

Staff Recommendation Regarding Disposition of Small Company Rate Increase Request

APPENDIX A

Official Case File Memorandum and Attachments

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Official Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WR-2005-0052 - - - Raytown Water Company

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
Steve Traxler – Auditing Department
Graham Vesely – Auditing Department
Lesley Preston – Auditing Department
Kay Niemeier – Engineering & Management Services Department
Jolie Mathis – Engineering & Management Services Department
John Kiebel – Engineering & Management Services Department
Jim Merciel – Water & Sewer Department
Steve Jungmeyer – Water & Sewer Department
Bill Nickle – Water & Sewer Department

<u>/s/ Dale W. Johansen</u>	<u>10/18/04</u>
Project Coordinator	Date

<u>/s/ Cliff E. Snodgrass</u>	<u>10/18/04</u>
General Counsel's Office	Date

SUBJECT: Staff Recommendation for Approval of Revised Tariff, Depreciation Rates and Agreements Regarding Disposition of Small Company Rate Increase Request

DATE: October 15, 2004

BACKGROUND

Raytown Water Company ("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 11, 2003. The Company submitted its Request under the provisions of the Commission's then existing Rule 4 CSR 240-2.200, Small Company Rate Increase Procedure, which for small water utilities was replaced effective April 30, 2003 with 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 \$642,347 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 were the needs to meet current operating expenses, to meet interest and depreciation expenses, and to provide adequate earnings on its investment in utility plant. The Company provides water service to approximately 6,700 customers, the majority of which are residential customers. The Company's current rates, which were established in the Company's last rate case, went into effect on December 18, 2000.

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-2003-0023 to the Request (hereafter, this is referred to as the "tracking file" for 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 March 31, 2003, 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 Auditing, Engineering & Management Services and Water & Sewer Departments participated in the Staff's investigation of the Company's Request. These Staff participants, and 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.

As a result of the Company's initial customer notice, the W/S Dept Staff received responses from approximately 30 customers regarding the Company's Request. These customer responses addressed the level of the proposed increase, as well as some service-related matters. A summary of these customer responses, including the "public comment" I.D. number assigned to the responses when they were entered into EFIS, is identified as item number 3 in the EFIS tracking file for the Request. Consistent with established practice, the W/S Dept Staff conducted investigations of the customer responses that addressed service-related matters. A copy of the W/S Dept's report regarding those matters is identified as item number 4 in the EFIS tracking file for the Request.

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 \$334,700 in the Company's annual water service operating revenues was warranted.

Of particular note regarding this operating revenue increase was the inclusion of a 5-year amortization in the Company's cost of service, and a proposed 5-year surcharge for recovery of costs not included in the Company's general cost of service calculations. The amortization was related to the recovery of the principal and interest payments on a loan for an upgrade of the Company's computer system, and the surcharge was related to the recovery of the principal and interest payments on a loan for a major main replacement project that the Company completed in conjunction with a major street improvement project in the City of Raytown (this project is known as the "Gateway Project"). For both of these projects, the maximum period that the bank would

consider for the term of the subject loans was 5 years. As a result, the annualized costs to be recovered by the amortization and the surcharge were calculated based upon the 5-year terms of the subject loans, the provisions of which were evaluated by the Staff as a part of its investigation of the Company's Request and found to be reasonable. Additionally, it is the Staff's view that it was reasonable for both of these projects to be carried out at this time and included in consideration of the resolution of the Company's Request. Because of the special ratemaking treatment that was used for these two projects, which is tied directly to recovery of the bank financing for the projects, the costs of the subject facilities were not included in the calculation of the Company's return on rate base. (As discussed later in this Memorandum, the proposed special surcharge for the Gateway Project is not being implemented, and has instead been "replaced" through the inclusion of another special amortization in the Company's cost of service.)

In addition to its conclusion regarding the increase in the Company's annual operating revenues, the Staff concluded that new/modified depreciation rates need to be prescribed for the Company, that certain changes in the Company's miscellaneous service charges, connection fees, business operations and system operations are warranted, and that the Company's tariff needed to be updated generally.

Subsequent to the completion of its investigation of the Company's Request, the Staff forwarded information regarding the above items to representatives of the Company and the OPC for their review and response.

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* was executed by the Staff and the Company ("Company/Staff Disposition Agreement"). The Staff and the Company also reached an agreement regarding the tariff revisions needed to implement the terms of the Company/Staff Disposition Agreement, and the general tariff revisions needed to properly update the Company's tariff. The specific agreements between the Company and the Staff are set out on pages 2 & 3 of the Company/Staff Disposition Agreement, which the Staff filed in this case on September 1, 2004 (hereafter, unless noted otherwise, all dates refer to the year 2004) and which is identified as EFIS item number 3 in the case file.

By a letter that was stamped received by personnel in the Commission's Data Center on August 25, the Company submitted revised tariff sheets including the agreed-upon tariff revisions that are necessary to implement the terms of the Company/Staff 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 Company/Staff Disposition Agreement has been filed in the case papers. (As noted previously, the Staff filed the Company/Staff Disposition Agreement on September 1.)

Since the agreement regarding the resolution of the Company's request 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 Company/Staff Disposition Agreement. By a letter dated September 1, 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. A copy of this second customer notice was filed in the case file on September 10, and is identified as EFIS item number 6. As a result of this second customer notice, the W/S Dept Staff received responses from six customers regarding the proposed rate increase. These customer responses addressed the level of the proposed increase in general, with some of the responses also addressing the proposed surcharge for the main replacement project. None of these responses addressed service related matters. (Summaries of these responses can be found in the "informational filing" referenced below.)

On September 2, the OPC filed a request for a local public hearing regarding the Company's request, which the Commission granted by an order dated September 9 (the local public hearing was scheduled for September 20).

On September 17, the Staff filed a pleading titled "Informational Filing Regarding Small Company Rate Increase Request", with which it included certain of its workpapers regarding its investigation of the Company's Request and a summary of the customer comments received in response to both of the Company's customer notices. This filing is identified as EFIS item number 7 in the case file.

On September 20, the local public hearing for this case was held as scheduled, with two members of the general public in attendance.

On September 23, the Company submitted a substitute for the tariff it submitted on August 25, for the purpose of correcting errors in that tariff, to reformat the tariff and to make minor language changes, all at the request of the Staff.

On September 29, the OPC filed a pleading titled "Public Counsel's Agreement In Part, And Disagreement In Part, With The Tariff Sheets Filed By Raytown Water Company And Request For Hearing" ("Position Statement"). In its Position Statement, which is identified as EFIS item number 9 in the case file, the OPC stated that it agreed with all but one of the tariff sheets that the Company filed on August 25. The tariff sheet to which the OPC objected was Tariff Sheet No. 4, which included the provisions for implementing the previously discussed special rate surcharge for the Gateway Project.

On September 30, subsequent to its review of the OPC's Position Statement, the Staff initiated discussions with the OPC and the Company regarding the OPC's objection to the special rate surcharge for the Gateway Project.

By a letter dated September 30, which was received at the Commission's offices and filed in the case papers of the Company's rate case on October 5, the Company extended the proposed effective date of its pending revised tariff from October 10 to November 1, in order to allow time for the Company, the Staff and the OPC (hereafter collectively referred to as the "Parties") to possibly resolve the OPC's objection to the proposed special rate surcharge.

As a result of the discussions referenced above, the Parties reached an agreement regarding an alternative to the proposed special rate surcharge for the Gateway Project. That agreement was reduced to writing in a document titled "Unanimous Supplemental Agreement Regarding Disposition of Small Company Rate Increase Request" ("Supplemental Agreement"), which the Staff filed in the case on October 12 and which is identified as EFIS item number 12 in the case file. Specifically, this Supplemental Agreement results in the proposed special surcharge for the Gateway Project being removed from consideration and being "replaced" by including a special amortization for the Gateway Project in the Company's cost of service, similar to the amortization for the computer system upgrade.

As is noted in the Supplemental Agreement, except for the matters specifically addressed by it, the provisions of the Company/Staff Disposition Agreement were not affected by the Supplemental Agreement and remain in effect. As is also noted in the Supplemental Agreement, the provisions of that agreement and the provisions of the Company/Staff Disposition Agreement, taken together, satisfactorily resolve all issues identified by the Parties regarding the Company's rate increase request. Included with the Supplemental Agreement was the Staff's final "ratemaking workbook" regarding the resolution of the Company's Request.

On October 14, the Company submitted a substitute tariff for its pending tariff, with that substitute tariff being consistent with both the Company/Staff Disposition Agreement and the Supplemental Agreement.

FINANCING FOR COMPUTER SYSTEM UPGRADE AND GATEWAY MAIN REPLACEMENT PROJECT

As previously noted herein, the Company is taking out loans to finance the upgrade of its computer system and the Gateway main replacement project. As the provisions of these loans were evaluated by the Staff as a part of its investigation of the Company's Request and found to be reasonable, the Staff believes the Commission should authorize the Company to enter into the loans – even though the Company has not filed an application with the Commission seeking such authorization.

ADDITIONAL INFORMATION

In addition to the above-noted documents that have been submitted to the EFIS tracking file and filed in the EFIS case file, the following documents are included with this Memorandum in Attachment A hereto: (1) the Staff's revenue requirement audit workpapers; and (2) the Staff's overview of the Company and its customer service procedures and practices.

