Memo and Attachments

Note: To browse through this document by item, click on the "Bookmark" tab at the top of the menu bar to the left of the screen and then click on the item that you want to see.

Table of Contents for Staff Recommendation Filing Packet

Hickory Hills Water & Sewer Company

MO PSC Case No. WR-2005-0126

- Item 1: Company/Staff Disposition Agreement
- Item 2: Attachment 1 to Case File Memo – Ratemaking Income Statement, Rate Design Worksheet and Customer Bill Comparison
- Item 3: Attachment 2 to Case File Memo – Revenue Requirement Audit Workpapers
- Item 4: Attachment 3 to Case File Memo – Overview of Company and Customer Service Operations

Official Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WR-2005-0126 - - - Hickory Hills Water & Sewer Company, Inc.

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
Lesley Preston – Auditing Department
Jolie Mathis – Engineering & Management Services Department
Nila Hagemeyer – Engineering & Management Services Department
John Kiebel – Financial Analysis Department
James M. Russo – Water & Sewer Department
Jerry Scheible – Water & Sewer Department

<u>/s/ Dale W. Johansen</u>	<u>12/08/04</u>
Project Coordinator	Date

<u>/s/ Cliff E. Snodgrass</u>	<u>12/08/04</u>
General Counsel's Office	Date

SUBJECT: Staff Recommendation for Approval of Tariff Revisions and Agreement
Regarding Disposition of Small Company Rate Increase Request

DATE: December 8, 2004

Background

Hickory Hills Water & Sewer Company, Inc. ("Company") initiated the subject small company rate increase request ("Request") by submitting a letter to the Secretary of the Commission, which was received at the Commission's offices on March 30, 2004 (hereafter, all dates refer to the year 2004 unless otherwise noted). The Company submitted its Request under the provisions of Commission Rule 4 CSR 240-3.635, Water Utility Small Company Rate Increase Procedure ("Small Company Rate Increase Procedure").

By its Request, the Company was seeking Commission approval of customer rates intended to generate an increase of \$9,000 in its total annual water service operating revenues. As stated by the Company in its Request letter, the reasons for the requested increase in its water service operating revenues are: increases in operation and maintenance expenses; increase in monitoring requirements and increase in labor costs.

The Company provides water service to approximately 49 customers, who are residential customers. The Company's current rates (those resulting from the Company's last rate case) went into effect on April 9, 1999.

Upon receipt of the Company's letter that initiated the Request, personnel in the Commission's Data Center scanned the letter and entered it into the Commission's electronic filing and information system ("EFIS") and the system assigned Work I.D. No. QW-2004-0008 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 is identified as item number 1 in the EFIS tracking file for the Request.

By a letter dated June 28, 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 2 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 Accounting, Engineering & Management Services, Financial Analysis and Water & Sewer Departments participated in the Staff's investigation of the Company's Request. All Staff participants, and all of their respective up-line supervisors, 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.

In response to the Company's initial customer notice, the W/S Dept Staff received two responses from customers regarding the proposed increase. These customer responses addressed the level of the proposed increase and opposition to the proposed Debt Reduction Surcharge. Copies of the customers' letters, faxes and EFIS public comments forms, the Staff's correspondence to customers and the W/S Dept's customer contact log are included in item number 3 in the EFIS tracking file for the Request. The W/S Dept provided copies of the customers' e-mail and its customer contact log, to the OPC and the Company shortly after the customer comment period ended.

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 and 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 \$8,178 in the Company's annual water service operating revenues is warranted.

In addition to its conclusion regarding the increase in the Company's annual operating revenues, the Staff concluded that certain changes in the Company's business operations are warranted.

On October 14, the Staff forwarded information regarding the above items to representatives of the Company and the OPC for their review and response. A copy of the Staff's correspondence transmitting the information to the Company and the OPC is identified as item number 4 in the EFIS tracking file for the Request.

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 *Agreement Regarding Disposition of Small Company Rate Increase Request* ("Disposition Agreement") was reached between the Staff and the Company. The Staff and the Company also reached an agreement regarding the tariff revisions needed to implement the terms of the Disposition Agreement.

