

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

In the Matter of the Small Company Rate)	
Increase Request of Hickory Hills Water &)	<u>Case No. WR-2006-0250, et al.</u>
Sewer Company, Inc.)	

STAFF REPORT OF INVESTIGATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through Counsel, and for its Staff Report of Investigation states the following to the Missouri Public Service Commission ("Commission").

1. On January 19, 2006, the Commission held a local public hearing regarding the water and sewer rate increase requests submitted by Hickory Hills Water & Sewer Company ("Company"), which are the subject of this consolidated case.

2. During the above-referenced local public hearing, customers of the Company offered testimony regarding certain service-related matters, the matter of the possible connection of the Company's systems to the City of California's systems ("City matters"), and the matter of the Company's compliance with certain requirements of the Missouri Department of Natural Resources ("DNR compliance matters").

3. Subsequent to the above-referenced local public hearing, Staff members from the Commission's Water & Sewer Department conducted an investigation of the service-related matters, the City matters and the DNR compliance matters that were raised during the hearing. However, in reviewing the record for this consolidated case during the preparation of its post-hearing brief, the Staff noted that it had not yet filed its report of that investigation.

4. In order to correct the above-noted filing oversight, attached hereto as Appendix A, which is incorporated herein by reference, is the verified *Staff Report of Investigation* that

summarizes the Staff's investigation of the service-related matters, the City matters and the DNR compliance matters that were raised during the local public hearing for this consolidated case.

WHEREFORE, the Staff respectfully submits its verified *Staff Report of Investigation* for the Commission's information in this consolidated case.

Respectfully Submitted,

/s/ Robert S. Berlin

Robert S. Berlin
Associate General Counsel
Missouri Bar No. 51709

Attorney for the Staff of the
Missouri Public Service Commission

P.O. Box 360
Jefferson City, MO 65102
573-526-7779 (telephone)
573-751-9285 (facsimile)
bob.berlin@psc.mo.gov (e-mail)

CERTIFICATE OF SERVICE

I hereby certify that copies of this Staff Report of Investigation 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 7th day of June 2006.

/s/ Robert S. Berlin

APPENDIX A

STAFF REPORT OF INVESTIGATION & ATTACHMENTS

CASE NO. WR-2006-0250, ET AL.

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

Staff Report of Investigation

Report Attachment 1: Pictures Taken During Staff's 01/23/06 Site Visit

Affidavit of Dale W. Johansen

STAFF REPORT OF INVESTIGATION

CASE NO. WR-2006-0250, ET AL.

HICKORY HILLS WATER & SEWER COMPANY, INC.

Prepared By

James M. Russo

**Water & Sewer Department
and**

Jerry Scheible, P.E.

Water & Sewer Department

Approved By

Dale W. Johansen – Manager

Water & Sewer Department

June 5, 2006

BACKGROUND

On December 21, 2005, the Missouri Public Service Commission (Commission) held a prehearing conference on Hickory Hills Water & Sewer Company, Inc. (Company) rate cases SR-2006-0249 and WR-2006-0250. During the prehearing conference the Office of Public Counsel (OPC) requested that a Local Public Hearing (LPH) be scheduled. On December 23, 2005, the Commission issued an order granting the request of OPC, and the LPH was subsequently held at the City of California City Hall, on January 19, 2006.

At the LPH service issues relating to sewer backups in basements during heavy rains were brought to the attention of Staff by four customers for the first time. Two customers living next to each other (last names of Howard and Simpson) stated the sewers backed up into their basements when the manhole located behind their residences is covered with water when the nearby creek overflows its banks and floods during heavy rains. Two other customers stated they had also experienced sewage backups into their basements at some previous point in time. Staff representatives attending the LPH were able to talk to one of these two customers and determined there was a backup in the mid 1990's. The other customer left the LPH before the Staff representatives could talk to him. The Staff believes these two backups were isolated issues and that they were not related to the issues identified with the manhole cover being covered by water.

In addition to the sewer backup issues, other issues were raised during the LPH concerning the costs related to possibly connecting the existing sewer and water systems to the City of California, and the condition of the existing sewer and water systems with regard to the systems' compliance with the Department of Natural Resources' (DNR) regulations. Although these issues are not directly related to the Company's pending rate increase requests, the Staff is including information regarding them in this report because they were raised at the LPH.