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 these matters as of the writing of this Memorandum. The assessment information reviewed covers fiscal years 1996 through 2005 (the Company is paying its FY2005 assessment on a quarterly basis), and the annual report information reviewed covers calendar years 1997 through 2003.

Additionally, the Staff notes that the Company currently has no other matters pending before the Commission, and that approval of the subject tariff revisions will thus not affect any other matter before the Commission with regard to the Company.

Lastly, the Staff notes that the Company received no "notices of violations" 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 substitute revised tariff that the Company submitted on October 14, to be effective for service rendered on and after November 1;
- * Approves the Company/Staff Disposition Agreement submitted in this case;
- * Approves the Supplemental Disposition Agreement submitted in this case;
- * Directs the Company to comply with the terms of the Company/Staff Disposition Agreement and the Supplemental Disposition Agreement, as applicable;
- * Authorizes the Company to enter into the loans pertaining to the upgrade of its computer system and the Gateway Project; and
- * Prescribes the depreciation rates set out on Attachment D to the Company/Staff Disposition Agreement as the depreciation rates authorized for the Company's use.

List of Attachments

Attachment A

- * Revenue Requirement Audit Workpapers
- * Overview of Company and Customer Service Operations

Official Case File Memorandum

ATTACHMENT A

Audit Workpapers

Overview of Company and Customer Service Practices & Procedures

Audit Workpapers

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Revenue Requirement

Line		9.47%
		Return
(A)		(B)
1	Net Orig Cost Rate Base (Sch 2)	\$ 5,104,240
2	Rate of Return	9.47%
3	Net Operating Income Requirement	\$ 483,372
4	Net Income Available (Sch 9)	\$ 278,423
5	Additional NOIBT Needed	\$ 204,949
6	Income Tax Requirement (Sch 11)	
7	Required Current Income Tax	\$ 222,577
8	Test Year Current Income Tax	\$ 92,826
9	Additional Current Tax Required	\$ 129,751
10	Required Deferred ITC	\$ 0
11	Test Year Deferred ITC	\$ 0
12	Additional Deferred ITC Required	\$ 0
13	Total Additional Tax Required	\$ 129,751
14	Gross Revenue Requirement	\$ 334,700

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Rate Base

Line Description		Amount
(A)	(B)	
1 Total Plant in Service (Sch 3)	\$	8,694,304
Subtract from Total Plant		
2 Depreciation Reserve (Sch 6)	\$	2,781,461

3 Net Plant in Service	\$	5,912,843
Add to Net Plant in Service		
4 Cash Working Capital (Sch 8)	\$	(3,921)
5 Materials and Supplies-Exempt		56,136
6 Prepaid Insurance		11,611
Subtract from Net Plant		
7 Federal Tax Offset 0.4384 %	\$	839
8 State Tax Offset 9.9534 %		3,101
9 City Tax Offset 0.0000 %		0
10 Interest Expense Offset 9.8079 %		10,964
11 Contribution in aid of Construction		308,862
12 Deferred Income Taxes-Depreciation		484,896
13 Customer Deposits		16,122
14 Investment Tax Credit		42,867
15 Customer Credit Balance		4,778

16 Total Rate Base	\$	5,104,240
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Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 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)
Transmission & Distribution Plant							
1	340.000	Land & Land Rights	\$ 88,215	\$ 0	100.0000	\$ 0 P-1	\$ 88,215
2	342.000	Distribution Reservoirs & Standpipe	2,723,481	3,814	100.0000	0 P-2	2,727,295
3	343.000	Trans. & Dist. Mains 6"	2,835,044	116,766	100.0000	0 P-3	2,951,810
4	343.100	Trans. & Distr. Main 2"	139,274	0	100.0000	0 P-4	139,274
5	343.200	Gateway Project	0	258,013	100.0000	0 P-18	258,013
6	346.100	Pre-1997 Meters	277,299	0	100.0000	0 P-5	277,299
7	346.200	Post-1996 Meters	238,222	6,295	100.0000	0 P-6	244,517
8	347.000	Meter Installations	138,480	(1,714)	100.0000	0 P-7	136,766
9	348.000	Hydrants	564,885	25,520	100.0000	0 P-8	590,405
10	345.000	Services	0	2,035	100.0000	0 P-20	2,035
11	Total		\$ 7,004,900	\$ 410,729		\$ 0	\$ 7,415,629
General Plant							
12	389.000	Land & Land Rights	\$ 3,531	\$ 0	100.0000	\$ 0 P-9	\$ 3,531
13	390.000	Structures & Improvements	383,457	35,665	100.0000	0 P-10	419,122
14	391.000	Office Furniture & Equipment	51,772	(943)	100.0000	0 P-11	50,829
15	391.100	Office Furniture- Electronic	78,894	(55,719)	100.0000	0 P-12	23,175
16	392.000	Transportation Equipment	269,904	4,597	100.0000	0 P-13	274,501
17	394.000	Tools, Shop & Garage Equipment	112,389	14,011	100.0000	0 P-14	126,400
18	395.000	Laboratory Equipment	2,290	0	100.0000	0 P-15	2,290
19	396.000	Power Operated Equipment	199,649	10,632	100.0000	0 P-16	210,281
20	397.000	Communication Equipment	20,447	0	100.0000	0 P-17	20,447
21	397.100	Security Equipment	0	25,940	100.0000	0 P-19	25,940
22		Computer Equipment	0	122,159	100.0000	0 P-21	122,159
23	Total		\$ 1,122,333	\$ 156,342		\$ 0	\$ 1,278,675
24	Total Plant In Service		\$ 8,127,233	\$ 567,071		\$ 0	\$ 8,694,304

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Total Plant

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

 Distribution Reservoirs & Standpipe P-2 \$ 3,814

1. To update plant through June 30, 2003.
 (Vesely) \$ 8,019

2. To apply insurance claim income to plant.
 (Vesely) \$ (4,205)

 Trans. & Dist. Mains 6" P-3 \$ 116,766

1. To update plant through June 30, 2003.
 (Vesely) \$ 63,159

2. To update plant-8/31/2003.
 (Vesely) \$ 53,607

 Post-1996 Meters P-6 \$ 6,295

1. To update plant-8/31/2003.
 (Vesely) \$ 6,295

 Meter Installations P-7 \$ (1,714)

1. To update plant through June 30, 2003.
 (Vesely) \$ 4,006

2. To adjust test year to eliminate labor incorrectly charged.
 (Vesely) \$ (13,386)

3. To update plant-8/31/2003.
 (Vesely) \$ 7,666

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Total Plant

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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***** Hydrants	P-8	\$ 25,520

- | | |
|--|-----------|
| 1. To update plant through June 30, 2003.
(Vesely) | \$ 20,223 |
| 2. To adjust plant through July, 31, 2003.
(Vesely) | \$ 3,418 |
| 3. To update plant-8/31/2003.
(Vesely) | \$ 1,879 |

***** Structures & Improvements	P-10	\$ 35,665

- | | |
|---|-----------|
| 1. To update plant-8/31/2003.
(Vesely) | \$ 35,665 |
|---|-----------|

***** Office Furniture & Equipment	P-11	\$ (943)

- | | |
|--|----------|
| 1. To adjust test year to eliminate furniture not actually
purchased.
(Vesely) | \$ (943) |
|--|----------|

***** Office Furniture- Electronic	P-12	\$ (55,719)

- | | |
|--|-------------|
| 1. To adjust test year to remove the old computer system.
(Vesely) | \$ (55,235) |
| 2. To update plant-8/31/2003. | \$ 949 |
| 3. To adjust plant for the removal of the old videocamera.
(Vesely) | \$ (1,433) |

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Total Plant

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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Transportation Equipment	P-13	\$ 4,597
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- | | |
|--|-------------|
| 1. To update plant-8/31/2003.
(Vesely) | \$ 1,186 |
| 2. To adjust test year to reflect the cost of an additional
truck for meter reading due to monthly billing.
(Vesely) | \$ 23,000 |
| 3. To apply insurance claim income to plant.
(Vesely) | \$ (19,589) |

Tools, Shop & Garage Equipment	P-14	\$ 14,011
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- | | |
|---|-----------|
| 1. To update plant through June 30, 2003.
(Vesely) | \$ 13,195 |
| 2. To update plant-8/31/2003.
(Vesely) | \$ 816 |

Power Operated Equipment	P-16	\$ 10,632
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- | | |
|-------------------------------|-----------|
| 1. To update plant-8/31/2003. | \$ 10,632 |
|-------------------------------|-----------|

Communication Equipment	P-17
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- | |
|--|
| 1. To remove from plant the 2-way radio system no longer a
primary communication source since replacement with Nextel
services.
(Preston) |
|--|