The Disposition Agreement reflects the following agreements: (1) that an increase of \$8,178 in the Company's water annual operating revenues is necessary; (2) that certain changes to the Company's administrative operations are appropriate; (3) 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; and (4) 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 5 & 6 of the Disposition Agreement, which the Staff filed in this case on November 16 and which can be found in the EFIS case file as item number 3.)

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 November 10, 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, which was filed in the case papers on November 16, and which can be found in the EFIS case file as item number 3, the W/S Dept Staff received 1 phone call. The customer response addressed the size of the increase.

By a letter that was stamped received by personnel in the Commission's Data Center on November 4, 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 scanned the filing and entered it 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 November 16.)

The OPC has stated to Staff that it does not oppose Commission approval of the Company's proposed tariff revisions.

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 income statement, rate design worksheet and customer bill comparison are included in Attachment 1; (2) the Staff's revenue requirement audit workpapers are included in Attachment 2; and (3) the Staff's overview of the Company and its customer service procedures and practices is 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 2004/2005 (the Company is paying its FY2005 assessment on an annual basis), and the annual report information reviewed covers calendar years 1997 through 2003.

Additionally, the Staff notes that the Company has other matters pending before the Commission in a companion case to this filing, Case No. SR-2005-0126; however, it is the Staff's opinion that approval of the subject tariff revisions in this case will not affect the matters pending in that case.

Lastly, the Staff notes that the Company received no "notice of violation" from the Missouri Department of Natural Resources during the test year used for the Request and has also not received any since the end of the test year to date.

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 November 4, 2004, to be effective for service rendered on and after December 20, 2004;
- * Approves the Disposition Agreement submitted in this case;
- * Directs the Company to comply with the terms of the Disposition Agreement.

List of Attachments

- | | |
|---------------|--|
| Attachment 1: | Rate-making Income Statement, Rate Design Worksheet and Customer Bill Comparison |
| Attachment 2: | Revenue Requirement Audit Workpapers |
| Attachment 3: | Overview of Company and Customer Service Operations |

**Attachment 1 – Ratemaking Income Statement, Rate Design
Worksheet and Customer Bill Comparison**

HICKORY HILLS WATER & SEWER COMPANY

Rate Making Income Statement-Water

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	8,285
2	Other Operating Revenues *	\$	-
3	Total Operating Revenues	\$	8,285
4	* See "Revenues - Current Rates" for Details		

Cost of Service

Item	Amount
1 Pumping Equipment-Purchased Power	\$ 875
2 Water Treatment Expense-Chemicals	\$ 89
3 Water Treatment -Testing/Laboratory Fees	\$ 288
4 Maintenance of Parts/Equipment	\$ 1,176
5 Maintenance Expense-Outside Labor	\$ 237
6 Administration & General - Salaries	\$ 11,784
7 Office Supplies	\$ 188
8 Bookkeeping	\$ 477
9 Employee Pensions & Benefits	\$ 750
10 Regulatory Commission Expense	\$ 47
11 Miscellaneous General Expenses	\$ 505
12 Sub-Total Operating Expenses	\$ 16,416
13 Property Taxes	\$ -
14 MO Franchise Taxes	\$ -
15 Employer FICA Taxes	\$ -
16 Federal Unemployment Taxes	\$ -
17 State Unemployment Taxes	\$ -
18 State & Federal Income Taxes	\$ 6
19 Sub-Total Taxes	\$ 6
20 Depreciation Expense	\$ 10
21 Amortization of Utility Plant (computer system)	\$ -
22 Sub-Total Depreciation/Amortization	\$ 10
23 Return on Rate Base	\$ 31
24 Total Cost of Service	\$ 16,463
25 Overall Revenue Increase Needed	\$ 8,178

HICKORY HILLS WATER & SEWER COMPANY

Development of Tariffed Rates-Water

Agreement is to increase currently tariffed rates by a percentage equal to the agreed-upon overall revenue increase divided by the revenues generated by the currently tariffed rates.

