

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

In the Matter of the Tariff Filing of Aqua)
Missouri, Inc. to Implement a Rate Increase)
for Water Service Provided to Customers in)
its Missouri Service Areas.)

Case No. WR-2007-0020
Tariff Work ID No. JW-2007-0014

**RECOMMENDATION REGARDING DISPOSITION
OF SMALL COMPANY RATE INCREASE REQUEST**

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through counsel, and for its Recommendation Regarding Disposition of Small Company Rate Increase Request ("Recommendation") states the following to the Missouri Public Service Commission ("Commission").

1. By a letter dated July 11, 2006, which was received in the Commission's Data Center on July 12, 2006, Aqua Missouri, Inc. ("Company") filed proposed tariff revisions with the Commission for the purpose of implementing the provisions of a *Company/Staff Agreement Regarding Disposition of Small Water Company Rate Increase Request* ("Disposition Agreement"), and the instant case was established.

2. The Company and the Staff executed the above-referenced Disposition Agreement, which the Staff filed in this case on July 21, 2006, as a proposed resolution of the Company's small company rate increase request ("Request") that was received at the Commission's offices on May 17, 2005. The Company submitted its Request under the provisions of Commission Rule 4 CSR 240-3.635, Water Utility Small Company Rate Increase Procedure ("Small Company Rate Increase Procedure"). Initially, the Company's Request was assigned Tracking No. QW-2007-0011.

3. The Staff's recommendations to the Commission regarding this case are set out on Page 6 of the Staff's Official Case File Memorandum ("Memorandum") that is included in Appendix A attached hereto.

4. Included with the Staff's Memorandum are documents regarding the Staff's investigation of the Company's Request that have not previously been filed in the case file.

5. The Commission has the authority to approve the subject proposed tariff revisions in accordance with Sections 393.140(11) and 393.150, RSMo. Additionally, Section 393.130.1, RSMo provides that all charges made by any water corporation for water service rendered or to be rendered shall be "just and reasonable". The Staff's recommendation for approval of the proposed tariff revisions, subject to certain conditions, as set out in the attached Staff Memorandum is evidence that the rates and charges contained in the tariff revisions are just and reasonable.

6. The procedure followed in this case complies with the requirements of the Small Company Rate Increase Procedure in general, and with 4 CSR 240-3.635(1)(D) in particular.

WHEREFORE, the Staff respectfully requests that the Commission issue an order consistent with the recommendations set out on Page 6 of the attached Staff Memorandum.

Respectfully Submitted,

/s/ Keith R. Krueger

Keith R. Krueger
Deputy General Counsel
Missouri Bar No. 23857

Attorney for the Staff of the
Missouri Public Service Commission

P.O. Box 360
Jefferson City, MO 65102
573-751-4140 (telephone)
573-751-9285 (facsimile)
keith.krueger@psc.mo.gov (e-mail)

CERTIFICATE OF SERVICE

I hereby certify that copies of this Recommendation 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 18th day of September 2006.

/s/ Keith R. Krueger

APPENDIX A

STAFF MEMORANDUM & ATTACHMENTS

CASE NO. WR-2007-0020

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Official Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WR-2007-0020 - - - Aqua Missouri, Inc.

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
Paul Harrison – Auditing Department
Kofi Boateng – Auditing Department
Amanda McMellan – Auditing Department
Gary Bangert – Engineering & Management Services Department
Jolie Mathis – Engineering & Management Services Department
Matthew Barnes – Financial Analysis Department
James M. Russo – Water & Sewer Department
Jerry Scheible – Water & Sewer Department

<u>/s/ Dale W. Johansen</u>	<u>09/18/06</u>
Project Coordinator	Date
 <u>/s/ Keith R. Krueger</u>	 <u>09/18/06</u>
General Counsel's Office	Date

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

DATE: September 18, 2006

BACKGROUND

Aqua Missouri, Inc. ("Company") initiated the subject small company rate increase request ("Request") by submitting a letter to the Secretary of the Commission, which was received at the Commission's offices on May 17, 2005. The Company submitted its Request under the provisions of Commission Rule 4 CSR 240-3.635, Water Utility Small Company Rate Increase Procedure ("Small Company Rate Increase Procedure").

By its Request, the Company was seeking Commission approval of customer rates intended to generate an increase of \$65,209 in its total annual water service operating revenues. As the Company stated in its Request letter, the reasons for the requested increase in its water service operating revenues are: increases in utility plant investment; increases in maintenance and operating expenses and other inflationary pressures.

The Company provides water service to approximately 480 customers, the vast majority of which are residential customers. The Company's current rates went into effect on March 27, 1998.

Upon receipt of the Company's letter that initiated the Request, personnel in the Commission's Data Center entered the letter into the Commission's electronic filing and information system ("EFIS") and the system assigned Work I.D. No. QW-2005-0011 to the Request. The Company's letter was then routed 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 that was mailed on or about June 6, 2005, 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") within thirty days. A copy of the initial customer notice is identified as item number 2 in the EFIS tracking file for the Request.

STAFF'S INVESTIGATION AND CONCLUSIONS

As noted at the beginning of this Memorandum, Staff members from the Accounting, Engineering & Management Services, Financial Analysis and Water & Sewer Departments participated in the Staff's investigation of the Company's Request. All Staff participants, and all of their respective up-line supervisors, were provided the opportunity to review and comment on this Memorandum prior to it being filed. Jim Russo of the W/S Dept created the initial draft of this Memorandum and comments received from the reviewers were incorporated therein to create this final version of the Memorandum.

In response to the Company's initial customer notice, the W/S Dept Staff received 6 phone calls, 36 letters, 2 emails and 51 EFIS public comment forms regarding the proposed increase. These customer responses addressed the level of the proposed increase and service-related matters. Copies of the customers' letters, emails and EFIS public comments forms, the Staff's correspondence to customers, if any, and the W/S Dept's public comment summary are included in item numbers 4, 5, 6 and 7 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, and copies of the W/S Dept's findings regarding those matters are also included in item numbers 4 through 7 in the EFIS tracking file. The W/S Dept provided copies of the customers' letters, emails, EFIS public comment forms and its public comment summary, to the OPC and the Company shortly after the customer comment period ended.

Based upon an audit of the Company's books and records, a determination of the Company's rate base investments and necessary operating expenses, an evaluation of the Company's depreciation rates and an analysis of the Company's capital structure and cost of capital, and an investigation of the Company's business and system operations, the Staff concluded that an increase of \$45,341 in the Company's annual water service operating revenues is warranted.

In addition to its conclusion regarding the increase in the Company's annual operating revenues, the Staff concluded that new depreciation rates need to be prescribed for the Company, and that certain changes in the Company's business operations and system operations are warranted.

On March 23, 2006 (unless noted otherwise, all dates hereafter refer to the year 2006), 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* ("Disposition Agreement") was reached between the Staff and the Company. The Staff and the Company also reached an agreement regarding the tariff revisions needed to implement the terms of the Disposition Agreement.

The Disposition Agreement reflects the following agreements: (1) that an increase of \$45,341 in the Company's water annual operating revenues is necessary; (2) that certain changes to the Company's system operations are appropriate; (3) that certain changes to the Company's administrative operations are appropriate; (4) that new depreciation rates need to be prescribed for the Company; (5) that the rates included in the above-referenced agreed-upon tariff revisions are designed to generate revenues sufficient to recover the Company's total annualized cost of service; and (6) that the rates included in the above-referenced agreed-upon tariff revisions are just and reasonable. (The specific agreements between the Company and the Staff are set out on pages 3 & 4 of the Disposition Agreement, which the Staff filed in this case on July 21 and which can be found in the EFIS case file as item number 4.)

By a letter that was stamped "Filed" by personnel in the Commission's Data Center on July 12, the Company submitted revised tariff sheets including the agreed-upon tariff revisions that are necessary to implement the terms of the above-referenced Disposition Agreement. Upon receipt of that tariff filing, Data Center personnel scanned the filing and entered it into EFIS, and the instant case was created (the transmittal letter and revised tariff sheets are included in item number 1 in the EFIS case file). As required by the Small Company Rate Increase Procedure, the subject revised tariff sheets bore an effective date that was more than 45 days past the issue date. As is also required by the Small Company Rate Increase Procedure, the above-referenced Disposition Agreement has been filed in the case papers. (As noted previously, the Staff filed the Disposition Agreement on July 21.)