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Total Plant

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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Gateway Project	P-18	\$ 258,013
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1. To reflect the Gateway project in plant in service. (Vesely)	\$ 258,013	
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Security Equipment	P-19	\$ 25,940
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1. To adjust test year to reflect the addition of security monitoring equipment. (Vesely)	\$ 25,940	
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Services	P-20	\$ 2,035
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1. To update plant-8/31/2003. (Vesely)	\$ 2,035	
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Computer Equipment	P-21	\$ 122,159
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1. To adjust test year to reflect the inclusion of the new computer system. (Traxler)	\$ 122,159	
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Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
		(A)	(B)	(C)	(D)
Transmission & Distribution Plant					
1	340.000	Land & Land Rights	\$ 88,215	0.0000	\$ 0
2	342.000	Distribution Reservoirs & Standpipe	2,727,295	2.5000	68,182
3	343.000	Trans. & Dist. Mains 6"	2,951,810	2.0000	59,036
4	343.100	Trans. & Distr. Main 2"	139,274	2.0000	2,785
5	343.200	Gateway Project	258,013	0.0000	0
6	346.100	Pre-1997 Meters	277,299	20.0000	55,460
7	346.200	Post-1996 Meters	244,517	10.0000	24,452
8	347.000	Meter Installations	136,766	2.5000	3,419
9	348.000	Hydrants	590,405	2.0000	11,808
10	345.000	Services	2,035	2.5000	51
11		Total	\$ 7,415,629		\$ 225,193
General Plant					
12	389.000	Land & Land Rights	\$ 3,531	0.0000	\$ 0
13	390.000	Structures & Improvements	419,122	2.5000	10,478
14	391.000	Office Furniture & Equipment	50,829	5.0000	2,541
15	391.100	Office Furniture- Electronic	23,175	14.3000	3,314
16	392.000	Transportation Equipment	274,501	12.5000	34,313
17	394.000	Tools, Shop & Garage Equipment	126,400	5.0000	6,320
18	395.000	Laboratory Equipment	2,290	5.0000	115
19	396.000	Power Operated Equipment	210,281	6.7000	14,089
20	397.000	Communication Equipment	20,447	6.7000	1,370
21	397.100	Security Equipment	25,940	6.7000	1,738
22		Computer Equipment	122,159	0.0000	0
23		Total	\$ 1,278,675		\$ 74,278
24		Total Depreciation Expense	\$ 8,694,304		\$ 299,471

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Depreciation Reserve

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)	(E)	(F)
Transmission & Distribution Plant							
1	342.000	Distribution Reservoirs & Standpipe \$	663,726	\$ 45,442	100.0000	\$ 0 R-1	\$ 709,168
2	343.000	Trans. & Distr. Mains-6" & Over	892,562	30,679	100.0000	0 R-2	923,241
3	343.100	Trans. & Distr. Mains-2"	0	0	100.0000	0 R-3	0
4	343.200	Gateway Project	0	258,013	100.0000	0 R-16	258,013
5	346.000	Meters Prior to 1997	(48,728)	15,655	100.0000	0 R-4	(33,073)
6	346.100	Meters after 1997	0	5,433	100.0000	0 R-5	5,433
7	347.100	Meter Installations	11,197	2,734	100.0000	0 R-6	13,931
8	348.000	Hydrants	202,885	9,616	100.0000	0 R-7	212,501
9	Total		\$ 1,721,642	\$ 367,572		\$ 0	\$ 2,089,214
General Plant							
10	390.000	Structures & Improvements	\$ 58,304	\$ 7,556	100.0000	\$ 0 R-8	\$ 65,860
11	391.000	Office Furniture & Equipment	92,618	(49,992)	100.0000	0 R-9	42,626
12	391.100	Office Furniture Electronic	0	2,237	100.0000	0 R-10	2,237
13	392.000	Transportation Equipment	239,302	23,405	100.0000	0 R-11	262,707
14	394.100	Shop Equipment	53,212	3,982	100.0000	0 R-12	57,194
15	395.100	Laboratory Equipment	1,336	77	100.0000	0 R-13	1,413
16	396.100	Power Operated Equipment	110,829	8,977	100.0000	0 R-14	119,806
17	397.000	Communication Equipment	17,324	921	100.0000	0 R-15	18,245
18	397.100	Security Equipment	0	0	100.0000	0 R-17	0
19		Computer Equipment	0	122,159	100.0000	0 R-18	122,159
20	Total		\$ 572,925	\$ 119,322		\$ 0	\$ 692,247
21	Total Depreciation Reserve		\$ 2,294,567	\$ 486,894		\$ 0	\$ 2,781,461

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Depreciation Reserve

Adj No Description		Total Co Adjustment	Mo Juris Adjustment

Distribution Reservoirs & Standpipe	R-1	\$ 45,442	

1. To update reserve through June 30, 2003. (Vesely)		\$ 34,060	
2. To update reserve through July 31, 2003. (Vesely)		\$ 5,691	
3. To update reserve 8/31/2003. (Vesely)		\$ 5,691	

Trans. & Distr. Mains-6" & Over	R-2	\$ 30,679	

1. To update reserve through June 30, 2003. (Vesely)		\$ 22,569	
2. To update reserve through July 31, 2003. (Vesely)		\$ 3,855	
3. To update reserve 8/31/2003. (Vesely)		\$ 4,255	

Meters Prior to 1997	R-4	\$ 15,655	

1. To update reserve through June 30, 2003. (Vesely)		\$ 15,655	

Meters after 1997	R-5	\$ 5,433	

1. To update reserve through July 31, 2003. (Vesely)		\$ 2,609	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Depreciation Reserve

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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2. To update reserve 8/31/2003. (Vesely)	\$ 2,824	
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Meter Installations	R-6	\$ 2,734
---------------------	-----	----------

1. To update reserve through June 30, 2003. (Vesely)	\$ 2,027	
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2. To update reserve through July 31, 2003. (Vesely)	\$ 344	
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3. To update reserve 8/31/2003. (Vesely)	\$ 363	
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Hydrants	R-7	\$ 9,616
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1. To update reserve through June 30, 2003. (Vesely)	\$ 7,158	
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2. To update reserve through July 31, 2003. (Vesely)	\$ 1,226	
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3. To update reserve 8/31/2003. (Vesely)	\$ 1,232	
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Structures & Improvements	R-8	\$ 7,556
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1. To update reserve through June 30, 2003. (Vesely)	\$ 5,560	
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2. To update reserve through July 31, 2003. (Vesely)	\$ 927	
---	--------	--

3. To update reserve 8/31/2003. (Vesely)	\$ 1,069	
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Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Depreciation Reserve

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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 Office Furniture & Equipment R-9 \$ (49,992)

1. To update reserve through June 30, 2003.
(Vesely) \$ 6,676
2. To adjust reserve for the elimination of the old computer
system. \$ (55,235)
3. To adjust reserve for the removal of the old videocamera
from plant. \$ (1,433)

 Office Furniture Electronic R-10 \$ 2,237

1. To update reserve through July 31, 2003.
(Vesely) \$ 1,113
2. To update reserve 8/31/2003.
(Vesely) \$ 1,124

 Transportation Equipment R-11 \$ 23,405

1. To update reserve through June 30, 2003.
(Vesely) \$ 17,544
2. To update reserve through July 31, 2003.
(Vesely) \$ 2,924
3. To update reserve 8/31/2003.
(Vesely) \$ 2,937

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Depreciation Reserve

Adj No Description		Total Co Adjustment	Mo Juris Adjustment

Shop Equipment	R-12	\$ 3,982	

1. To update reserve through June 30, 2003. (Vesely)		\$ 2,865	
2. To update reserve through July 31, 2003. (Vesely)		\$ 523	
3. To update reserve 8/31/2003. (Vesely)		\$ 594	

Laboratory Equipment	R-13	\$ 77	

1. To update reserve through June 30, 2003. (Vesely)		\$ 57	
2. To update reserve through July 31, 2003. (Vesely)		\$ 10	
3. To update reserve 8/31/2003. (Vesely)		\$ 10	

Power Operated Equipment	R-14	\$ 8,977	

1. To update reserve through June 30, 2003. (Vesely)		\$ 6,688	
2. To update reserve through July 31, 2003. (Vesely)		\$ 1,115	
3. To update reserve 8/31/2003. (Vesely)		\$ 1,174	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Depreciation Reserve

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

***** Communication Equipment	R-15	\$ 921	

- | | | |
|---|--------|--|
| 1. To update reserve through June 30, 2003.
(Vesely) | \$ 685 | |
| 2. To update reserve through July 31, 2003.
(Vesely) | \$ 114 | |
| 3. To update reserve 8/31/2003.
(Vesely) | \$ 122 | |

***** Gateway Project	R-16	\$ 258,013	

- | | | |
|---|------------|--|
| 1. To set reserve equal to plant for the Gateway project. | \$ 258,013 | |
|---|------------|--|

(Vesely)

***** Computer Equipment	R-18	\$ 122,159	

- | | | |
|---|------------|--|
| 1. To adjust test year to reflect the inclusion of the new
computer system.
(Traxler) | \$ 122,159 | |
|---|------------|--|