Revenues Generated by Current Tariffed Rates	\$ 8,285
Agreed-Upon Overall Revenue Increase	\$ 8,178
Percentage Increase Needed	98.698%

Metered Customer Rates

Meter Size	Current Service Charge	Proposed Service Charge	Current Usage Rate	Proposed Usage Rate
3/4"	\$ 6.55	\$ 13.01	\$ 1.300	\$ 2.583
1"	\$ 6.55	\$ 13.01	\$ 1.300	\$ 2.583
2"	\$ 6.55	\$ 13.01	\$ 1.300	\$ 2.583
3"	\$ 6.55	\$ 13.01	\$ 1.300	\$ 2.583
4"	\$ 6.55	\$ 13.01	\$ 1.300	\$ 2.583
6"+	\$ 6.55	\$ 13.01	\$ 1.300	\$ 2.583

HICKORY HILLS WATER & SEWER COMPANY

Residential Customer Bill Comparison-Water

Rates for 5/8" Meter

<u>Current Base Service Charge</u>	<u>Proposed Base Service Charge</u>	<u>Current Usage Rate</u>	<u>Proposed Usage Rate</u>
\$6.55	\$13.01	\$1.300	\$2.583

current service charge is monthly charge

usage rate is per 1,000 gallons used

MONTHLY BILL COMPARISON

6,000 gallons/month usage

Current Rates

Service Charge	\$ 6.55
Usage Charge	\$ 7.80
Total Bill	\$ 14.35

Proposed Rates

Service Charge	\$ 13.01
Usage Charge	\$ 15.50
Total Bill	\$ 28.51

INCREASES

Service Charge

\$ Increase	\$6.46
% Increase	98.63%

Usage Charge

\$ Increase	\$7.70
% Increase	98.69%

Total Bill

\$ Increase	\$14.16
% Increase	98.66%

Attachment 2 – Revenue Requirement Audit Workpapers

Accounting Schedule: 1
Preston
15:02 09/30/2004

Hickory Hills Water & Sewer Company, Inc
Case: WR-04-008R
Twelve Months Ended December 31, 2003

Revenue Requirement

Line		10.24%
		Return
(A)	(B)	
1	Net Orig Cost Rate Base (Sch 2)	\$ 300
2	Rate of Return	10.24%

3	Net Operating Income Requirement	\$ 31
4	Net Income Available (Sch 8)	\$ (8,141)

5	Additional NOIBT Needed	\$ 8,172
6	Income Tax Requirement (Sch 10)	
7	Required Current Income Tax	\$ 6
8	Test Year Current Income Tax	\$ 0

9	Additional Current Tax Required	\$ 6
10	Required Deferred ITC	\$ 0
11	Test Year Deferred ITC	\$ 0

12	Additional Deferred ITC Required	\$ 0

13	Total Additional Tax Required	\$ 6

14	Gross Revenue Requirement	\$ 8,178

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Rate Base

Line Description		Amount
(A)	(B)	
1 Total Plant in Service (Sch 3)	\$	21,362
Subtract from Total Plant		
2 Depreciation Reserve (Sch 6)	\$	7,262

3 Net Plant in Service	\$	14,100
Add to Net Plant in Service		
4 Cash Working Capital (Sch)	\$	0
Subtract from Net Plant		
5 Federal Tax Offset 0.0000 %	\$	0
6 State Tax Offset 0.0000 %		0
7 City Tax Offset 0.0000 %		0
8 Interest Expense Offset 0.0000 %		0
9 Contribution in aid of Construction		13,800

10 Total Rate Base	\$	300
=====		

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Total Plant in Service

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)	(E)	(F)
Source of Supply & Pumping Plant							
1	314.000	Wells & Springs	\$ 10,000	\$ 0	100.0000	\$ 0 P-1	\$ 10,000
2		Total	\$ 10,000	\$ 0		\$ 0	\$ 10,000
Pumping Plant							
3	325.000	Electric Pumping Equipment	\$ 6,393	\$ 0	100.0000	\$ 0 P-2	\$ 6,393
4		Total	\$ 6,393	\$ 0		\$ 0	\$ 6,393
Transmission & Distribution Plant							
5	343.000	Transmission & Distribution Mains	\$ 3,000	\$ 0	100.0000	\$ 0 P-3	\$ 3,000
6	346.000	Meters	0	300	100.0000	0 P-6	300
7		Total	\$ 3,000	\$ 300		\$ 0	\$ 3,300
General Plant							
8	398.000	Miscellaneous Equipment	\$ 869	\$ 0	100.0000	\$ 0 P-4	\$ 869
9	399.000	Other Tangible Plant	800	0	100.0000	0 P-5	800
10		Total	\$ 1,669	\$ 0		\$ 0	\$ 1,669
11		Total Plant In Service	\$ 21,062	\$ 300		\$ 0	\$ 21,362