THE SEWER BACKUP ISSUES

On January 23, 2006, Staff members Jerry Scheible and Jim Russo met with the Company's owner, Randy Clifford, at the manhole behind the Howard's and Simpson's residences to inspect the manhole and to discuss the sewer backups. They also inspected the downspouts on the front of the Simpson's residence. Based on the condition of the terrain in this area, it appears that the water from at least one of the downspouts flowed under the front porch toward the house. This water runoff has resulted in erosion of soil from under the porch and the settling of the sidewalk where it touches the porch. In addition, the Staff members spoke with Ms. Howard at her residence about the problems she has been experiencing. The Staff members reviewed the terrain with Ms. Howard and together they formulated an idea as to where the high water marks were when the creek overflowed its banks.

Regarding the manhole behind the Howard's and Simpson's residences, the manhole is built up approximately two feet above grade and is in excellent condition – the lid fits tightly in the ring of the manhole and the lid's access hole is about the size of a nickel, and Mr. Clifford has also agreed to apply a silicone caulking around the ring to further deter any flow from entering the lid. Additionally, Mr. Clifford has performed rehabilitation work on the manholes immediately upstream and downstream of the manhole in question to correct past infiltration problems associated with those manholes. Pictures taken by Mr. Scheible and Mr. Russo during their January 23 on-site visit are included in Attachment 1 hereto.

Based on its investigation of these matters, the Staff does not believe that the manhole located behind the Howard's and Thompson's residences is the direct cause of the sewer backups into these customers' basements. Rather, the Staff believes the primary causes of the sewer backups are: (1) the location of these customers' homes in the flood plain of the creek; (2) the elevation of the basements being below the high water mark; (3) the direction that the water flows from the down spouts; and (4) the possible connection of the foundation drains to the Company's sewer system. Remedial actions that could be taken to correct the "customer-related" matters that could be affecting these backup situations, which would be the customers' responsibility and done at their cost, include the installation of back-flow prevention devices on the sewer service lines and the elimination of storm water connections such as gutter downspouts and foundation drains. Additional information regarding these matters is also included in the third paragraph of the following section of this report titled "Issues Regarding DNR Compliance Matters".

POSSIBLE CONNECTION TO CITY OF CALIFORNIA

Regarding this issue, the Staff has reviewed the information provided to it by the Company. This information indicates that the City would provide wholesale-type water service and sewage treatment service to the Company at rates twice those it charges its residents, if the Company would construct the facilities necessary to receive such services. The taking of this wholesale-type service from the City by the Company would be in lieu of the Company improving or replacing its existing facilities.

With further regard to this issue, the Staff contacted the City of California to arrange a meeting to discuss possible options to the City's provision of the above-referenced wholesale-type service to the Company, and to determine if there are other service alternatives available. As a result of that contact, Staff members Dale Johansen, Jim Russo and Jerry Scheible attended the City's April 3, 2006 City Council meeting, and Mr. Johansen made a presentation to the City Council about these matters.

As a result of questions from the City Council members to Mr. Johansen, it does not appear that alternatives to the City's provision of the above-referenced wholesale-type service are available. As a result, the Staff is in the process of drafting a letter to the City's utility department director regarding clarification of the City's option of providing wholesale-type water service and sewage treatment service to the Company. Issues for which clarification will be requested include the rates to be charged for the services, the responsibility for the construction and funding of the facilities needed for the Company to take the wholesale-type services from the City, and the standards to which the necessary facilities would be required to be built.

ISSUES REGARDING DNR COMPLIANCE MATTERS

From the beginning of the test year for the Company's rate case (CY2004) up until the time of the LPH, the Company had not been issued any Notices of Violation (NOVs) by the DNR regarding the condition of either the sewer or water system, although certain compliance-related issues regarding both systems had been raised by the DNR in inspection reports during this time frame. However, on February 7, 2006, the DNR did issue the Company a NOV pertaining to the sewage treatment facility not meeting its permit discharge standards and for the Company's failure to submit a construction permit application to upgrade the existing plant. As of the writing of this report, the DNR has not yet issued an NOV regarding the water system.

To further address the sewer system issues, the Staff contacted DNR representatives to arrange a meeting to discuss the recently-issued NOV and to explore possible alternatives available to the Company to solve the problems that resulted in the issuance of the subject NOV. As a result of that contact, Staff members Dale Johansen, Jim Merciel, Jim Russo and Jerry Scheible met with DNR enforcement and inspection personnel on April 3, 2006.