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Cash Working Capital

Line No	Acct Description	Test Year Expenses	Revenue Lag	Expense Lag	Net Lag (C) - (D)	Factor (Col E/365)	CWC Req (B) x (F)
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Operation and Maintenance Expense							
1	Cash Vouchers	\$ 427,571	0.0000	0.0000	0.0000	0.000000	\$ 0
2	Purchased Water	793,758	40.2100	32.6773	7.5327	0.020638	16,382
3	Net Payroll	347,092	40.2100	5.0950	35.1150	0.096205	33,392
4	Federal Withholding Taxes	32,083	40.2100	24.1060	16.1040	0.044121	1,416
5	State Withholding Taxes	12,637	40.2100	42.6980	(2.4880)	(0.006816)	(86)
6	Employee FICA Taxes	30,473	40.2100	12.8290	27.3810	0.075016	2,286
7	Employee Health Insurance	99,435	40.2100	13.5700	26.6400	0.072986	7,257
8	Pension Expense	52,064	40.2100	182.5000	(142.2900)	(0.389836)	(20,296)
9	Other Employee Benefits	2,584	40.2100	182.5000	(142.2900)	(0.389836)	(1,007)
10	Total Operation and Maintenance Expense	\$ 1,797,697					\$ 39,344
Taxes							
11	Property Taxes	\$ 103,506	40.2100	182.5000	(142.2900)	(0.389836)	\$ (40,350)
12	Employers FICA Taxes	32,503	40.2100	12.8290	27.3810	0.075016	2,438
13	State Unemployment Taxes	1,104	18.9128	59.7054	(40.7926)	(0.111761)	(123)
14	Federal Unemployment Taxes	891	40.2100	54.8697	(14.6597)	(0.040164)	(36)
15	Sales Taxes	47,876	18.9128	33.7554	(14.8426)	(0.040665)	(1,947)
16	Gross Receipts Taxes	26,600	18.9128	44.8139	(25.9011)	(0.070962)	(1,888)
17	Primacy Fees	11,788	18.9128	61.0000	(42.0872)	(0.115307)	(1,359)
18	Total Taxes	\$ 224,268					\$ (43,265)
19	Total Cash Working Capital Req						\$ (3,921)

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 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	461.000	Sales to General Customers (BWS)	\$ 0	\$ 1,426	100.0000	\$ 0 S-1	\$ 1,426
2	461.100	Metered Sales to General Customers	2,460,685	9,253	100.0000	0 S-2	2,469,938
3	461.200	Metered Sales--Late Charges	36,339	0	100.0000	0 S-3	36,339
4	461.300	Turn Off/Turn On-Penalty Charges	40,431	0	100.0000	0 S-4	40,431
5	462.000	Private Fire Protection Service	9,239	375	100.0000	0 S-5	9,614
6	464.000	Other Sales to Public Authorities	0	2,681	100.0000	0 S-6	2,681
7	470.000	Discounts Earned	828	0	100.0000	0 S-7	828
8	471.100	Misc. Revenue-Service Lines	850	9,603	100.0000	0 S-8	10,453
9	472.000	Rents From Water Property-Equipment	2,322	(2,322)	100.0000	0 S-9	0
10	472.100	Rents from Water Property-Tower Ten	0	91,187	100.0000	0 S-10	91,187
11	474.000	Other Water Revenue	0	0	100.0000	0 S-11	0
12		Total	\$ 2,550,694	\$ 112,203		\$ 0	\$ 2,662,897

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Income Statement

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)	(E)	(F)
		Operation & Maintenance Expense					
13	602.000	Purchase Water Expense	\$ 825,445	\$ (7,637)	100.0000	\$ 0 S-12	\$ 817,808
14	660.000	Operation Supervision T & D	21,637	0	100.0000	0 S-40	21,637
15	661.000	Storage Facilities T & D	16,390	0	100.0000	0 S-41	16,390
16	662.000	Tower and Dist Lines Expense	27,092	25,238	100.0000	0 S-42	52,330
17	663.000	Meter Expense T & D	197	0	100.0000	0 S-43	197
18	665.000	Misc Expense- T & D	8	0	100.0000	0 S-44	8
19	670.000	Maint Supervision Exp T & D	737	0	100.0000	0 S-45	737
20	671.000	Maint of Structures & Improv	97	0	100.0000	0 S-46	97
21	672.000	Maint of Reserv & Standpipes	13,808	72,570	100.0000	0 S-47	86,378
22	673.000	Maint of T & D Mains	87,921	15,163	100.0000	0 S-48	103,084
23	675.000	Maint of Services T & D	68	24,000	100.0000	0 S-49	24,068
24	677.000	Maint of Hydrants T & D	8,555	0	100.0000	0 S-50	8,555
25	678.000	Maint of Misc Plant T & D	70	0	100.0000	0 S-51	70
26	901.000	Supervision-Cust Accts	4,617	0	100.0000	0 S-52	4,617
27	902.000	Meter Reading Exp-Cust Accts	24,876	(1,735)	100.0000	0 S-53	23,141
28	903.100	Cust Records and Collection Exp	110,300	78,028	100.0000	0 S-54	188,328
29	903.200	Customer Turn On/Off	17,348	0	100.0000	0 S-55	17,348
30	903.300	City Sewer Contract Turn On/Off	(3,038)	3,038	100.0000	0 S-56	0
31	903.400	City Sewer Programming/Office	815	(815)	100.0000	0 S-57	0
32	904.000	Uncollectible Accounts	17,884	(2,117)	100.0000	0 S-58	15,767
33	907.000	Safety Meetings and Equipment	854	769	100.0000	0 S-16	1,623
34	920.000	Admin and Gen-Salaries	73,484	32,898	100.0000	0 S-17	106,382
35	921.000	Office Supplies	35,943	3,592	100.0000	0 S-18	39,535
36	921.100	Permit Fees-Right of Way	4,514	729	100.0000	0 S-19	5,243
37	922.000	Payroll Offset-Cap	(42,386)	0	100.0000	0 S-20	(42,386)
38	923.000	Outside Services Employed	48,045	5,343	100.0000	0 S-21	53,388
39	924.000	Property Insurance	23,315	5,537	100.0000	0 S-22	28,852
40	925.000	Injuries & Damages Insurance	15,585	(2,943)	100.0000	0 S-23	12,642
41	926.000	Employee Pension & Benefits	140,197	16,855	100.0000	0 S-24	157,052
42	928.000	Regulatory Commission Expense	13,998	1,281	100.0000	0 S-25	15,279
43	928.100	Rate Case Expense	8,978	(988)	100.0000	0 S-26	7,990
44	930.100	Misc. General Expenses	11,888	(2,704)	100.0000	0 S-27	9,184
45	930.200	Directors Fees & Expenses	11,060	(181)	100.0000	0 S-28	10,879
46	932.000	Maint of General Plant	3,244	8,230	100.0000	0 S-29	11,474
47		Total	\$ 1,523,546	\$ 274,151		\$ 0	\$ 1,797,697

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Income Statement

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)		(B)	(C)	(D)	(E)	(F)
Depreciation Expense							
48	403.000	Depreciation Expense	\$ 196,103	\$ 0	100.0000	\$ 103,368 S-30	\$ 299,471
49	403.000	Depreciation Expense - Other	0	(25,011)	100.0000	0 S-31	(25,011)
50		Depreciation Expense-CIAC Related	0	(10,615)	100.0000	0 S-37	(10,615)
51	404.000	Amortization of Utility Plant	0	28,854	100.0000	0 S-32	28,854
52		Total	\$ 196,103	\$ (6,772)		\$ 103,368	\$ 292,699
Other Operating Expenses							
53	408.100	Property Taxes	\$ 104,707	\$ 1,340	100.0000	\$ 0 S-33	\$ 106,047
54	408.200	MO Franchise Tax	2,384	0	100.0000	0 S-59	2,384
55	408.300	Employer FICA	32,503	0	100.0000	0 S-60	32,503
56	408.400	Federal Unemployment Tax	891	0	100.0000	0 S-61	891
57	408.500	State Unemployment Tax	1,104	0	100.0000	0 S-62	1,104
58	408.600	Water Loss Survey	3,950	(3,950)	100.0000	0 S-63	0
59	408.700	Tower Painting Gregory/Chapel	33,947	(33,947)	100.0000	0 S-64	0
60		Net Salvage	0	(1,495)	100.0000	0 S-38	(1,495)
61		Amortization CIAC	0	(2,092)	100.0000	0 S-39	(2,092)
62	431.100	Interest on Customer Deposits	1,049	(82)	100.0000	0 S-66	967
63		Amortization of Utility Plant-GTWY	0	0	100.0000	60,943 S-99	60,943
64		Total	\$ 180,535	\$ (40,226)		\$ 60,943	\$ 201,252
65		Total Operating Expenses	\$ 1,900,184	\$ 227,153		\$ 164,311	\$ 2,291,648
66		Net Income Before Taxes	\$ 650,510	\$ (114,950)		\$ (164,311)	\$ 371,249
Current Income Taxes							
67	409.000	Current Income Taxes	\$ 233,697	\$ 0	100.0000	\$ (140,871) S-34	\$ 92,826
68		Total	\$ 233,697	\$ 0		\$ (140,871)	\$ 92,826

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Income Statement

Line No	Acct	Description	Total Company	Total Co Adjustment	Alloc Factor	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)	(E)	(F)
Deferred Income Taxes							
69		Deferred Income Taxes	\$ 7,651	\$ 0	100.0000	\$ (7,651) S-35	\$ 0
70		Amortization of ITC	(2,040)	2,040	100.0000	0 S-36	0
71		Total	\$ 5,611	\$ 2,040		\$ (7,651)	\$ 0