Preston

15:02 09/30/2004

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Adjustments to Total Plant

Adj	Total Co	Mo Juris
No Description	Adjustment	Adjustment

Meters	P-6	\$ 300
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1. To reflect the replacement of the master meter.	\$ 300
(Preston)	

Accounting Schedule: 5
Preston
15:02 09/30/2004

Hickory Hills Water & Sewer Company, Inc
Case: WR-04-008R
Twelve Months Ended December 31, 2003

Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
		(A)	(B)	(C)	(D)
Source of Supply & Pumping Plant					
1	314.000	Wells & Springs	\$ 10,000	0.0000	\$ 0
2		Total	\$ 10,000		\$ 0
Pumping Plant					
3	325.000	Electric Pumping Equipment	\$ 6,393	0.0000	\$ 0
4		Total	\$ 6,393		\$ 0
Transmission & Distribution Plant					
5	343.000	Transmission & Distribution Mains	\$ 3,000	0.0000	\$ 0
6	346.000	Meters	300	3.3000	10
7		Total	\$ 3,300		\$ 10
General Plant					
8	398.000	Miscellaneous Equipment	\$ 869	0.0000	\$ 0
9	399.000	Other Tangible Plant	800	0.0000	0
10		Total	\$ 1,669		\$ 0

11		Total Depreciation Expense	\$ 21,362		\$ 10

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Depreciation Reserve

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)	(E)	(F)
Source of Supply & Pumping Plant							
1	314.000	Wells & Springs	\$ 5,767	\$ (5,767)	100.0000	\$ 0 R-1	\$ 0
2		Total	\$ 5,767	\$ (5,767)		\$ 0	\$ 0
Pumping Plant							
3	325.000	Electric Pumping Equipment	\$ 6,393	\$ 0	100.0000	\$ 0 R-2	\$ 6,393
4		Total	\$ 6,393	\$ 0		\$ 0	\$ 6,393
Transmission & Distribution Plant							
5	343.000	Transmission & Distribution Mains	\$ 1,730	\$ (1,730)	100.0000	\$ 0 R-3	\$ 0
6	346.000	Meters	0	0	100.0000	0 R-6	0
7		Total	\$ 1,730	\$ (1,730)		\$ 0	\$ 0
General Plant							
8	398.000	Miscellaneous Equipment	\$ 869	\$ 0	100.0000	\$ 0 R-4	\$ 869
9	399.000	Other Tangible Plant	800	(800)	100.0000	0 R-5	0
10		Total	\$ 1,669	\$ (800)		\$ 0	\$ 869
11		Total Depreciation Reserve	\$ 15,559	\$ (8,297)		\$ 0	\$ 7,262

Accounting Schedule: 7
Preston
15:02 09/30/2004

Hickory Hills Water & Sewer Company, Inc
Case: WR-04-008R
Twelve Months Ended December 31, 2003

Adjustments to Depreciation Reserve

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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***** Wells & Springs R-1	\$ (5,767)	

1. To remove reserve associated with contributed plant. (Preston)	\$ (5,767)	
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***** Transmission & Distribution Mains R-3	\$ (1,730)	

1. To remove reserve associated with contributed plant. (Preston)	\$ (1,730)	
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***** Other Tangible Plant R-5	\$ (800)	

1. To remove reserve associated with contributed plant. (Preston)	\$ (800)	
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Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Income Statement