On July 19, the OPC filed Public Counsel's Request for Local Public Hearing, in which it requested that the Commission hold a local public hearing for this case and the Company's two other related rate cases that are pending before the Commission (WR-2007-0021 and SR-2007-0023).

Since the above-referenced Disposition Agreement was only between the Company and the Staff, the Company was required to send a notice to its customers regarding the proposed tariff revisions resulting from the Disposition Agreement. By a letter dated July 21, 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 within twenty days after the date of the notice (i.e., by August 10). In response to this second customer notice, which was filed in the case papers on August 25, and which can be found in the EFIS case file as item number 10, the W/S Dept Staff received 17 telephone calls, 10 letters, 1 fax, 19 e-mails and 23 EFIS public comment forms. These customer responses addressed the level of the rate increase and service-related matters. The Staff submitted copies of the customers' letters, fax, e-mails and EFIS public comment forms, and the Staff's responses thereto, if any, to the EFIS case file on August 25 (item number 10 in the case file).

On August 28 and August 30, the Commission held local public hearings for this case and the Company's other two pending rate cases.

On September 6 and September 7, the OPC filed pleadings in this case entitled Public Counsel's Pleading Indicating Disagreement with the Tariff Sheets and Requesting an Order for Staff Investigation and Amendment to Public Counsel's Pleading Indicating Disagreement with the Tariff Sheets and Requesting an Order for Staff Investigation. In those pleadings (item numbers 12 and 13, respectively, in the EFIS case file), the OPC stated that it does not believe that the Commission should approve the rate increase requests agreed to by the Staff and Aqua Missouri, that the Commission should order the Staff to conduct an investigation into the numerous complaints about the quality of service the Company's customers are receiving, and that it objects to the Return on Equity developed by the Staff and reflected in the Company/Staff agreement in this case.

ISSUES RAISED AT THE LOCAL PUBLIC HEARINGS

As was noted in the OPC's filing of September 6, several issues were raised by the Company's customers during the local public hearings for this case and the Company's other two related rate cases. Additionally, during the August 30 local public hearing, the Staff was asked by Commissioner Steve Gaw to investigate certain matters raised by customers.

Concurrent with the filing of this Memorandum, the Staff is filing two reports regarding its investigation of certain of the issues raised at the local public hearings. As a part of one of the Staff's follow-up reports, which addresses the Company's call center procedures, the Staff includes several recommendations regarding the Company's handling of customer calls, which the Staff believes the Company should implement as a condition of the Commission's approval of the pending rate increases.

RETURN ON EQUITY ISSUE RAISED BY THE OPC

As noted previously, the OPC has stated its objection to the Return on Equity (ROE) developed by the Staff and agreed upon by the Company. However, the OPC does not recommend an alternative ROE, nor does it specify anything about its objection to the ROE developed by the Staff. Attached hereto as Attachment A is the Staff's cost of capital worksheet for the Company, which shows the ROE range that the Staff believes is appropriate for the Company. For purposes of calculating the revenue requirement for the Company, the Staff used the mid-point ROE and the resulting overall weighted cost of capital.

ADDITIONAL INFORMATION

In addition to the above-noted documents that are in the EFIS tracking file and EFIS case file, the Staff's original overview report regarding the Company and its customer service procedures and practices, and related prior reports, are included in Attachment B hereto.

Pursuant to a review of available electronic information maintained by the Commission's Budget & Fiscal Services Department and Data Center, and in EFIS, the Staff notes that the Company was current on the payment of its Commission assessments and on the filing of its Commission annual reports when it submitted its Request, as is required by the Small Company Rate Case Procedure. The Staff also notes that the Company remains current on those matters as of the writing of this Memorandum. The assessment information reviewed covers fiscal years 2002 through 2007, and the annual report information reviewed covers calendar years 2002 through 2005.

As noted previously, the Company has related matters pending before the Commission in Case Nos. WR-2007-0021 and SR-2007-0023.

Lastly, the Staff notes that, by an order issued July 14, the Department of Natural Resources ("DNR") was added as a party to this case and directed to file a pleading indicating whether Aqua Missouri is in compliance with DNR's requirements regarding sewer service. On July 31, the DNR filed a pleading entitled Missouri Department of Natural Resources' Statement of Compliance, in which it noted that it currently does not have any enforcement or compliance actions against the Company pertaining to its water operations, and that it does not consider the water service provider to be in significant non-compliance or a threat to public health or the environment at this time.

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission issue an order in this case that:

- * Approves the revised tariff sheets that the Company filed on July 12, 2006, to be effective for service rendered on and after September 30, 2006;
- * Approves the Company/Staff Disposition Agreement submitted in this case;
- * Directs the Company to comply with the terms of the Company/Staff Disposition Agreement;
- * Prescribes the depreciation rates set out on Attachment D to the Disposition Agreement submitted in this case as the depreciation rates authorized for the Company's use; and
- * Conditions its approval of the Company's pending revised tariff sheets on the Company's implementation of the Staff's recommendations regarding the Company's handling of customer contacts, as are set forth in the Staff's local public hearing follow-up report regarding the Company's call center procedures.

List of Attachments

Attachment A: Cost of Capital Worksheet

Attachment B: Overview of Company and Customer Service Operations

Memo Attachment A

Cost of Capital Worksheet

Weighted Cost of Capital as of March 31, 2005 for Aqua Missouri

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of:		
			10.12%	10.62%	11.12%
Common Stock Equity	45.69%	-----	4.62%	4.85%	5.08%
Preferred Stock	0.00%		0.00%	0.00%	0.00%
Long-Term Debt	50.50%	5.92%	2.99%	2.99%	2.99%
Short-Term Debt	3.81%	2.15%	0.08%	0.08%	0.08%
Total	<u>100.00%</u>		<u>7.70%</u>	<u>7.92%</u>	<u>8.15%</u>

Notes:

See Schedule 9 for the Capital Structure Ratios.

Embedded Cost of Long-Term Debt, Preferred Stock and Short-Term Debt Obtained from Updated Response to DR 3802.

Memo Attachment B

Overview of Company and Customer Service Operations

**Engineering and Management Services Department
Supplemental Report on the Customer Service Operations
in the Missouri Service Territory of Aqua America, Inc.
QS-2005-0008, QW-2005-0009, QS-2005-0010, and QW-2005-0011**

Gary Bangert – October 31, 2005

Aqua America, Inc. filed small company rate increase requests with the Missouri Public Service Commission (Commission) on May 17, 2005, on behalf of its operating companies that provide water and sewer service to Missouri customers. The water and sewer rate increase requests have been assigned Tracking Nos. QS-2005-0008, QW-2005-0009, QS-2005-0010, and QW-2005-0011. Tracking No. QS-2005-0008 is associated with the request for Aqua Development Company, which provides sewer collection and treatment services to approximately 16 customers in its certificated areas of Morgan County. Tracking No. QW-2005-0009 relates to Aqua/RU, Inc., which provides water supply and distribution services to approximately 1,109 customers located in its certificated areas of Barry, Stone, Taney, Greene, Christian, and Benton Counties. Tracking Nos. QS-2005-0010 and QW-2005-0011 pertain to Aqua Missouri, Inc., which provides sewer collection and treatment services to approximately 2,021 customers and water supply and distribution services to approximately 472 customers within its certificated areas of Callaway, Pettis, and Cole County Missouri.

Although three companies – Aqua Development Company, Aqua/RU, Inc., and Aqua Missouri, Inc. – are participating in the current rate proceeding, management controls over all Missouri operations are based in the Aqua Missouri Regional Headquarters in Jefferson City and the Regional Headquarters for the Midwest Section of Aqua America in Kankakee, Illinois. Company management stated that, eventually, all operating entities in Missouri will conduct business under the name, Aqua Missouri, Inc. Since the customer service policies, procedures, and practices of all three companies are the same, for purposes of this report, the name “Aqua Missouri” (Company) will be used to refer to all three operating entities.

The purpose of the Engineering and Management Services Department (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. Customer service reviews performed by the EMSD staff also provide the Commission with information regarding a company's operations.