72		Total Income Taxes	\$ 239,308	\$ 2,040		\$ (148,522)	\$ 92,826

73		Net Operating Income	\$ 411,202	\$ (116,990)		\$ (15,789)	\$ 278,423

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description		Total Co Adjustment	Mo Juris Adjustment

Sales to General Customers (BWS)	S-1	\$ 1,426	

1. To adjust test year revenues to reflect bulk water sales. (Preston)		\$ 1,426	

Metered Sales to General Customers	S-2	\$ 9,253	

1. To adjust test year revenues to reflect Staff's annualization of revenues. (Preston)		\$ 14,233	
2. To adjust revenues to reflect over-read adjustments and leak adjustments. (Preston)		\$ (4,980)	

Private Fire Protection Service	S-5	\$ 375	

1. To adjust test year revenues to reflect Staff's annualization of private fire protection revenues. (Preston)		\$ 375	

Other Sales to Public Authorities	S-6	\$ 2,681	

1. To adjust test year revenues to reflect the inclusion and annualization of revenues received from KCMOWD. (Preston)		\$ 2,681	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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Misc. Revenue-Service Lines	S-8	\$ 9,603
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1. To adjust test year to reflect the transfer of accounts 415 and 416.	\$	1,842
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(Preston)

2. To adjust test year to reflect the transfer of account 421 related non-operating revenue.	\$	7,761
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(Preston)

Rents From Water Property-Equipment	S-9	\$ (2,322)
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1.	\$	(2,322)
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Rents from Water Property-Tower Ten	S-10	\$ 91,187
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1. To adjust test year to reflect the inclusion of rents from tower tenants in revenues.	\$	71,515
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(Preston)

2. To adjust test year to reflect the new contract with T-Mobile.	\$	19,140
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(Preston)

3. To adjust test year to reflect the option payment over a three year period.	\$	532
--	----	-----

(Preston)

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

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

Purchase Water Expense	S-12	\$ (7,637)
------------------------	------	------------

1. To adjust test year purchased water expense to reflect Staff's annualized water volume sold. (Preston)	\$	(28,937)
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2. To reflect the increase in water rates April 1, 2004. (Preston)	\$	21,300
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Safety Meetings and Equipment	S-16	\$ 769
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1. To adjust test year to reflect an annualized cost associated with safety barricades and equipment. (Preston)	\$	769
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Admin and Gen-Salaries	S-17	\$ 32,898
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1. To adjust test year to reflect the annualization of payroll expense. (Vesely)	\$	43,014
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2. To adjust payroll for partial disallowance of manager's salary. (Vesely)	\$	(10,116)
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Office Supplies	S-18	\$ 3,592
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1. To adjust test year to reflect the inclusion of costs associated with operator training and certification. (Preston)	\$	167
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Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
2. To adjust test year to reflect the increase in telephone expense. (Preston)	\$ 246	
3. To adjust test year to reflect the switch to Nextel cellular and two-way services. (Preston)	\$ 4,209	
4. To adjust test year to reflect the disallowance of expenses related to the Nextel cellular and two-way services based on phones and plans that are excessive. (Preston)	\$ (1,059)	
5. To adjust test year to reflect an increase in postage expenses. (Preston)	\$ 491	
6. To adjust test year to reflect the disallowance of expenses related to non-regulated activities. (Preston)	\$ (616)	
7. To adjust test year to reflect the elimination of dues paid to AWWA and MWRA. (Preston)	\$ (149)	
8. To adjust test year to reflect the increase in expense for postcard bills due to the switch to montly billing. (Preston)		
9. To adjust test year to reflect the increase in costs related to weekly floor mats. (Preston)	\$ 409	
10. To adjust test year to reflect the inclusion of 80% of AWWA dues. (Preston)	\$ 1,051	
11. To adjust test year to remove costs associated with the new computer system. (Traxler)	\$ (1,157)	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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***** Permit Fees-Right of Way	S-19	\$ 729

1. To adjust test year to reflect an annualized level of expense related to permit and degradation fees. (Preston)	\$	729
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***** Outside Services Employed	S-21	\$ 5,343

1. To adjust the test year to reflect the increase in Department of Natural Resources annual fees. (Preston)	\$	200
2. To adjust test year to reflect the disallowance of expense related to the office tower. (Preston)	\$	(1,125)
3. To eliminated from the test year costs associated with the city sewer contract. (Preston)	\$	(330)
4. To adjust test year to eliminate finance charges. (Preston)	\$	(13)
5. To adjust the test year to reflect the elimination of the expense for stadium cups. (Preston)	\$	(476)
6. To adjust test year to reflect the disallowance of a one-time charge for tower inspection. (Preston)	\$	(3,125)
7. To adjust test year to reflect the cost associated with mapping the water system. (Vesely)	\$	790

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
8. To adjust test year to reflect the cost of the Consumer Confidence Report. (Vesely)	\$ 3,817	
9. To adjust test year to remove costs associated with the old computer system. (Traxler)	\$ (3,174)	
10. To adjust test year to reflect the annualized costs for maintenance of the new computer system. (Traxler)	\$ 8,779	

Property Insurance S-22	\$ 5,537	

1. To adjust test year to reflect the increase in the General Liability insurance premium. (Preston)	\$ 4,303	
2. To adjust test year to reflect additional insurance on plant additions through August 31, 2003. (Preston)	\$ 1,234	

Injuries & Damages Insurance S-23	\$ (2,943)	

1. To adjust test year to reflect the annualization of insurance expense. (Preston)	\$ (2,943)	

Employee Pension & Benefits S-24	\$ 16,855	

1. To adjust test year to reflect the disallowance of expense related to employee birthday or anniversary. (Vesely)	\$ (150)	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
2. To adjust test year to reflect the disallowance of the year end bonus paid to employees. (Vesely)	\$ (3,067)	
3. To adjust test year to reflect the increase in health and dental insurance premiums. (Vesely)	\$ 17,964	
4. To adjust test year to reflect the inclusion of life insurance. (Vesely)	\$ 2,108	

Regulatory Commission Expense S-25	\$ 1,281	

1. To adjust test year to reflect the increase in the MPSC assessment. (Preston)	\$ 1,281	

Rate Case Expense S-26	\$ (988)	

1. To adjust the test year to reflect the annualized level of rate case expense. (Preston)	\$ 5,522	
2. To adjust the test year to reflect the disallowance of rate case expense related to the rate of return witness and associated attorney fees. (Preston)	\$ (3,225)	
3. To adjust rate case expense to reflect the partial disallowance of consultant fees and associated attorney fees. (Preston)	\$ (3,285)	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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Misc. General Expenses	S-27	\$ (2,704)
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1. To adjust test year to reflect the disallowance of finance charges.
(Preston) \$ (1,277)
2. To adjust the test year to reflect the disallowance of expenses related to employee birthday or anniversary.
(Vesely) \$ (125)
3. To adjust the test year to reflect the disallowance for the cost of personalized license plates.
(Preston) \$ (15)
4. To adjust test year to reflect the disallowance of dues and donations.
(Preston) \$ (660)
5. To adjust test year to reflect the disallowance of misc expenses related to employees.
(Preston) \$ (627)

Directors Fees & Expenses	S-28	\$ (181)
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1. To adjust test year to reflect the increase in insurance expense.
(Preston) \$ 599
2. To adjust test year to reflect the disallowance of Neal Clevenger's board of directors fees.
(Preston) \$ (1,170)
3. To adjust test year to reflect the annualization of board member fees.
(Preston) \$ 390

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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Maint of General Plant	S-29	\$ 8,230
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1. To adjust test year to reflect the monthly monitoring and maintenance costs associated with the security system. (Preston)	\$	5,088
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2. To adjust test year to reflect the increase costs in trash service. (Vesely)	\$	544
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3. To adjust test year to reflect additional costs associated with increase security lighting at the water tower facilities. (Preston)	\$	2,598
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Depreciation Expense - Other	S-31	\$ (25,011)
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1. To adjust test year depreciation expense to reflect the elimination of expense charge through the Transportation Clearing accounts. (Preston)	\$	(25,011)
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Amortization of Utility Plant	S-32	\$ 28,854
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1. To adjust test year to reflect the 5-yr amortization of the Gateway Project. (Vesely)		
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2. To include the amortization of computer software and hardware on the new system. (Traxler)	\$	28,854
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Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description		Total Co Adjustment	Mo Juris Adjustment

Property Taxes	S-33	\$ 1,340	

1. To adjust test year to eliminate property taxes associated with Evanston House, non-utility property. (Preston)		\$ (1,201)	
2. To adjust test year to reflect the increase cost in property taxes. (Preston)		\$ 2,541	

Amortization of ITC	S-36	\$ 2,040	

1. To remove ITC from the test year. (Preston)		\$ 2,040	

Depreciation Expense-CIAC Related	S-37	\$ (10,615)	

1. To adjust test year to reflect the elimination of CIAC related depreciation expense. (Preston)		\$ (10,615)	

Net Salvage	S-38	\$ (1,495)	

1. To adjust test year to reflect a five year average of actual salvage. (Preston)		\$ (1,495)	

Amortization CIAC	S-39	\$ (2,092)	