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)	(E)	(F)
Operating Revenues							
1		Water Revenues	\$ 8,266	\$ 19	100.0000	\$ 0 S-1	\$ 8,285
2		Primacy Fee	98	(98)	100.0000	0 S-2	0
3		Total	\$ 8,364	\$ (79)		\$ 0	\$ 8,285
Operation & Maintenance Expense							
4		Salaries & Wages-Operator	\$ 2,748	\$ 8,575	100.0000	\$ 0 S-3	\$ 11,323
5		Salaries & Wages-Meter Reading	220	241	100.0000	0 S-4	461
6		Retirement Benefits	264	486	100.0000	0 S-5	750
7		Power Purchased for Pumping	802	73	100.0000	0 S-6	875
8		Chemicals	39	50	100.0000	0 S-7	89
9		Testing/Laboratory Fees	288	0	100.0000	0 S-8	288
10		Maintenance Expense-Parts/Equipment	1,176	0	100.0000	0 S-9	1,176
11		Maintenance Expense-Outside Labor	237	0	100.0000	0 S-10	237
12		Primacy Fee	96	(96)	100.0000	0 S-11	0
13		Accounting Fees	477	0	100.0000	0 S-12	477
14		Operator Certification	45	0	100.0000	0 S-13	45
15		PSC Assessment	33	14	100.0000	0 S-14	47
16		Office Supplies	188	0	100.0000	0 S-15	188
17		Postage Expense	246	0	100.0000	0 S-16	246
18		Telephone Expense	196	18	100.0000	0 S-17	214
19		Total	\$ 7,055	\$ 9,361		\$ 0	\$ 16,416
Depreciation Expense							
20		Depreciation Expense	\$ 260	\$ 0	100.0000	\$ (250) S-18	\$ 10
21		Total	\$ 260	\$ 0		\$ (250)	\$ 10

22		Other Operating Expenses	\$ 0	\$ 0		\$ 0	\$ 0

23		Total Operating Expenses	\$ 7,315	\$ 9,361		\$ (250)	\$ 16,426

24		Net Income Before Taxes	\$ 1,049	\$ (9,440)		\$ 250	\$ (8,141)

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Income Statement

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)	(E)	(F)
Current Income Taxes							
25		Current Income Taxes	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
26		Total	\$ 0	\$ 0		\$ 0	\$ 0
Deferred Income Taxes							
27		Deferred Income Taxes	\$ 0	\$ 0	100.0000	\$ 0	\$ 0
28		Total	\$ 0	\$ 0		\$ 0	\$ 0
29		Total Income Taxes	\$ 0	\$ 0		\$ 0	\$ 0
30		Net Operating Income	\$ 1,049	\$ (9,440)		\$ 250	\$ (8,141)

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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Water Revenues	S-1	\$ 19
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1. To annualize revenues. (Preston)	\$	19
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Primacy Fee	S-2	\$ (98)
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1. To remove primacy fees. (Preston)	\$	(98)
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Salaries & Wages-Operator	S-3	\$ 8,575
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1. To annualize payroll for the operator. (Preston)	\$	8,575
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Salaries & Wages-Meter Reading	S-4	\$ 241
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1. To annualize payroll for the meter reader and bookkeeper. (Preston)	\$	241
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Retirement Benefits	S-5	\$ 486
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1. To annualize retirement benefits. (Preston)	\$	486
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Power Purchased for Pumping	S-6	\$ 73
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1. To reflect 12 months of power purchased for pumping. (Preston)	\$	73
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Preston

15:02 09/30/2004

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
-----------------------	------------------------	------------------------

 Chemicals S-7 \$ 50

1. To include a full year of chemicals required to fulfill
 testing requirements.
 (Preston) \$ 50

 Primacy Fee S-11 \$ (96)

1. To remove primacy fees.
 (Preston) \$ (96)

 PSC Assessment S-14 \$ 14

1. To reflect the current PSC Assessment fee.
 (Preston) \$ 14

 Telephone Expense S-17 \$ 18

1. To reflect 12 months of cost associated with telephone
 expense.
 (Preston) \$ 18

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Income Tax

Line	Test Year	10.24% Return
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(A)

(B)

1	Net Income Before Taxes (Sch 8)	\$ (8,141)	\$ 37
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Add to Net Income Before Taxes

2	Book Depreciation Expense	\$ 10	\$ 10
3	Total	\$ 10	\$ 10

Subtr from Net Income Before Taxes

4	Interest Expense 2.6000 %	\$ 8	\$ 8
5	Depreciation Expense	10	10
6	Total	\$ 18	\$ 18

7	Net Taxable Income	\$ (8,149)	\$ 29
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Provision for Federal Income Tax