The EMSD staff conducted a previous informal review of the customer service operations at Aqua Missouri in August 2002 in conjunction with rate increase requests that had been filed for Aqua/RU, Inc. and Aqua Missouri, Inc. As of 2002, the names of these companies were AquaSource/RU, Inc. and AquaSource/CU, Inc., respectively. There were two EMSD staff reports that were prepared to document the customer service operations at these companies. The EMSD Review of AquaSource/RU, Inc. Customer Service Operations is included as Attachment 1 and the Review of AquaSource/CU, Inc. Customer Service Operations is included as Attachment 2.

The objectives of the current review are 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 service provided to its customers. Specifically, the purposes of this review are to 1) document major changes in customer service operations since the EMSD staff review in August 2002, 2) evaluate the Company's progress in implementing the recommendations made in the previous review, and 3) identify recommended actions intended to improve the Company's customer service operations.

The EMSD staff initiated an informal review of customer service processes, procedures, and practices at the Aqua Missouri Regional Headquarters in Jefferson City, Missouri, on July 26, 2005. A second meeting with Company personnel was held on October 17, 2005. In the course of its review, the EMSD staff examined the Company tariffs, annual reports, Commission complaint records, and other documentation provided by the Company in relation to its customer service operations.

The scope of this review focused on the processes, procedures, and practices related to:

- Meter Reading
- Customer Billing

- Credit and Collections
- Complaint and Inquiry Handling and Recording
- Customer Communication

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

Overview

Although there have been relatively few changes in the customer service processes, procedures, and practices since 2002, the following discussion will highlight some of the more significant changes that would be apparent to customers. Detailed information regarding each of the functional areas identified within the scope of customer service may be found within the previously prepared customer service reports identified as Attachments 1 and 2.

One of the most significant recent events has been the Company's acquisition by Aqua America, Inc. on August 1, 2003. This resulted in the name changes to Aqua Development Company, Aqua/RU, Inc., and Aqua Missouri, Inc. On May 1, 2004, billing and the administration of most customer service activities were moved from the Aqua Missouri Regional Headquarters in Jefferson City to the Regional Headquarters for the Midwest Section of Aqua America in Kankakee, Illinois. Two Missouri customer service positions were lost and one staff position in operations was gained at that time. There is a current staffing level of 13 in Missouri.

The move of billing to Kankakee, resulted in changes to the bill appearance and how customers may pay their bills. The bill has a message area in order to provide important customer information. A separate bill insert is included about three or four times a year. Customers may no longer pay their bills at the office in Jefferson City; however, several payment options have been added. Aside from mailing bill payments to Kankakee, customers have direct debit, credit card, and pay-by-phone options. There is no customer cost associated with the direct debit option, which authorizes automatic bill payments directly out of customers' bank accounts. There is a \$4.25 fee associated with the credit card and pay-by-phone options. Customers who wish to contact the Company also use a different telephone number and communicate with a call center in Kankakee, rather than in Jefferson City.

There have also been some changes in procedures and practices related to applications for service and the disconnection of service. Since there had been a growing problem with individuals using service without applying for service with the Company, several new practices were initiated since the latter part of 2004. The Company requires an application for service from all of its customers. A letter requesting a written application is mailed to individuals who are found to be using service without an application on file. Operations personnel are given a list of customers to verify and update twice a year. This is done by actually patrolling the service area. Cole County officials are given a service map and list of customers. Individuals applying for a building permit in the Company's service area must have applied for service with the Company before a building permit is issued. Company management commented that this practice has been very effective in reducing the problem of customers using services without receiving a bill. The Company has also been successful in improving its delinquency problem with sewer customers through the installation of elder valves on gravity sewer mains. These valves enable Company personnel to readily disconnect service in accord with its tariff when customers do not pay their bill in a timely manner.

The two reports included as Attachments 1 and 2 that were prepared in 2002 list 29 recommendations related to customer service operations. Many recommendations addressed overlapping issues discussed in both reports and some recommendations are no longer relevant, due to the fact that the administration of most customer service functions moved to Kankakee. The following discussion will provide a brief summary, by functional area, in order to discuss major implementation actions associated with recommendations that are still relevant, particularly those issues that need to be addressed by Company management.

Meter Reading

The recommendations in this area focused on improving the documentation of monthly, estimated meter reads and the comparison of master meter reads with actual usage recorded at customers' meters. Reports are currently available which identify the number of estimated meters and that enable Company management to compare the actual amount of water pumped with the amount registered at customers' meters.

Company management has not yet taken action on another meter reading recommendation to eliminate the practice of providing the customers' previous month meter readings and high/low usages on the meter readers' route sheets. In the opinion of the EMSD staff, provision of this information could enable meter readers to avoid obtaining an actual read and successfully estimate meter readings. Company management commented during the current review that they trust their readers and believe the provision of this information helps to minimize the number of re-reads and facilitates leak detection. However, Company management stated it plans to replace the meter reader route sheets with the use of handheld meter reading devices during the First Quarter of 2006. Although meter readers will be alerted if an entered reading is outside of an acceptable range, previous meter readings and high/low ranges will not be available. When meter readers receive an alert, they will be expected to reread the meter and enter the reading.

Customer Billing

The recommendations associated with customer billing pertained to verifying the information on customers' applications for service and implementing the use of more payment options for customers. Company management stated during the current review that there is still no further action taken to verify the accuracy of information on customers' applications for service. At the time of the 2002 review, customers could only mail their bill payments. Since that time, the Company has added direct debit, credit card, and pay-by-phone payment options. There is no customer cost associated with the direct debit option and a \$4.25 fee for customers who use the credit card and pay-by-phone options.

Credit and Collections

There were several recommendations made in this area that focused on ensuring that homeowners receiving service are listed as customers, reducing the number of delinquent accounts, following policies related to returned checks and handling accounts with water leaks, and improving documentation of returned checks and disconnect for nonpayment service orders. Company management has initiated actions to address this group of recommendations. As discussed previously in the overview section of this report, efforts have been increased to ensure that all individuals using service are being

billed for service as customers. Company management stated that the ability to use elder valves to disconnect sewer customers who are delinquent in paying their bill has improved the delinquency problem. There have been changes in the manner in which accounts with returned checks are handled. When the Company receives a returned check resulting from a customer's account payment, the customer is sent a letter requesting payment within 10 days. If payment is not received, the Company initiates its normal process for disconnecting service. An Excel spreadsheet is used to track account information regarding the number of returned checks and the associated dollar amount. Documentation of service orders related to disconnection due to nonpayment has also improved. The Company's billing system generates a report that tracks actions taken on disconnection due to nonpayment service orders.

Company management stated there has been a change in its policy regarding the treatment of accounts that have experienced a water leak. Customers can receive a 20% adjustment in their bill due to unusually high water usage resulting from a leak. The Company formerly offered a 50% adjustment; however, Company management indicated unusual circumstances may cause them to give a customer special consideration.

Complaint and Inquiry Handling and Recording

Company management has not taken sufficient action in response to an EMSD staff recommendation to document all customer complaints and inquiries, as required in Commission rule 4 CSR 240-13.040(5). This rule states:

A utility shall maintain records on its customers for at least two (2) years which contain information concerning:

(B) The number and general description of complaints registered with the utility;

Although this rule does not specifically apply to sewer company operations, since the Company serves both water and sewer customers, the documentation of complaints and inquiries from all Company customers would ensure that the practice is consistent with the provisions of Chapter 13.

At the present time, the Company only has the ability to print a report that documents service orders relating to customer calls. Customer call center representatives are directed to record the nature of customer calls in a notepad area of the screen that is available when a customer calls, even when the call does not result in a service order.

However, a capability has not been developed to summarize this information into a report. Company management stated the documentation of complaints and inquiries will improve in conjunction with the planned implementation of a new Banner Customer Accounting System in November 2006. The Banner System will enable call center representatives to apply a code to every customer call. Subsequently, the system will have the capability to produce a report that documents the nature of all inquiries and complaints.

Customer Communication

Customer communication occurs primarily through the use of the bill message area on the bill and through bill inserts. The 2002 customer service review reports recommended the Company develop a program to obtain customers' opinions on an ongoing basis. Company management commented in the recent review that a customer survey process will be started in 2006.