In addition to the Company possibly taking wholesale service from the City of California, other alternatives that the Staff discussed with the DNR representatives during the April 3 meeting included replacing the existing lagoon with a mechanical treatment plant, dredging the existing lagoon and/or increasing the berm height to increase its overall capacity, and converting the existing lagoon to a no-discharge detention basin with land application of the influent. During this meeting, the DNR personnel noted that the deadline for the Company to have corrective actions completed is March 15, 2007. At the end of this meeting, it was agreed that another meeting would be held to discuss these issues, after the Staff's meeting with the City of California, but a date for such a meeting has not yet been set.

In addition to its work with the DNR, the Staff will be working directly with the Company in trying to determine if any gutter downspouts or house foundation drains are connected to the sewer system. The reason for these efforts is that such occurrences could be adversely affecting the quality of the treatment provided by the existing lagoon and the effective capacity of the lagoon. With further regard to this matter, the Staff notes that Rule 6(c) of the Company's sewer tariff contains the following provision: "No customer shall discharge or cause to be discharged any storm water, surface water, ground water, swimming pool water, roof runoff, sub-surface drainage, or cooling water into the collecting sewers."

Regarding the water system, the Staff is in the process of setting up a meeting with the appropriate DNR personnel to discuss what types of improvements are needed and the alternatives that might be available to the Company for making those improvements, in addition to the possible taking of wholesale-type service from the City of California. The Staff's current understanding is that the main issue regarding the water system is related to storage capacity.

Even though these issues are clearly important and must be addressed by the Company in an appropriate manner, there are no costs directly associated with the resolution of the issues raised in the recently-issued NOV included in the Staff's determination of the Company's current overall cost of providing service to its customers. Additionally, the Staff notes that it and the Commission have other avenues available to address the Company's "compliance status" with regard to these issues, that the primary jurisdictional agency, the DNR, is actively pursuing the resolution of these issues, and that the Staff is directly involved with the DNR in its efforts to see that these issues are resolved.

Report Attachment 1

Pictures Taken During Staff's 01/23/06 Site Visit

Attachment A

Exterior of Manhole Behind Howard & Simpson Residences

Attachment B

Interior of Manhole Behind Howard & Simpson Residences

Attachment C

Looking Toward Rear of Howard Residence from Manhole Location

Attachment D

Looking Toward Rear of Simpson Residence with Manhole Cover in Foreground

Attachment E

Sunken Area Around Front Porch of Simpson Residence

Attachment A

01/23/2006



Attachment B



01/23/2006

Attachment C



Attachment D



01/23/2006

Attachment E

01/23/2006

AFFIDAVIT OF DALE W. JOHANSEN

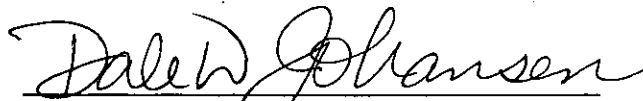
STATE OF MISSOURI)

) ss

Case No. WR-2006-0250, et al.

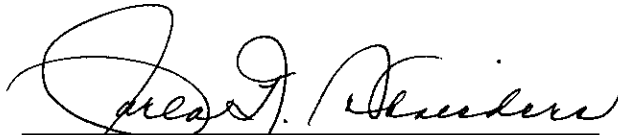
COUNTY OF COLE)

Dale W. Johansen, of lawful age, on his oath states: (1) that he is the Manager of the Water & Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of and approved the foregoing *Staff Report of Investigation*; (3) that he has knowledge of the matters set forth in the foregoing *Staff Report of Investigation*; and (4) that the matters set forth in the foregoing *Staff Report of Investigation* are true and correct to the best of his knowledge, information and belief.



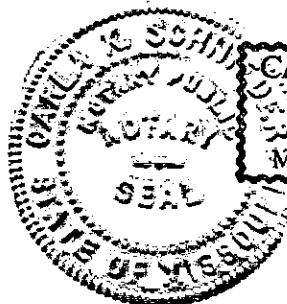
Dale W. Johansen

Subscribed and sworn to before me this 7th day of June 2006.


Notary Public

My Commission Expires:

June 7, 2008



CARLA K. SCHNIEDERS
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 06/07/2008