8	Net Taxable Income	\$ (8,149)	\$ 29
9	Deduct Missouri Income Tax 100.0 %	\$ 0	\$ 2
10	Deduct City Income Tax	0	0
11	Federal Taxable Income	(8,149)	27
12	Total Federal Tax	\$ 0	\$ 4

Provision for Missouri Income Tax

13	Net Taxable Income	\$ (8,149)	\$ 29
14	Deduct Federal Income Tax 50.0 %	\$ 0	\$ 2
15	Deduct City Income Tax	0	0
16	Missouri Taxable Income	(8,149)	27
17	Total Missouri Tax	\$ 0	\$ 2

Hickory Hills Water & Sewer Company, Inc

Case: WR-04-008R

Twelve Months Ended December 31, 2003

Income Tax

Line		Test Year	10.24% Return
(A)	(B)		
	Provision for City Income Tax		
18	Net Taxable Income	\$ (8,149)	\$ 29
19	Deduct Federal Income Tax	\$ 0	\$ 4
20	Deduct Missouri Income Tax	0	2
21	City Taxable Income	(8,149)	23
22	Total City Tax	\$ 0	\$ 0
	Summary of Provision for Income Tax		
23	Federal Income Tax	\$ 0	\$ 4
24	Missouri Income Tax	0	2
25	City Income Tax	0	0
26	Total	\$ 0	\$ 6
	Deferred Income Taxes		
27	Deferred Investment Tax Credit	\$ 0	\$ 0
28	Deferred Repair Allowance	0	0
29	Deferred Tax Depreciation	0	0
30	Amort of Deferred Tax Depreciation	0	0
31	Amort of Repair Allowance	0	0
32	Amort of Deferred ITC	0	0
33	Deferred Unbilled	0	0
34	Total	\$ 0	\$ 0
35	Total Income Tax	\$ 0	\$ 6

Attachment 3 – Overview of Company and Customer Service Operations

**Engineering and Management Services Department Report
Customer Service Operations for
Hickory Hills Water & Sewer Co., Inc.
QW-2004-0008 and QS-2004-0009**

Nila Hagemeyer – July 15, 2004

The Engineering and Management Services Department (EMSD) staff initiated an informal review of customer service processes, procedures, and practices at Hickory Hills Water & Sewer Co., Inc. (Hickory Hills or Company) on June 29, 2004. 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 Billing
- Credit and Collections
- Complaints and Inquiry Handling and Recording
- Customer Communications
- Security Issues

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

Overview

On January 31, 1975, the Commission granted Hickory Hills authority to provide water service in Case No. 18,205 and sewer service in Case No. 18,206 for the Hickory Hills Estates and Temple Terrace Subdivisions located west of California, Missouri. The

current owners purchased the Company approximately 12 years ago. Hickory Hills' home office is located in Tipton.

Hickory Hills provides water service to 49 single-family residential water customers, as well as wastewater treatment for 47 residential customers. At the present time, Hickory Hills does not provide service to commercial or industrial customers. The Company has experienced no growth in the number of customers during the past seven years and has no plans for expansion. Although the subdivisions contain several empty lots, the last new home was built approximately seven years ago. According to the President of the Company, the plant currently has a pumping capacity of 38 gallons per minute, and the well capacity and pump could handle the load of additional homes on the available lots. However, the President stated that meeting the Department of Natural Resources' 24-hour water storage capacity requirement is a problem. The President stated that they have retained an engineering firm to review their current plant and provide options for the future.

The President of Hickory Hills performs activities associated with overall Company management and operations. The President responds to customer inquiries and complaints and takes care of outside plant activities that include inspection of service lines and manholes, daily testing of the chlorine levels, and general maintenance of facilities and property. Subcontractors are only used on an as-needed basis.

The Corporate Secretary is responsible for meter reading and business office functions. Business office functions include preparation of customer bills, collection of customer payments, maintenance of customer records, responding to customer inquiries and complaints, and preparation of customer correspondence.