1. To adjust test year to reflect the amortization of old CIAC. (Preston)		\$ (2,092)	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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Tower and Dist Lines Expense	S-42	\$ 25,238
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1. To adjust test year to reflect the annualization of payroll expense. (Vesely)	\$	32,998
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2. To adjust payroll for partial disallowance of manager's salary. (Vesely)	\$	(7,760)
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Maint of Reserv & Standpipes	S-47	\$ 72,570
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1. To adjust test year to reflect the annual maintenance contract costs for the three towers. (Vesely)	\$	72,570
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Maint of T & D Mains	S-48	\$ 15,163
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1. To adjust test year to reflect the expense for the leak loss survey for the entire system. (Preston)	\$	6,900
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2. To adjust test year to reflect the increase costs associated with the Missouri One Call Program. (Preston)	\$	459
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3. To adjust test year to reflect the elimination of expenses related to back window trim on the service trucks. (Preston)	\$	(436)
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4. To adjust test year to reflect the increase in insurance expense. (Preston)	\$	6,967
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Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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5. To adjust test year to reflect the increase gasoline costs associated with the additional meter reading truck due to the switch to monthly billing. (Vesely)	\$ 1,273	
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Maint of Services T & D	S-49	\$ 24,000
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1. To adjust test year to reflect initiating maintenance responsibility for service lines from main to meter. (Vesely)	\$ 24,000	
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Meter Reading Exp-Cust Accts	S-53	\$ (1,735)
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1. To adjust the test year to reflect the annualization of uniform expense. (Preston)	\$ (1,735)	
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Cust Records and Collection Exp	S-54	\$ 78,028
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1. To adjust test year to reflect the increase in postage costs associated with customer billing and to reflect the switch to monthly billing. (Preston)		
2. To adjust test year to reflect the annualization of payroll expense. (Vesely)	\$ 54,712	
3. To adjust payroll for partial disallowance of manager's salary. (Vesely)	\$ (12,867)	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment
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4. To reflect the costs (postage, billing and equipment rental) necessary for full page billing as agreed to in the settlement. (Preston)	\$ 36,183	
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City Sewer Contract Turn On/Off S-56	\$ 3,038	
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1. To adjust test year to remove revenue related to non-regulated city sewer services. (Vesely)	\$ 3,038	
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City Sewer Programming/Office S-57	\$ (815)	
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1. To adjust test year to remove expense related to non-regulated city sewer services. (Vesely)	\$ (815)	
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Uncollectible Accounts S-58	\$ (2,117)	
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1. To adjust test year to reflect the annualization of the uncollectible accounts expense. (Preston)	\$ (2,117)	
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Water Loss Survey S-63	\$ (3,950)	
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1. To adjust test year to eliminate maintenance expense from taxes accounts. (Preston)	\$ (3,950)	
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Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Adjustments to Income Statement

Adj No Description		Total Co Adjustment	Mo Juris Adjustment

Tower Painting Gregory/Chapel	S-64	\$ (33,947)	

1. To adjust test year to eliminate maintenance expense from tax accounts. (Vesely)		\$ (33,947)	

Interest on Customer Deposits	S-66	\$ (82)	

1. To adjust test year to reflect the 6% interest earned based on the 13 month average of customer deposits. (Preston)		\$ (82)	

Amortization of Utility Plant-GTWY	S-99	\$ 60,943	

1. To include the amortization of the Gateway Project. (Traxler)		\$ 60,943	

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Income Tax

Line	Test Year	9.47% Return
(A)	(B)	

1 Net Income Before Taxes (Sch 9)	\$ 371,249	\$ 705,949

Add to Net Income Before Taxes		
2 Book Depreciation Expense	\$ 292,699	\$ 292,699
	-----	-----
3 Total	\$ 292,699	\$ 292,699
Subtr from Net Income Before Taxes		
4 Interest Expense 2.1900 %	\$ 111,783	\$ 111,783
5 Book Depreciation Expense	292,699	292,699
	-----	-----
6 Total	\$ 404,482	\$ 404,482

7 Net Taxable Income	\$ 259,466	\$ 594,166

Provision for Federal Income Tax		
8 Net Taxable Income	\$ 259,466	\$ 594,166
9 Deduct Missouri Income Tax 100.0 %	\$ 13,745	\$ 31,153
10 Deduct City Income Tax	0	0
11 Federal Taxable Income	245,721	563,013
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12 Total Federal Tax	\$ 79,081	\$ 191,424
Provision for Missouri Income Tax		
13 Net Taxable Income	\$ 259,466	\$ 594,166
14 Deduct Federal Income Tax 50.0 %	\$ 39,541	\$ 95,712
15 Deduct City Income Tax	0	0
16 Missouri Taxable Income	219,926	498,454
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17 Total Missouri Tax	\$ 13,745	\$ 31,153

Raytown Water Company

Case: WQ-03-023

Year Ended December 31, 2002 Updated through June 30, 2003

Income Tax

Line	Test Year	9.47% Return
(A)	(B)	
Provision for City Income Tax		
18 Net Taxable Income	\$ 259,466	\$ 594,166
19 Deduct Federal Income Tax	\$ 79,081	\$ 191,424
20 Deduct Missouri Income Tax	13,745	31,153
21 City Taxable Income	166,640	371,589
22 Total City Tax	\$ 0	\$ 0
Summary of Provision for Income Tax		
23 Federal Income Tax	\$ 79,081	\$ 191,424
24 Missouri Income Tax	13,745	31,153
25 City Income Tax	0	0
26 Total	\$ 92,826	\$ 222,577
Deferred Income Taxes		
27 Deferred Investment Tax Credit	\$ 0	\$ 0
28 Amortization of ITC	0	0
29 Total	\$ 0	\$ 0
30 Total Income Tax	\$ 92,826	\$ 222,577

Overview of Company and Customer Service Practice & Procedures

Review of Raytown Water Company Customer Service Operations

The Engineering and Management Services Department (EMSD) staff initiated an informal review of the customer service processes, procedures and practices at Raytown Water Company (Raytown or Company) on March 6, 2003. 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. Meetings with Company personnel were held April 28 and 29 and May 19, 2003. Additional meetings were held to discuss information specific to the computer system.

The purpose of the EMSD is to promote and encourage efficient and effective utility management. This purpose contributes to the Commission's overall mission to guarantee that customers receive safe and adequate service at the lowest possible cost, while providing utilities the opportunity to earn a fair return on their investment.

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 Deposits
- Meter Reading
- Customer Billing
- Credit and Collections
- Write-Offs
- Computer System
- Master Meters
- Water Storage Towers
- Water Main Replacements
- Communication with Customers
- Complaint/Inquiries Handling and Documentation

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

Overview

Raytown Water Company provides water service to approximately 6,777 customers (2002 Annual Report end of year) in a service area mostly in Raytown, Missouri with some customers in Independence, Missouri. At the end of 2002, the Company reported the following amount of meters in use: 6,287 residential, 410 commercial, 19 industrial and 61 public. The Company's business office is located at 9820 East 63rd Street, Raytown, MO, 64133.

The Company currently has the meter potential to serve approximately 6,800 customers. However, the Company's growth is limited because a large percentage of the land in its service territory has already been developed and its service territory is bounded on all sides by a public water district and a municipal water system. The Company's 20 square-mile service territory is generally bounded by 50th Street to the north, Woodson Road to the east, 350 Highway to the south and Blue Ridge Cutoff to the west.

The table below demonstrates the small variance in the Company's total customers and gallons of water sold for the years 1998 through 2002. The Company customer growth has been negligible since 1998.

Year	Total Customers	Percentage Difference	Gallons of Water Sold	Percentage Difference
1998	6,763		458,700,300	
1999	6,771	.12%	469,716,692	2.4%
2000	6,774	.04%	475,031,800	.11%
2001	6,780	.089%	465,107,350	(2.09)%
2002	6,777	(.04)%	472,397,700	1.57%

Source: Raytown Water Inc., Annual Reports

The Company purchases the water it provides to its customers from the City of Kansas City, Missouri. Therefore, the Company is not actively involved in the production or treatment of water.

Employees of the Company include the owners, three full-time and two part-time business office employees (one employee works eight hours per day three days and one employee works approximately three hours per day five days) and seven field employees. The seven field employees consist of two three-person crews, who are responsible for construction,

repair and maintenance to the system and performing turn-ons and turn-offs, and a meter reader. The Company's business hours are 7 a.m. to 4 p.m. Monday through Friday.

Customer Deposits

The Company stated that a customer deposit in the amount of \$35.00 for residential and commercial customers payable when the service is placed in their name is required of customers not able to satisfy credit requirements. The Company's tariff states:

A deposit shall not exceed the charges applicable to one billing period plus thirty days and shall be computed on the basis of the estimated annual billing for service, unless the security deposit is required under the terms of subparagraph (1) of this Rule, in which case the deposit shall not exceed two times the highest bill of that customer during the preceding twelve months.

The EMSD staff is of the opinion that the Company's \$35.00 customer deposit charge is in accordance with its tariff.

The deposits are manually recorded in a journal and the deposit slips are filed as either current deposits or refunded deposits. A deposit register is printed at the end of each month. The Company stated that a customer's deposit and earned interest is applied to their account when the account is twelve months old.

Meter Reading

The seven field employees have two-way radios. The Company provides one cell phone and reimburses two field employees \$25.00 each per month for use of their personal cell phones. Previously, pagers were used by the Company, but the Company indicated employees prefer using cell phones. The Company stated that it is currently analyzing the costs and benefits of discontinuing use of pagers and two-way radios and transferring to cell phones usage only.