REPORT ATTACHMENT 1

Review of AquaSource/RU, Inc. Customer Service Operations

The Engineering and Management Services Department (EMSD) staff initiated an informal review of the customer service processes, procedures and practices at AquaSource/RU, Inc. (AquaSource/RU or Company) on August 6, 2002. 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. A second meeting with Company personnel was held August 30.

The purpose of the Engineering and Management Services Department 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
- Complaint/Inquiries Handling and Documentation
- Customer Communication and Information

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

Overview

AquaSource/RU, Inc. provides water service to approximately 972 residential customers in Taney, Benton, Greene, Stone and Barry counties. The subdivisions served by AquaSource/RU within these counties include Rankin Acres, White Branch, Riverside Estates, Ozark Mountain and Spring Valley. The Company's corporate headquarters are in Pittsburgh, PA, and its Missouri field operations are located in Jefferson City.

Five field employees, two office employees and the Missouri Area Manager are located at the local office. All field employees and office employees report to the Area Manager. These employees perform all activities associated with the Company operations of AquaSource/RU, Inc. and AquaSource/CU, Inc.

The Company is currently implementing new billing software, Avatar. This system is expected to be implemented during September 2002. Following a cost/benefit analysis performed in the spring of 2002, the Company made the determination to change to a new billing software system.

Customer Deposits

The Company stated that no customer deposits are collected. New customers are required to complete an application for service. If possible the application is received prior to having the service put into the customer's name; however, the Company informed the EMSD staff that this is not always possible. When this occurs, the Company attempts to obtain the application as soon as possible.

Meter Reading

The Company's meters are manually read each month by one of the field employees. During 2001, the Company investigated the implementation of automated meter reading equipment and made the determination that it was not cost effective. Company management stated that the Company is continuously monitoring automated meter reading devices.

The Company stated that prior to the meter being read, the billing software prints the meter readers' routes. Listed on this printout is the customers' previous month meter reading, as well as the amount of usage that would be considered to be high usage and

low usage for each customer. The Company believes this information assists the meter readers.

The Company's meters are read on the 13th and 14th of the month and documented on paper. The meter readings are then overnighted to the Jefferson City office for entry into the billing system.

The Company stated that its policy is for meters to be read each month. Estimated meter readings are to be taken no more than twice per meter during the calendar year. To ensure the meters are being read and not estimated by the reader, the Company eliminates the information (previous month's readings, high usage and low usage) on the printout sheets provided the meter readers twice during the year.

Customer Billing

Customer bills are generated on the 14th of the month following the meter reading on the 13th and 14th and are mailed their postcard billing statements on the 15th of each month. If the 15th is a Sunday, the bills are mailed on Monday and if the 15th is a Saturday, the bills are mailed on Friday. When the 15th falls on a weekend, the Company is required to read the meters on the 12th and 13th instead of the 13th and 14th.

Effective August 15, the Company implemented a new policy that discontinues the practice of paying bills at the local office. The new policy provides that mailing payments to the Company's bank box is the only option for paying monthly bills. The Company stated that letters informing the customers of this policy change will be mailed by September 1.

Credit and Collections

A customer's payment is considered delinquent if the Company has not received the payment by the 8th of the month. When this occurs, the customer's account is charged a late fee of \$2.10.

When payments are delinquent, the customer is mailed up to two delinquent notices. If payment is not received by the due date of the 8th, the first delinquent notice is mailed on the 9th. If payment has not been received by the 12th, the customer is mailed a

second delinquent notice on that day. The delinquent notices are printed and mailed by employees at the Jefferson City office.

If the Company has not received payment by the 19th, the Company performs disconnection of the service on the 20th or a day following the 20th. At this time, the customer has two months of bills due (the delinquent bill and the current month bill). The Company stated that disconnects are performed on Monday through Thursday, in order to allow for any necessary reconnections on the following day.

The Company's software does not currently print a monthly report of the delinquent accounts that are subject to disconnection. The report is produced manually.

The EMSD staff was informed that the Company's service technicians collect payments in the field from customers wishing to avoid disconnection and from disconnected customers who desire to have their service restored. The Company stated that it is unaware as to how these situations will be handled following the transfer to Avatar. The Company informed the EMSD staff that with the transfer to Avatar, a requirement is that all payments be mailed to the bank's lock box—no payments will be accepted at the local office.

The Company stated that it receives as many as five returned checks per month. The Company's bank processes the checks twice before returning them to the Company.

When the Company receives a customer's returned check, the amount is deducted from the customer's account and the account is charged a returned check fee of \$10.00. The customer is mailed a letter informing them of the returned check and requesting that payment of the returned check and the \$10.00 charge be made within ten days. The Company requests payment be made by money order or cashiers check.

Upon receipt of a returned check, the Company monitors the method of payment of the account. If a customer's second check is returned to the Company, the customer is mailed a letter informing them that the Company will no longer accept checks on their account. All of their future payments must be made by money order or cashiers check. The Company informed the EMSD staff that if payment by check is received on an account that has had two returned checks, the check is returned to the customer with an explanation that payment by check is not accepted and the only method of payment accepted on the account is cashiers check or money order.

When the Company mails a final bill, an explanation is provided and request for payment is made. If payment is not received within the time allowed, the Company mails a letter to the customer informing the customer that if their account is not paid in full, their account will be turned over to a collection agency.

Berlin-Wheeler, located in Jefferson City, MO, performs the collection of the Company's uncollectible accounts. The Company stated that it is charged 35% of Berlin-Wheeler's collections for its services. During 2001, the Company was charged \$46.43 for Berlin-Wheeler's collections of \$132.67. Berlin-Wheeler had not collected on any of the Company's accounts during 2002.

Complaints/Inquiries Handling and Recording

The Company stated that it is able to respond to customers' complaints and/or inquiries on a 24/7 basis. Two office employees respond to customers' complaints/inquiries during the Company's 8 a.m. to 5 p.m. office hours. An answering service has been contracted by the Company to handle its after-hour calls. When necessary, the answering service operator contacts the on-call employee to respond to a call.

Customer Communication and Information

The EMSD staff was informed that the Company typically informs its customers of necessary information by use of radio, mass mailings and postings in the subdivisions. The Company stated that all calls to the local office not provided one-call response are documented.

The Company informed the EMSD staff that it has never performed a customer survey.

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:

- Payment Options
- Storage of Billing Payments and Company Information
- Returned Checks
- Disconnect/Reconnect Process
- Complaint/Inquiry Handling and Documentation
- Credits Applied due to Customers' Water Leaks
- Customers' Opinions
- Estimated Meter Readings
- Master Meter Reading Usage Compared to Customers' Actual Usage

Payment Options

The Company stated that payment options other than mail have not been examined or researched by the Company. Currently, the customers are able to make payment of their bills by mail or at the local office. Effective August 15, the Company is implementing a new policy that payments will no longer be accepted at the local office, which will provide the customer with mailing their payment as their only method of payment. Company management was unable to provide the Company's costs associated with this payment option.

The Company is currently attempting to implement an automatic withdrawal payment option, EZ-Pay. The Company hopes to have this payment option available to its customers by the end of 2002.

The EMSD staff recommends that the Company examine the costs of associated with various payment options for its customers.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Perform a comprehensive cost/benefit analysis of monthly payment options for its customers.

Following the performance of the cost/benefit analysis of monthly payment options, the Company should implement those payment options it has found to be cost

effective. These payment options might also be more convenient for the customers and advantageous to the Company.

With the implementation of additional payment options, a comprehensive reporting mechanism would provide the Company with an essential management tool. This information would allow the Company to evaluate the effectiveness and determine any necessary changes.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Implement cost effective payment options for its customers. Develop and implement use of summary reports with usage and revenue data. This documented information will allow the Company to evaluate the effectiveness of its payment options and take appropriate actions.

Storage of Billing Payments and Company Information

The Company does not currently store any of its payments in a fireproof safe or vault. The Company stated that bank deposits of customers' payments are typically made two days per week. The payments are stored overnight in the Area Manager's office until the deposit is prepared. The EMSD staff was informed that if necessary, deposits are made more frequently than twice per week. Secure protection of the customers' payment would be provided if the Company personnel made use of a fireproof safe or vault.

Not storing the customers' payments in a fireproof safe or vault provides a possibility of the customers' payment being destroyed or lost prior to being deposited. Securing the customers' payments in a fireproof safe or vault could eliminate the Company's frustrating, embarrassing and costly task to replace the payments.