Customer Billing

In the past, the Company did not require a completed application before providing water and sewer service. To correct this problem, in January 2004, the Company mailed Applications For Service to all current customers. To date, the Company has received completed applications for 37 of the customers. This application requires the customer name, requested date to begin service, street address of service location, name and address of person responsible for payment, signature of the applicant, and signature of the

party responsible for payment. Customers are not charged a deposit as a condition of providing water and sewer service.

Hickory Hills charges a flat monthly fee of \$6.55 + \$1.30 per 1,000 gallons used for water service and a flat monthly fee of \$5.12 for sewer service. These fees are in agreement with Hickory Hills' tariffs.

Hickory Hills uses LOTUS Improv software to print bills and maintain customer accounts. The Company name, address, telephone number and rate schedule are printed on every bill, as well as the due date, past due date and delinquent date. Bills also contain the previous two month's usage and payment history.

Water meters are read between the 25th and 30th days of each month. Once meter reads are obtained, the Company is able to generate bills that same day. Bills for water and sewer service are generally mailed on approximately the last day of the month. Payments are due on the 10th of the following month, past due on the 25th and considered delinquent on the last day of the month.

The water system contains a master meter, so the Company is able to track the amount of water pumped through the system. Hickory Hills submits a report to the U.S. Geological Survey on a yearly basis noting the gallons pumped through the system and the amount of unaccountable water. The Company can track water usage through customer accounts on their computer system, but they do not compare it to the master meter on a monthly basis. However, the Corporate Secretary stated they closely monitor electric usage. If a leak occurs, the pump has to work harder to maintain a normal flow; thus, the increased electric usage would trigger the Company to check for leaks.

The President of Hickory Hills stated they estimate customers' bills approximately twice per year. Estimates are usually due to inclement weather and the meter wells filling with water. When a reading is estimated, it is noted on the customer's bill and in the computerized customer account.

Credit and Collections

Customers may pay their bills by mail or in person at the Company office in Tipton. On occasion, the President collects payment at the delinquent customers' residences.

As noted previously, payments are due on the 10th of the month, become past due on the 25th, and are considered delinquent on the last day of the month. In agreement with the Company's tariffs, when payments are delinquent, a late fee of \$3.00 is then assessed.

Payments are posted daily to customers' accounts. The program enables the Corporate Secretary to instantly access a customer's account to find the current balance due, as well as usage and payment history. Customer records are not kept in a fireproof safe, nor is a backup disk of customer account records kept off-site.

Bank deposits are generally made weekly, depending on when payments are received. Hickory Hills has received approximately four insufficient funds checks in the past twelve years. On these occasions, the Corporate Secretary reprocessed the checks. If necessary, customers were required to make cash payments to cover insufficient funds checks. The Company has never used the services of a collection agency.

Currently, approximately seven customer accounts are 30 or more days in arrears, which amounts to \$315. The Corporate Secretary stated that Hickory Hills wrote off the following amounts:

Year	Amount
2001	\$ 68.65
2002	\$ 0
2003	\$132.85

Hickory Hills has disconnected water service to customers for nonpayment without the required 10-day mailed notice or 96-hour hand-delivered notice. Customers were only disconnected on days when the President was able to reconnect. The President has indicated that in the future disconnect notices will be mailed or hand-delivered prior to disconnection.

Hickory Hills has not experienced unauthorized service connection since shortly after the current owner purchased the system.

Complaint and Inquiry Handling and Recording

To enable easy access to the Company, Hickory Hills' address and telephone numbers appear on each bill. Customers are able to contact Company personnel 24 hours

per day, 7 days a week. If no one is available at the office telephone number, customers may choose to either leave a message on the office answering machine or call the President's mobile phone.

The President responds to service-related issues, while the Corporate Secretary responds to billing matters. However, no complaint log or complaint/inquiry file is maintained. From January 1, 2003 through July 15, 2004, the Commission's Electronic Filing and Information System indicated that Hickory Hills has had no complaints.

Customer Communications

The President stated that communication to customers is typically by mail; however, in the event of leak repair, notices are hand-delivered to residences. The recent rate increase messages were communicated to customers through a letter.