The Company currently has 111 indoor meters and plans to move 21 of these meters outside during calendar year 2003. The Company's policy is that all water meters are manually read bimonthly and recorded in the meter read route book by the meter reader. The Company stated that approximately 150 meter reads per day are performed. When the route is completed, the meter book is returned to the office so that bill calculations can be performed. The customers' current reading and total usage are manually transferred to the Company's billing book by the office personnel. This information is then entered into the computer in order to produce a customer bill. When not in use, the meter books are stored in the Company's vault.

The Company stated that providing the customers' meter reading and billing information history to the meter reader provides the meter reader the ability to immediately determine if the current meter reading is outside a reasonable range. The Company stated that the meter reader is able to remedy many situations in the field by having this information available while reading the meters.

The Company informed the EMSD staff that estimated meter readings do not occur and that it does not anticipate implementation of automated meter reading devices. The meter reader checks the inactive meters regularly when performing meter reads.

Customer Billing

After a route is completed and each customers' usage is calculated, the information is entered into the billing system and postcard bills are printed. A blank copy of the Company's bill is shown on the following page.

Prior to mailing, bills are visually checked for any errors. The bills are mailed to customers requesting payment within 21 days in order to avoid a late charge, which is the greater of \$3.00 or 2% of the current month's bill.

Customers are able to make payment by cash or check. And are requested to return the bill stub with their payment. The Company's payment options include the mail, the business office, the front door drop box and the drive-up drop box.

Credit and Collections

The Company informed the EMSD staff that when it receives an insufficient funds check, the payment is reversed from the customer's account and the account is charged a tariff-approved \$20.00 bad check charge. Insufficient funds checks are manually recorded chronologically in a log. A yellow door notice is delivered to the residence on the following day stating that payment of the insufficient funds check and the \$20.00 bad check charge is due within two days and no later than 1 p.m. of the second day. If payment is not received by 1 p.m. of the second day, the service is disconnected that afternoon.

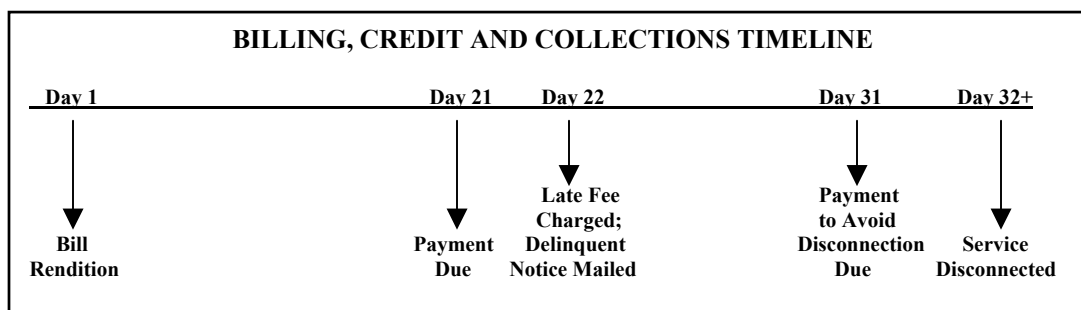
The Company stated that the number of insufficient funds checks received from a customer is shown on their account. The determination to not accept checks in the future from a customer is decided on a case-by-case basis. Whenever a customer's account is noted as not being able to accept checks as payment, a letter is mailed by the Company informing the customer that future payments must be made in cash. The letter states that following twelve

months of good pay, the “no check” status will be removed from their account. The Company informed the EMSD staff that if a check is received from a customer whose account is noted as “no checks,” the customer is informed by telephone to replace the check payment with cash.

If payment of the customer’s bimonthly bill is not received within the requested 21 days, a charge of \$3.00 or 2% of the current month’s bill, whichever is greater, is assessed to the account and the Company mails a delinquent notice informing the customer that payment has not been received. Currently, the late fee charges are manually assigned to accounts.

The delinquent notice informs the customer that if payment is not received within ten business days (31 days following bill rendition), their service is subject to disconnection. The date payment is required in order to avoid disconnection and the date service will be disconnected are both stated on the notice. The Company stated that if payment is not received by the date specified on the delinquent notice, the service is disconnected on the next Thursday. The Company informed the EMSD staff that the Thursday following the delinquent due date payment that is necessary to avoid disconnection is usually the 32nd or 33rd day following its bill rendition.

The Company’s billing and credit and collections timeline is presented below.



The Company stated that payment arrangements to avoid a trip to collect and/or possibly disconnect service are sometimes arranged in order to avoid disconnection of service. These arrangements are made on a case-by-case basis.

Prior to disconnection of service for nonpayment, all payments of accounts are posted. A printout of all accounts with balances due is then printed and accounts that have payment arrangements are verified. Accounts that are subject to disconnection are then listed for the serviceperson to complete.

When a trip is required to collect payment, the customer’s account is charged a \$15.00 door collection charge (customer pays serviceman at the time of scheduled disconnection) or a

\$15.00 disconnect turn-off charge (service is disconnected). For disconnected services that customers desire reconnection, a restoration charge of \$15.00 during business hours or \$25.00 during non-business hours is charged the account.

The Company stated that it attempts to collect the total amount due in order to reconnect services disconnected for nonpayment, but occasionally a partial amount is accepted. The Company informed the EMSD staff that the field collection of payments is not a safety concern.

The Company stated that during the past year it contracted with a collection agency that retains 35% of the amount it collects. Prior to forwarding accounts to the collection agency, the Company attempts to collect on accounts that have a forwarding address. Accounts with balances due greater than \$50.00 are sent weekly to the collection agency. Accounts with balances less than \$50.00 are not forwarded to the collection agency. When the collection agency does receive payments on the Company's accounts, it retains 35% of the payment and forwards the remainder by check to the Company. The Company informed Staff that the collection agency has collected on a very small percentage of its accounts.

Write-Offs

The Company informed the EMSD staff that a year-end report is generated that lists customers that are no longer receiving service from the Company whose accounts show a debit balance. From this list, accounts are selected to write off as bad debt. The reasons for accounts chosen to be written off as bad debt include: time lapse since account was closed, availability of forwarding address, exhaustion of all sources of contact and customer history while a customer of the Company.

As reported by the Company, the table below demonstrates the amount and percentage of write offs to bad debt for the years 2000 through 2002, inclusive.

Year	Amount of Write Off to Bad Debt	Percentage of Write Off to Bad Debt
2000	\$15,787.90	8.23%
2001	\$15,787.90	9.13%
2002	\$17,880.49	10.97%

Source: Raytown Water

The Company's write off percentages to bad debt have been steadily increasing since 2000. From 2000 to 2002, its write offs to bad debt have increased 2.74%.

Computer System

The Company is currently considering updating its computer system, which was purchased from Computer Resources in 1992. The system is a UNIX based operating system that was much more popular a decade ago than it is today. According to industry experts, Microsoft-based operating systems are used by most small water utilities in 2003. The UNIX system included used PCs and very few software updates have occurred since its purchase. The Company stated that this system is responsible for the Company's data base, billing, customer account history, customer complaint register, general ledger, payroll, accounts payable, a majority of the accounts receivable, meter changes, meter inventory and other business information.

The Company has been seriously considering an alternative computer system since April 2002. Raytown wanted to deploy a Microsoft-based operating system that was more user-friendly than its current system. Raytown has received software upgrades on a periodic basis from its vendor and has tried to make them work. However, the Company stated that its results have been mixed on the efficiency and effectiveness of some of the vendor software upgrades.

The Company contacted three vendors and received demonstrations and bids on a new system from each company. The Company's desire is to purchase the system provided by CBIZ Technologies (CBIZ), which is located in the Kansas City area. CBIZ is also contracting with another water utility in the area and the Company will benefit financially by completing its contract at the same time as the other water utility.

In conjunction with updating its computer system, the Company is considering changing its method of billing customers from its current postcard billing to full-page envelope billing. The Company stated that its reasons for changing to full-page billing include: 1) the customers have requested this method of billing, 2) the Post Office has requested that companies discontinue use of postcards and 3) the Company will be able to provide company specific messages/information to its customers.

The new computer system will require that meters be read monthly instead of bimonthly as currently done. Although with the new computer system meters would be read and recorded on hand-held devices, an additional meter reader would be required.

The Company stated that some of the advantages of updating its computer system with CBIZ include the following: 1) provides one monitor instead of the Company's current two at some workspace locations, 2) provides for monitor at counter to assist walk-in customers, 3)

monitors the customers' promises to pay delinquent bills, 4) accelerates the billing process, 5) speeds up the access to customers' accounts, 6) attaches any past due amounts to customers' new accounts automatically, 7) conserves paper, 8) allows employees to toggle between software programs instead of backing out of programs and possibly losing entered data and 9) tracks the number of payments made by each payment method.

The Staff met May 19, 2003, with Raytown and Computer Resources, Company's current computer system provider, to discuss Raytown's computer requirements and a possible bid proposal from Computer Resources, Inc. Computer Resources was not included in the original request for bids. Those in attendance included Raytown staff, EMSD staff and Computer Resources. The Company's office and field personnel presented a laundry list of problems and current system inefficiencies that employees would like to have included in an upgraded or new computer system. The vendor verbally agreed to provide a written bid by the end of that week, May 23. When Staff contacted Computer Resources the first week of June, Staff was informed that the company would not be submitting a proposal for Raytown's computer system. The Staff received a letter from Computer Resources stating that there would be no further Raytown-specific programming changes performed by them.