With the Company's transfer to a new billing system, all customer payments will be required to be mailed to the Company's bank lockbox for processing. This new payment process should eliminate the storing of payments in the Area Manager's office. But, if the Company would need to secure customer payments overnight, the payments should be stored in a fireproof safe or vault.

In addition, the EMSD staff recommends that the Company store its important documents/information in a fireproof safe or vault. If the Company's documents/information would be lost or destroyed, it would be difficult for the Company

to function. Securing the Company's materially relevant information/documents in a fireproof safe or vault could eliminate the cost and frustration of re-creating lost data should the information/documents be destroyed or lost.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Store any billing payments and all other imperative Company information in a fireproof safe or vault.

Returned Checks

The Company's returned check policy is not consistently applied to all customers. Although the EMSD staff was informed that the Company's bank processes these checks twice prior to returning them to the Company, the EMSD staff noted that on occasion the Company resubmits these returned checks to the bank. In essence, the bank is processing these checks four times or more.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Closely monitor the returned check process to ensure that Company employees adhere to its returned check policy.

The Company does not track the number or total dollar amount of its returned checks. The Company should have a monthly report that tracks the total number of its returned checks and the total dollar amount of its returned checks. This information should be readily available to Company personnel as it could assist in the consistent application of its returned check policy.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop and monitor a report that monthly tracks the number of returned checks and the dollar amount of returned checks.

Disconnect/Reconnect Process

The Company does not make use of an automated system in its process of disconnection for nonpayment service orders. The list of customers subject to disconnection due to nonpayment is manually completed. This method is time

consuming and allows for more human errors. The Company's customer record keeping activities would be enhanced and fewer labor hours would be allocated to this process if the Company automated its service order list for disconnection due to nonpayment.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Automate the service order list for disconnection due to nonpayment.

The Company does not track the number of service orders for disconnection due to nonpayment, the number of these service orders completed or the number of disconnected services that are reconnected in the same name.

This comprehensive reporting information could provide the Company with an essential management tool. Additionally, monitoring the performance of its reconnects/disconnects will assist the Company in the supervision of its workforce.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop and utilize a monthly report that tracks the number of disconnect for nonpayment service orders, the number of service orders completed and the number of disconnects that are reconnected in the same name.

Credits Applied Due to Customers' Water Leaks

The Company does not have a written policy that addresses the situation of a high usage bill due to a water leak on the customers' side of the service. Company management informed the EMSD staff that when this occurs, currently the Company averages the customer's previous three month's bills. The customer is then charged the average for the past three months and the difference in the average and the total bill that includes the water leakage is credited from their account.

The EMSD staff is of the opinion that a written policy addressing this matter would ensure that the Company's customers are being treated in a fair and consistent manner.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop and utilize a written policy that addresses the handling of customer accounts that have experienced a water leak.

Complaint/Inquiries Handling and Documentation

Documentation of the complaints and inquiries received by Company personnel is not being performed. Complaints that are not resolved on the initial contacts, service calls and emergency calls are documented. However, inquiries and complaints that are answered initially by the Company employee are not being documented. The lack of a complaint and inquiry log that includes all complaint and/or inquiry calls makes it difficult for the Company to provide accurate documentation of the nature of its complaints and inquiries.

Commission rule 4 CSR 240-13.040(5) states:

A utility shall maintain records on its customers for at least two (2) years which contain information concerning:

....

(B) The number and general description of complaints registered with the utility;

In addition to compliance with the Commission rule, this comprehensive reporting information could provide the Company with an essential management tool. This documented information would enable Company management to evaluate the reasons customers contact the Company and determine if any measures could be taken to reduce customer contacts and improve customer satisfaction.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop and utilize a log that documents all the complaints and inquiries received by the Company's personnel.

Customers' Opinions

The Company has not implemented a method to obtain its customers' opinions of the Company. The Company has the responsibility of collecting information on its customer satisfaction in determining the opinions, perceptions and expectations of its customers. The Company should be aware of the satisfaction level of its customers with the service it is providing.

The EMSD staff believes that this customer information is a useful tool to the Company. It benefits both the Company and its customers. The Company can use the information in its decision making process for current and future needs of the Company and its customers. Therefore, the customer information gathered by the Company should be well documented.

Some suggested methods of accumulating this information include attendance at meetings of the various local civic organizations and annual meetings of the subdivisions and/or homeowner association meetings served by the Company. The EMSD staff is of the opinion these are cost-effective methods of accomplishing this task.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop a program that garners the opinions of the Company's customers on an ongoing basis.

Estimated Meter Readings

The Company provides the customers' previous month's meter reading, the amount considered to be the customers' high usage and the amount considered to be the customers' low usage on the meter reading information provided the meter readers prior to reading the meters each month. This available information could enable the meter readers to successfully estimate a meter reading instead of obtaining the actual read.

The Company informed the EMSD staff that twice during the year its meter readers are required to read the meters without the customers' previous month's reading and the customers' high and low usage. The EMSD staff was informed by the Company that this practice requires the meter readers to stay more focused and not depend upon the information provided on the route sheet.

The EMSD staff is of the opinion that by providing this information a possibility exists that an actual meter reading is not taken. According to the Commission's rules, customers' bills are based on actual readings. Removal of this information on the meter readers' route sheet will assist in ensuring that customers' bills are based on actual meter readings.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Eliminate the providing of the customers' previous month's meter readings, the customers' high usage and the customers' low usage on the meter reading information provided the meter readers prior to reading the meters.

The Company does not track the number of its estimated meter reads each month. According to the Commission's rules, a Company is not to estimate a customer's usage for more than three consecutive billing periods, except under certain conditions.

Upon EMSD staff request, Company management provided limited documentation that identified actual meter readings being performed by the meter readers. Company management does not have adequate documentation to ensure that meters are actually read each month and customer's usage instead is not being estimated. If the Company does not track the number of estimated meter reads each month, it is unable to determine if it is abiding with the Commission rules.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop and monitor a report that tracks the number of monthly estimated meter reads.

Master Meter Reading Usage Compared to Customers' Actual Usage

The Company does not currently track or monitor the amount of water removed from its water supply to the amount of water registered through its customers' meters each month.

The Company stated that it currently obtains a monthly reading from each of its water supply meters. Although the information is available to the Company, the Company does not total the amount of its customers' monthly meter reading usage per each water supply unit. The Company stated that a comparison of its water supply meter readings and its customers' water meter usage is performed at the end of each year.

With the implementation of the program to track and monitor the amount of water removed from its supply as compared to the amount registered through its customers' meters on a monthly basis, leak detection at the water supply system, leak detection at the customers' meters or any other problems would be more timely and accurately identified by the Company.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANGEMENT:

Develop a report that monthly tracks and monitors the Company's master meter reads on its system as compared to its customers' actual meter readings.

REPORT ATTACHMENT 2

EMSD Review of AquaSource/CU, Inc. Customer Service Operations

The Engineering and Management Services Department (EMSD) staff initiated an informal review of customer service processes, procedures, and practices at AquaSource/CU, Inc.'s (AquaSource or Company) Jefferson City, Missouri office on August 6, 2002. A second interview with Company personnel was held August 30, 2002. Prior to on-site interviews, the EMSD staff examined Company tariffs, annual reports, Missouri Public Service Commission (Commission) complaint records, and other documentation related to the Company's customer service operations.

The objectives of this review were to document and analyze the management control processes, procedures, and practices used by the Company to ensure that its customers' service needs are met and to make recommendations, where appropriate, by which the Company may improve the quality of services provided to its customers. The findings of this review will also provide the Commission with information regarding the Company's customer service operations.

The scope of this review focused on processes, procedures, and practices related to:

- Customer Billing
- Meter Reading
- Credit and Collections
- Disconnection/Reconnection Process
- Complaints and Inquiry Handling and Recording
- Customer Communication
- Document Storage

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

Overview

AquaSource/CU, Inc. and AquaSource/RU, Inc. are both currently owned by the parent Company, DQE. AquaSource/CU, Inc. provides sewer service to 1,268 residential customers and 4 commercial customers in Cole and Callaway Counties, water and sewer service to 38 residential customers in Lake Carmel Subdivision in Cole County, and

water and sewer services to 308 residential and 4 commercial customers in Maplewood Subdivision located in Pettis County. The number of customers has grown slightly during the past four years.