Security Issues

Since the tragic events of September 11, 2001, Hickory Hills has placed a lock on the pump house.

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 attention:

- Applications for Service
- Security of Customer Records
- Adequate Notification before Disconnection
- Complaint Log

Applications for Service

The Company does not have signed applications from all existing customers. Prior to January 2004, the Company did not require a completed application before providing water and sewer service. The Company mailed applications to all current

customers in January 2004, and 37 customers have since returned their signed applications to the Company. Applications for Service are addressed in the Company's tariff. Original Sheet No. 10, Rule 4, Section (a) of Hickory Hills' tariff states:

A written application for service, signed by the customer, stating the type of service required and accompanied by any other pertinent information, will be required from each customer before service is provided to any unit...

In addition to being required by the tariff, a signed and dated application by the homeowner requesting service would give Hickory Hills more leverage to collect monies owed should the need arise.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Collect signed applications for service from all customers, as required by the Company's tariffs.

Security of Customer Records

Backup disks of computerized Company billing records are not currently being maintained in a separate location. The EMSD staff noted that the Corporate Secretary works from her home office and maintains computerized customer records at that location.

It is a good practice to keep backup copies of vital Company records off-site as it could eliminate the cost and labor-intensive process to re-create lost data. Keeping a backup disk of Company billing records off-site would provide a reasonably recent set of data should it become necessary.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Maintain a backup disk of computerized Company billing records off-site.

Adequate Notification before Disconnection

Hickory Hills' current Notice of Intent to Discontinue Service does not contain the name and address of the customer where service is rendered, the reason for discontinuance of service, cost for reconnection, how to avoid discontinuance of service, possibility of a settlement agreement, nor the Company's telephone number. The current

notice is computerized and could be easily revised to contain the required information.

Notice of discontinuance is addressed in Commission Rule 4 CSR 240-13.050(4):

The notice of discontinuance shall contain the following information: (A) The name and address of the customer and the address, if different, where service is rendered; (B) A statement of the reason for the proposed discontinuance of service and the cost for reconnection; (C) The date on or after which service will be discontinued unless appropriate action is taken; (D) How a customer may avoid the discontinuance; (E) The possibility of a settlement agreement if the claim is for a charge not in dispute and the customer is unable to pay the charge in full at one (1) time; and (F) a telephone number the customer may call from the service location without incurring toll charges and the address of the utility prominently displayed where the customer may make an inquiry.

Hickory Hills has not always given proper notification before disconnecting water service to its customers. Although it is a rare occasion when customers must be disconnected, proper notification before disconnection is required. Commission Rule 4 CSR 240-13.050(5) and (7) address timeframes for notification before disconnection:

(5) A utility shall not discontinue residential service pursuant to section (1) unless written notice by first class mail is sent to the customer at least ten (10) days prior to the date of the proposed discontinuance. Service of notice by mail is complete upon mailing. As an alternative, a utility may deliver a written notice in hand to the customer at least ninety-six (96) hours prior to discontinuance. . . .

(7) At least twenty-four (24) hours preceding a discontinuance, a utility shall make reasonable efforts to contact the customer to advise him/her of the proposed discontinuance and what steps must be taken to avoid it. Reasonable efforts shall include either a written notice following the notice pursuant to section (4), a doorhanger or at least two (2) telephone call attempts reasonably calculated to reach the customer.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Revise Hickory Hills' current Notice of Intent to Discontinue Service to reflect the required information in Commission Rule 4 CSR 240-13.050(4).

Mail notification to discontinue service at least 10 days prior to discontinuance of service or hand-deliver such notice at least 96 hours prior to discontinuing service. At least 24 hours before discontinuing service, make reasonable efforts to contact the customer pursuant to Commission Rule 4 CSR 240-13.050(7).

Complaint Log

A log of all complaints and inquiries received by Company personnel is not currently being kept. The President stated that he or the Corporate Secretary respond to complaints and inquiries, but do not log them. The lack of a complaint and inquiry log of all 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, the availability of documented complaint information is a good tool that would enable Company management to evaluate the reasons customers contact the Company and determine if any measures could be taken to reduce customer contacts and improve customer satisfaction.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Document all customer complaints and inquiries.