The EMSD Staff has assisted the Auditing Department's involvement in the management of the Company's process to determine a reasonable solution to its computer system vendor. The EMSD Staff's involvement in the computer system decision included the following:

- July 30, 2003 A meeting at the United Missouri Bank (UMB) in Raytown, Missouri with Raytown, Staff and Hanebutt Consulting Group, Inc. (Hanebutt) to listen to the presentation of a computer system vendor recommendation from Hanebutt. Hanebutt's recommendation was CBIZ. Those in attendance included Raytown staff, EMSD staff and Hanebutt.
- August 13, 2003 A conference call with Don Frey of Frey & Co. (Frey) to discuss Hanebutt's recommendation. Those in attendance included Raytown staff, EMSD staff and Hanebutt; the meeting location was the UMB in Raytown, Missouri.
- August 19, 2003 A software demonstration conference call meeting with Frey at Hanebutt's office. Frey employees demonstrated its computer system and answered questions. Those in attendance included Raytown staff, EMSD staff, Hanebutt and Frey.

Following the August 19, 2003 meeting, the Auditing Staff assisted the Company with the decision of a computer system vendor. The EMSD staff was informed that the Company's computer system vendor was Frey.

Master Meters

The Company informed the EMSD staff that its eight master meters are read by its employees on the first Monday of each month, which is close to the date readings are taken by the City of Kansas City employees. Following receipt from the City of Kansas City of its monthly billing statement, the two sets of readings are compared by Company employees to document accuracy. As the Company reads its customers' meters on eight different cycles, the Company stated that it is very difficult to compare the master meter readings to the amount of water charged to the Company's customers.

Water Storage Towers

The Company stated that it has three tanks with total storage capacity of 2,500,000 gallons and that the tanks are currently at OSHA standards. The Company has a maintenance contract in effect for its storage tanks.

Water Main Replacement

The Company informed the EMSD staff that it is replacing its mains as deterioration occurs. Company management informed Staff that whenever two to three clamps are located within four to five feet, the Company replaces the main.

Communication with Customers

The Company's business office is open Monday through Friday 7 a.m. to 4 p.m. and two drop boxes are located at the business; one is at the office front door and one is in the parking lot.

The Company has contracted with a local answering service that answers all calls during non-business hours. Documentation of all calls is provided to the Company at the beginning of the next business day and all calls requesting a return call are returned the following day. Emergency calls received by the answering service are forwarded immediately to the Company's on-call employee.

The Company has contracted with a vendor that provides a recorded message on its telephone system that plays while customers are placed on hold. These messages, which could include notices regarding high water usage during hot weather, upcoming repair work, etc., are changed quarterly.

Complaints/Inquiries Handling and Documentation

The Company stated that all employees are able to handle complaints and/or inquiries, but it is sometimes necessary for the manager to handle difficult customers. Customer complaints/inquiries are logged by the employee handling the call.

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's attention:

- Customer Deposits
- Billing Statements
- Payments Received in Drop Box
- Payment Options
- After-Hour Collection and Reconnection of Delinquent Disconnects
- Collection Agency

Customer Deposits

The Company is charging a \$35.00 customer deposit to all customers required to pay a deposit when, according to its tariff, it is allowed to charge a more appropriate amount. The Company's tariff states:

A deposit shall not exceed the charges applicable to one billing period plus thirty days and shall be computed on the basis of the estimated annual billing for service, unless the security deposit is required under the terms of subparagraph (1) of this Rule, in which case the deposit shall not exceed two times the highest bill of that customer during the preceding twelve months.

The primary purpose of the customer deposit is to provide the Company a source of funds to draw upon in the event that a customer does not remit payment for final charges for services received. The Company is aware that its write-offs have steadily trended upward during the past few years. Charging those customers required to pay a deposit an amount that is allowed through the Company's tariff would provide the Company a larger amount to apply to the customers' final bill and may therefore assist the Company in decreasing its amount of write-offs or at least discontinue to trend upward.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Charge an appropriate amount of a customer deposit to those customers required to pay a customer deposit.

The Company is routinely applying customer deposits to customers' accounts following twelve months of service with the Company without regard to customer payment history. The purpose of the customer deposit is to provide the Company a source of funds to draw upon in the event that a customer does not remit payment for final charges for services received.

Commission Rule 4 CSR 240-13.030 (4) (D) states "Upon satisfactory payment of all undisputed utility charges during the last twelve (12) billing months, it shall be promptly refunded or credited, with accrued interest, against charges stated on subsequent bills". The EMSD staff reviewed a sample of six accounts that had received a customer deposit credit to their account. Four of the six accounts had been charged late fees during their past twelve billing months.

The Company is aware that its write-offs have steadily trended upward during the past few years. Retaining customer deposits until the customers discontinue service with the Company for those customers who have not satisfactorily remitted payment of all undisputed charges during the last twelve month billing period and applying the deposits to customers' final bills would possibly assist the Company in decreasing its amount of write-offs or at least discontinuing to trend upward.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Retain customer deposits of customers who have not satisfactorily remitted payment of all undisputed charges during the last twelve month billing period. Upon termination of service, apply the deposit with accrued interest to the final bill and return the balance to the customer.

Billing Statements

The Company has not performed a cost-benefit analysis prior to making its decision to change from postcard billing to full-page billing. In order to support the Company's decision, its business plan and its activities, a cost-benefit analysis is imperative to document the positive and negative impacts of such a major decision.

Some of the costs to be evaluated include: postage; purchase of new equipment, i.e., envelope stuffer, envelope sealer, bar coding equipment; labor to mail bills and process return payments; and the cost of envelopes.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Perform a cost-benefit analysis to support the Company's use of postcard billing or full-page billing.

Payments Received in Drop Box

The Company's process of payments received in its drop box does not adhere to its billing tariffs or to Commission Rule 4 CSR 240-13.020 (7). The payments received in the Company's drop box are collected at 1:00 p.m. daily and posted to the customers' accounts. Any payments received after 1:00 p.m. are posted to the customers' accounts on the next business day.

Although this information is posted on the Company's drop box, this procedure does not meet the terms of the Company's tariff or the Commission Rule. The Company's tariff states: "The period after which the payment is considered delinquent is 21 days after rendition of the bill." Commission Rule 4 CSR 240-13.020 (7) states: "A monthly-billed customer shall have at least twenty-one (21) days and . . . from the rendition of the bill to pay the utility charges."

Payments placed in the drop box on the last day payment is to be made are posted on the following business day and a late charge of \$3.00 or 2% of the unpaid balance, whichever is greater, is added to the account. Customers should be provided an opportunity of 21 full days from the rendition of the bill to make payment of their bill.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Ensure that customers receive a full 21-day period after rendition of their bill to make payment by discontinuing the practice of charging accounts a late charge that are received at the drop box after 1:00 p.m. on the final day to make payment.

Payment Options

The Company provides only two payment methods for its customers. Offering additional payment options would be beneficial to the customers as well as the Company. By offering multiple payment options to its customers, the Company would be providing a service to its customers that suits their budgeting needs.

Some possible payment methods include credit cards, pay-by-phone and direct debit. These payment options would provide the Company a speedier transaction process. The Company is aware that its write-offs have steadily trended upward during the past few years. Offering other payment options to its customers might possibly assist the Company in decreasing its amount of write-offs or at least discontinuing to trend upward.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Examine other possible methods of payment that could be offered to the customers. Following analysis of the payment options, implement those that are viable.

After-Hour Collection and Reconnection of Delinquent Disconnects

The Company's current after-hour collection of payment and reconnection of service to delinquent disconnects places the Company employee in an unsafe situation. The employee is collecting from the delinquent disconnect customer the amount due to be reconnected and is doing so after business hours, from 4:00 p.m. until 9:00 p.m. Performing these duties during hours of darkness and carrying cash creates an unsafe environment for the employee.

Commission Rule 4 CSR 240-13.050 (11) states:

At all times, a reasonable effort shall be made to restore service upon the day restoration is requested, and in any event, restoration shall be made not later than the next working day following the day requested by the customer.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Examine other possible procedures for after-hour collection of payment and reconnection of service to delinquent disconnects. The Company might wish to consider accepting money orders only or possibly performing these duties on the next working day following the day requested by the customer. The Company should ensure the safety of the employee performing these duties.

Collection Agency

The Company does not track and monitor the performance of its collection agency through the use of a monthly collection report. Although the Company can obtain the information, the Company does not maintain in one location the information documenting payments received from its collection agency. By not having this information located in a report, the Company's ability to monitor and analyze the performance of its collection agency is difficult.

The Company contracted with this collection agency during the past twelve months and the Company should be closely monitoring the collection agency's performance. The Company is aware that its write-offs have steadily trended upward during the past few years. By closely monitoring the performance of its collection agency, the Company would hopefully be able to address its trend of increasing write-offs.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop and utilize a report that monthly tracks the payments received from the Company's collection agency. Monitor the information on a regular basis.