The Company's corporate headquarters are currently located in Pittsburgh, PA, with Missouri field operations located in Jefferson City. The area manager noted that AquaSource/CU, Inc. is in the process of being sold to Philadelphia Suburban Corporation of Bryn Mawr, PA. They will soon be seeking Missouri Public Service Commission approval for the sale. The area manager stated that some of AquaSource's current practices and procedures may change as a result of the sale.

All activities associated with Company operations are performed by 12 employees with the assistance of subcontractors. The Missouri area manager is responsible for business office functions and is assisted by two office employees, while nine field employees perform outside plant activities. Seven of these nine field employees provide services specifically for AquaSource/CU, Inc. Business office functions include preparation of customer bills, collection of customer payments, maintenance of customer records, responding to customer inquiries and complaints, and preparation of customer correspondence. Outside plant activities include meter reading and general maintenance of outside plant facilities and property.

Employees use a coding system to report time worked. The National Association of Regulatory Utility Commissioners (NARUC) coding system is currently followed, and specific items can be coded to 15-minute increments. The office supervisor keys in information from the time sheets on a weekly basis so the corporate office can process payroll.

Customer Billing

Customers currently complete applications for service, denoting their name, address, telephone number, social security number and employer. The area manager noted that this information is not verified for accuracy; however, customers do sign the form signifying that all information provided is accurate. In remote areas, service is often provided prior to receiving the customer's written application for service. Customers are not charged a deposit as a condition of providing sewer and/or water and sewer service.

At the time of the EMSD staff's first interview, customers could pay their bills by mail or in person. Effective August 15, 2002, the business office no longer accepts walk-in payments. The area manager stated that only about eight customers per month walk-in to deliver their payments. After August 15, 2002, the only payment option available to customers is by mail.

EMSD staff reviewed a random sample of usage data from each of AquaSource/CU, Inc.'s three areas. The tariff rates were then applied to the usage data in order to determine that the bills rendered were accurate. The EMSD staff's review found that all computations were accurately made according to the tariffs.

Bills for sewer service and/or water and sewer service are mailed on the 25th day of the month, with payment due on the 15th of the following month. A \$5 delinquent charge is applied to all accounts not paid in full by the due date. A CBSW billing system is currently used to calculate and print customer bills. Customer account activity is computerized. An office employee opens and processes payments daily.

Beginning in September 2002, Avatar software will be used for billing. The office supervisor has recently been trained in Sarasota, Florida on the Avatar software. In addition to the training she received, Avatar provides a training manual. The office supervisor will be responsible for training the remaining local office employees. The office supervisor stated that the Avatar software is user-friendly, and Avatar offers technical support.

An Avatar representative will be coming to AquaSource's local office on September 9-10, 2002, to assist office personnel in converting to the new system. They plan to go "live" on the Avatar system effective September 16. The first billing for AquaSource/CU, Inc. on the new Avatar billing system will be September 25. The office supervisor noted several advantages of converting to the Avatar system, including:

- Automatic billing
- Payments going to a lock box (a P.O. Box in Georgia)
- The bank performing the payment entries
- Payments being posted the day they arrive at the lock box
- More customer details, such as if customers are "Tenants" or "Owners" and payment history available on the initial screen

- Once information is entered into the system, having the ability to see water usage and payment history for two years
- Easy access to information and easier inputs

The Avatar system can trigger shut-off dates, and penalties will be automatically charged. Late fees will also be charged automatically. Office personnel will have the ability to manually adjust those fees. Meter readings will be keyed in manually, as well as service orders.

Information in the Avatar system can be accessed by customer name, account number, or site. This system provides cross-reference ability. Payments will be posted by batch and appear on the system as soon as the batch is entered. Reports from the Avatar system will print directly to the local office printer. The office supervisor has not yet found any disadvantages to the Avatar software.

The area manager noted that she plans to archive customer records that are currently on the CBSW system so that historical records will be available for at least five years. They will only be keying in to the new system the last month's meter readings so the Avatar system can calculate the September bills.

The area manager noted that currently bank deposits are made on Tuesdays and Fridays. She indicated that if a large amount of money is received on any given day, a deposit would be made that day.

Meter Reading

The 38 residential meters in the Lake Carmel area, as well as the 384 residential and commercial meters in the Maplewood Subdivision, are read manually by field personnel on the 22nd day of the month. Meter readers have established routes and are given log sheets that contain columns listing the previous month's reading, as well as high/low ranges. Meter readers write the meter reading on the log sheet.

During 2001, the Company investigated the implementation of automated meter reading equipment, but made the determination that it was not cost effective at that time. The area manager stated that the Company is continuously monitoring automated meter reading devices.

The Company's policy is to estimate a customer's meter reading no more than twice per year. No estimated meter reading report was available.

According to the area manager, meter readers collect payments in the field on “shut-off day” after service has been disconnected. The meter reader then takes the cash to a bank and has the bank convert it to a money order or cashier’s check. It then becomes the meter reader’s responsibility to get the money order, cashier’s check or the customer’s personal check to the regional office for processing.

The area manager stated that meter readers are evaluated twice a year as to the accuracy of their reads. Office personnel “black-out” the columns on the meter readers’ route sheets denoting previous meter readings and the high/low ranges. The area manager noted that no problems have been detected with the current meter reading staff, with the exception of an occasional transposition of numbers when writing out the meter reading. If a problem occurs with the reading of the meters, a different meter reader may be sent to re-read the meter.

The Company currently obtains a monthly reading from each of its water supply meters. This reading and the customers’ meter reading usage are compared at the end of the year.

Credit and Collections

As noted in the previous meter reading section, meters are read on the 22nd day of the month. Bills are mailed on the 25th of the month and payment is due on the 15th day of the following month, giving customers at least 21 days to pay. Bills are considered delinquent if not received by the 15th of the month. On the 16th day of the month (the day after bills are due) a postcard is sent to the delinquent customer noting service will be shut off if payment is not received in 10 days. On the 19th of the month, a pink notice is sent to the customers who are still delinquent. On the 27th day of the month, a field service employee is sent to shut off the meter.

The area manager stated that AquaSource is currently owed approximately \$18,421.90 in sewer fees that are 60 days or more past due. The local office does not print regular reports of the delinquent accounts. She indicated that AquaSource does not incur much bad debt from the Maplewood service area because that system has water meters. When service is metered, it can just be shut off.

The office employee responsible for posting payments indicated the Company generally receives up to five bad checks per month. AquaSource charges a \$10 return

check fee. The bank processes the customers' insufficient funds checks twice. If an insufficient funds check is run through twice and there is not enough balance in the customer's account to cover the check, AquaSource notifies the customer by letter that future payments must be made by money order or a cashier's check in lieu of a personal check. However, the area manager stated that they do go ahead and accept checks from that customer unless a second check is returned for insufficient funds. After receiving one returned check from a customer, that customer is put on a bad check tracking list. If AquaSource receives two bad checks from a customer within six months, the Company refuses to accept any more personal checks from that customer. The customer's personal check is returned with a letter explaining the reason AquaSource will no longer accept personal checks. Insufficient funds checks that the Company is unable to collect are turned over to the local Prosecuting Attorney's Office.

The area manager indicated that the Company has shut-off leverage for customers whose water service is metered, but the majority of their sewer customers do not have water meters. She stated it is much more difficult to collect from customers having the flat rate sewer service where no meters are present. Digging up and capping off sewer service is much more labor intensive than just having to shut off a meter.

A final bill is sent to attempt collection. If the customer does not pay, a letter is sent stating that if the account is not paid in full, it will be turned over to a collection agency. Berlin-Wheeler is the collection agency currently contracted to collect on inactive accounts. Office personnel noted that Berlin-Wheeler is paid 35 percent of the amount collected. During 2001, Berlin-Wheeler was paid \$46.43 of the \$132.67 it collected for AquaSource. Berlin-Wheeler has not collected on any of the Company's accounts during 2002. Berlin-Wheeler does send AquaSource a status report detailing account activity. If there has been no collection activity for at least a year, Berlin-Wheeler notifies AquaSource so that the delinquent amount can be written off.

AquaSource's area manager indicated that problems have been encountered in the sewer service areas of Cole and Callaway Counties with contractors connecting new homes to the sewer system without notifying AquaSource. In addition, some realtors selling the new properties have omitted this information in closing papers to the new homeowners. Thus, several customers have not been paying their sewer bills, and AquaSource has missed out on collecting revenues for service rendered. Company

personnel currently drive through the new subdivisions at least once a year to determine if customers in newly built homes might be receiving sewer service without being billed.

Disconnection/Reconnection Process

Past due notices are sent to delinquent water customers on the 16th of the month informing customers their service will be shut off in 10 days if their payment has not been received. Office personnel prepare the disconnect notices. On the 19th of the month, another notice is sent for payments not yet received. If the payment has not been received by the 27th of the month, field service personnel are sent to the residence to shut off service. Field service personnel take turns performing disconnects.

Upon arrival at a delinquent customer's residence, field service personnel shut off service before alerting the delinquent customer. The area manager noted that once service is shut off, the Company is able to collect all money owed before service is restored. A pink "shut off" notice containing the necessary information for service restoration is given to the customer or left on the door. If service is shut off overnight, a lock is put on the meter.

The area manager stated that meter shut-offs are performed Mondays through Thursdays so that Company personnel can restore service during business hours on the following day. Meter shut-offs are not performed on Fridays or holidays.

When the entire amount due is paid, reconnection of service is scheduled. The customer must be present in order for field personnel to reconnect service. Having the customer present when reconnection occurs prevents damage to a residence in the event a faucet has been left on. The area manager stressed that field personnel are not allowed to enter the customer's house. At this point, field personnel are allowed to collect the money owed to the Company, then give the customer a receipt for the amount paid. Field personnel then restore service. Experienced field personnel often watch the meter for a short while after reconnection to ensure the meter is not spinning too rapidly, indicating that a faucet has been left on.

Standard procedure is to charge a \$10 reconnection fee. The area manager noted that the office supervisor has discretion to waive the \$10 reconnection fee on occasion. She cited an example of the fee being waived when an elderly person was hospitalized

when the bill was due. The area manager stated the reason would have to be clear-cut in order for the \$10 reconnection fee to be waived.

For delinquent sewer bills, customers are sent a registered letter notifying them that service will be disconnected in 30 days if payment is not received by the due date. The area manager mentioned that she has recently received approval from the corporate office to order a new device called an “Elder valve” that would be more economical and easier to cut off sewer service. Each Elder valve costs approximately \$50. The area manager plans to revise tariff language to require that all new connections have an Elder valve. Initially, the Company plans to phase-in Elder valves for those customers whose accounts are presently more than \$100 in arrears.

Complaints and Inquiry Handling and Recording

Customers with questions or concerns may contact the business office by telephone. The address and Missouri area office number, as well as the 1-800 telephone number of AquaSource/CU, Inc. is noted on each customer’s bill. Company personnel are present Monday through Friday from 8:00 a.m. to 5:00 p.m. Customers may also leave messages on an answering machine if someone is not immediately available.

AquaSource has contracted with TriStar answering service for after-hours calls for the last 10 years. TriStar charges a flat fee that covers a specific number of calls. AquaSource is charged a price per call for calls in excess of the flat fee number. The area manager believed that TriStar recently changed its name, but services remain the same. When necessary, the answering service operator contacts the on-call employee to respond to a call. The on-call after hours duties rotate among the employees.

The area manager indicated that when complaints or inquiries are received, area office personnel or field personnel may be called on to respond to customers’ complaints or inquiries. According to the area manager, a complaint form is not completed every time a complaint call comes in. If the inquiry or complaint is resolved to the customer’s satisfaction, no log of the call is kept. The only calls that are documented include complaints that are not resolved with the initial call, calls that require an emergency response and service calls.

One of the office personnel maintains the Company logs. The complaint sheets, service call sheets, and emergency response logs are stored in labeled boxes in an upstairs office.

The Commission's Consumer Services Department records indicated that AquaSource/CU, Inc. had one complaint in 2002, two complaints in 2001, and four complaints in 2000. The Commission's Water and Sewer Department has received nearly 100 calls regarding AquaSource since the rate increase request letter was sent to customers. The AquaSource area manager noted that office personnel had received approximately six calls from concerned consumers denoting minor service problems since customers had received the notice regarding the requested rate increase.

Customer Communication

The only communication with customers has consisted of bills for water and sewer service and the notification letter to customers detailing the rate increase request to the Commission. The present computer system is programmed to print address labels for all AquaSource customers to make communication with customers efficient.

Other than the customer calls made to the area office, no indication of the customers' satisfaction level with their service has been determined. The area manager has noticed articles regarding customer surveys in the corporate newsletter; however, no customer surveys have been instituted at the local level.

Document Storage

During the EMSD staff's on-site review, the area manager noted that the Company's records, personnel records and complaint/inquiry log books are kept in her office or in a file cabinet outside her office. Historical documents and prior years' Company complaint/inquiry log sheets are stored in labeled boxes in an upstairs office. Billing records are currently computerized and backed-up to two locations in the corporation. The office supervisor stated that the new Avatar software would only contain customer records from August 2002 forward. No fireproof storage is available in Company's offices.

Findings, Conclusions and Recommendations

The following discussion presents a summary of the findings, conclusions and recommendations pertaining to the Company's customer service operations. Introduction of the new Avatar billing system will create numerous changes in the current billing process. The information presented in this section focuses on the following areas that require Company management's attention:

- Verification of application information
- Monthly payment options
- Cost effective payment options
- Meter readers' route sheets
- Estimated meter read report
- Monthly master meter reads
- Names and addresses of new homeowners
- Return check policy
- Return check report
- Notification before shutting off service
- Reduction of delinquent accounts
- Service order disconnect list
- Customer complaints and inquiries
- Emergency log sheets
- Community involvement
- Storage of documents

Customer Billing

No verification as to the accuracy of the information provided on new customer applications is currently performed. Service is provided to some customers in remote areas prior to the signed application being received by the Company. AquaSource does not charge a security deposit, so it becomes important to have adequate information should the customer become delinquent. It is more economical to discover application errors before service has been provided than to have to disconnect service after a customer has become delinquent.

To guard against falsified applications, AquaSource may want to contact a credit reporting business and/or require additional documentation such as a social security card or driver's license to assist in determining the authenticity of the new customer.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Evaluate methods to verify the accuracy of the information on customers' applications for service.

Effective August 15, 2002, customers were left with only one option to pay their bills – mailing their payments to a P.O. Box. With the inception of the new Avatar billing system, the area manager stated that customers will be sending their payments to a P.O. Box in Georgia. Since the Company's bad debt is currently high, providing customers alternative means of paying bills may increase the Company's recovery of delinquent accounts. In addition, customers whose service is being shut off need more alternative options to pay their bills.

Additional payment options would reduce the necessity of service technicians collecting money in the field. A personal safety risk exists to service technicians who are collecting money in the field and carrying it in their service trucks. It also becomes a burden for the service technicians to have to convert the money into a cashier's check or money order to mail payment to the home office.

The new Avatar billing system may provide a means for implementing various payment options, such as check-by-phone or credit card payments. The Company hopes to offer an EZ-Pay automatic withdrawal payment option by January or February 2003.

The EMSD staff recommends that the Company examine the costs of customers mailing their payments and investigate and research other possible payment options for its customers.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Perform a comprehensive cost/benefit analysis of monthly payment options for its customers.

Following the performance of the cost/benefit analysis of monthly payment options, the Company should implement those payment options it has found to be cost effective. These payment options may be more convenient for the customers and prove to be advantageous to the Company.

With the implementation of additional payment options, a comprehensive reporting mechanism detailing option usage and revenue data would provide the Company with an essential management tool. This documented information will allow the Company to evaluate the effectiveness of its payment options and make changes when needed.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Implement cost effective payment options for its customers. Develop and implement use of summary reports with usage and revenue data.

Meter Reading

Meter readers have access to previous meter reading information that could enable them to successfully guess at a meter reading instead of obtaining an actual read. The area manager noted that meter readers' route sheets contain columns listing the previous month's reading, as well as high/low usage ranges. Commission rules require that customers' bills be based on actual readings. Billing information from the Usage Report showed a significant number of small or zero usage followed by a much larger usage the next month. In the Maplewood service area, billing information indicated November 2001 usage to be much greater than other months in many instances. Even though the area manager stated there has been no recent evidence of "curbing" or estimating meter readings, the presence of the previous month's reading invites the opportunity for abuse.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Consider eliminating the previous meter reading and high/low usage ranges from the meter readers' route sheets.

The Company does not track the number of its estimated meter reads each month. According to the Commission rule 4 CSR 240-13.020(2)(B), a utility shall not render a bill based on estimated usage for more than three (3) consecutive billing periods, except under certain conditions.

Upon EMSD staff request, Company management provided limited documentation that identified actual meter readings being performed by the meter readers. Company management does not have adequate documentation to ensure that

meters are actually read each month and customer's usage instead is not being estimated. If the Company does not track the number of estimated meter reads each month, it is unable to determine if it is abiding with the Commission rules.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop and monitor a report that tracks the number of monthly estimated meter reads.

The Company does not compare the amount of water removed from its water supply to the amount of water registered through its customers' meters on a monthly basis. The area manager stated that the Company does obtain a monthly reading from each of its water supply meters. Although the information is available to the Company, the Company does not total the amount of its customers' monthly meter reading usage per each water supply unit. The Company stated that a comparison is generally performed at the end of the year.

Implementation of a program to track and monitor the amount of water removed from its supply as compared to the amount registered through its customers' meters on a monthly basis would aid the Company in leak detection at the water supply system or leak detection at the customers' meters. This process could also assist the Company in detecting other problems on a timely basis.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop a monthly report that tracks and monitors the Company's master meter reads on its system as compared to actual meter readings.

Credit and Collections

The Company's bad debt for sewer service is in excess of \$18,000. The area manager acknowledged that it has been difficult to collect on past due accounts. Currently Company personnel attempt to visit all the subdivisions within AquaSource's service territory at least once a year to check on new home construction where contractors may have hooked new homes into the sewer system without notifying AquaSource. When this occurs, the Company is not collecting payment for sewer service rendered.

To remedy the situation of driving around to search for new hook-ups, AquaSource personnel can contact the Planning Department of the Cole County Board of

Public Works at (573) 636-2084. The Planning Department issues building permits and keeps a monthly log of all building permits issued. This log also contains the names of the utility companies that provide service to each parcel of land on which building permits are issued. The Cole County Board of Public Works indicated it would be willing to send a copy of its monthly log of issued building permits to AquaSource.

In addition, the Board of Public Works has plats containing new subdivisions. Access to view these plats at the Board of Public Works can be gained by contacting their office. These documents would give AquaSource personnel notice as to when new construction is imminent and be more economical and less time-consuming than the present method of searching for new customers.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Obtain the names and addresses of new homeowners in Company's service area so that bills can be rendered and revenue received for service provided.

The Company is currently not abiding by the insufficient funds check policy stated in its letter to customers. The first letter sent to a customer whose check has been returned by the bank for insufficient funds states: "Your personal checks will not be accepted for a period of 6 months as a form of payment. If you send in a personal check it will be returned to you and you will not avoid any late or disconnection penalties." However, second checks are accepted as payment from the customers, contrary to what their letter stated. When the Company does not abide by the information in its letter sent to customers, it hurts the Company's credibility with those customers. The lost credibility with customers has the potential to increase the bad debt problem.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Follow the stated return check policy in Company's letter to customers.

The Company does not currently track the number or total dollar amount of returned checks. A monthly report detailing the number and total dollar amount of returned checks would provide management with a useful tool to assist in the consistent application of its returned check policy.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop and monitor a report that monthly tracks the number of returned checks and the dollar amount of returned checks.

Disconnection/Reconnection Process

The area manager stated that delinquent customers who may be home at the time are not given notice immediately before service is disconnected. She noted that field service personnel are sent to a delinquent customer's residence on the 27th of the month to shut off service. Field service personnel shut off service and then notify the customer of the amount owed to restore service.

Public Service Commission Rule 4 CSR 240-13.050(8) states:

Immediately preceding the discontinuance of service, the employee of the utility designated to perform this function, except where the safety of the employee is endangered, shall make a reasonable effort to contact and identify him/herself to the customer or a responsible person then upon the premises and shall announce the purpose of his/her presence. When service is discontinued, the employee shall leave a notice upon the premises in a manner conspicuous to the customer that service has been discontinued and the address and telephone number of the utility where the customer may arrange to have service restored.

According to the above Commission rule, it is Company's duty to notify delinquent customers before shutting off service.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Attempt to notify delinquent residents at the home before shutting off the water service.

The Company is finding it difficult to collect delinquent sewer service accounts that do not have water meters. Letters have been sent to customers threatening disconnection of service after 30 days if the delinquent accounts are not paid in full. However, the Company rarely follows through and discontinues sewer service by digging up and capping off sewer lines. The Company should only send a disconnection letter if they intend to disconnect the service.

The Company may want to negotiate contracts with the local water districts to shut off water service to delinquent customers. See 393.015.1 and .2 RSMO. The use of an "Elder valve" may make it more efficient and economical to shut off sewer service.

Both of these options could assist Company in reducing the number of delinquent accounts.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Actively pursue options for reducing the number of delinquent accounts.

The Company does not currently make use of an automated system in its process of disconnection for nonpayment. Office personnel manually complete the list of customers subject to disconnection due to nonpayment. This method is time consuming and offers more opportunities for errors. The Company's customer record keeping activities would be enhanced and fewer labor hours would be allocated to this process if its service order list for disconnection due to nonpayment was automated.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Automate the service order list for disconnection due to nonpayment.

Complaint and Inquiry Handling and Recording

A log of all complaints and inquiries received by Company personnel is not being kept. The Company does document complaints that are not resolved on the initial contact, as well as service calls and emergency calls; however, the initial inquiries and complaints, when answered satisfactorily, are not being logged. The lack of a complaint and inquiry log of all calls makes it difficult for the Company to provide accurate documentation of the nature of its complaints and inquiries.

Commission rule 4 CSR 240-13.040(5) states:

A utility shall maintain records on its customers for at least two (2) years which contain information concerning:

....
(B) The number and general description of complaints registered with the utility;

In addition to compliance with the Commission rule, the availability of documented complaint information is a good tool that would enable Company management to evaluate the reasons why customers contact the Company and determine if any measures could be taken to reduce customer contacts and improve customer satisfaction.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Document all customer complaints and inquiries.

The Company's emergency log is not stored at the Company's office at all times. During the August 30, 2002 interview with office personnel, the EMSD staff was told that one of the field representatives currently had possession of the emergency log. If a field representative misplaced or lost the emergency log, the Company would have no record of emergency calls.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Store the emergency log book in the office. Make copies of the emergency log sheets to give to field representatives so they can perform their work.

Customer Communication

The Company has not implemented a method to obtain its customers' opinions of the Company. The Company should be aware of the satisfaction of its customers with the level of service they are provided.

The EMSD staff believes that this customer information is a useful tool to the Company and benefits both the Company and its customers. The Company can use the information in its decision making process for current and future needs of the Company and its customers. Therefore, the customer information gathered by the Company should be well documented.

Some suggested methods of accumulating this information include attendance at meetings of the various local civic organizations and annual meetings of the subdivisions and/or homeowner association meetings served by the Company. The EMSD staff is of the opinion these are cost-effective methods of accomplishing this task.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop a program that garners the opinions of the Company's customers on an ongoing basis.

Document Storage

No fireproof storage is available in the Company's offices for materially relevant documents, personnel records, and complaint/inquiry logs. The lack of fireproof storage has several detrimental effects. In the event of a disaster, this information could be lost or destroyed. It would be extremely difficult for the Company to re-create its records. The fact that Company is being sold to Philadelphia Suburban Corporation makes it even

more critical that important documents be preserved in fireproof file cabinets. In addition, the Avatar billing system will only contain customer information from August 2002 forward.

Securing the Company's materially relevant documents in fireproof file cabinets would likely eliminate the cost and labor-intensive process of re-creating lost data. The risk of this occurrence would be minimized if documents were stored in fireproof file cabinets.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Store all materially relevant Company documents in fireproof file cabinets.