

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

In the Matter of the Request of Stockton)
Hills Water Company for a Rate Increase)
Pursuant to the Commission's Small)
Company Rate Increase Procedure)

Case No. WR-2006-0091
Tariff I.D. No. YW-2006-0140

**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 states the following to the Missouri Public Service Commission ("Commission").

1. Stockton Hills Water Company ("Company") initiated the subject small company rate increase request ("Request") by submitting a letter to the Secretary of the Commission, which was stamped "Received" at the Commission's offices on April 14, 2005¹. 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").

2. Consistent with the Small Company Rate Increase Procedure, the Staff, the Company and the Office of the Public Counsel ("OPC") have negotiated and executed a *Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request* ("Disposition Agreement") regarding the Company's Request.

3. By a letter that was stamped "Received" at the Commission's offices on August 26, the Company submitted revised tariff sheets to the Commission for the purpose of

¹ Unless noted otherwise, all dates hereafter refer to the year 2005.

implementing the provisions of the above-referenced Disposition Agreement, and the instant case was established. (The revised tariff sheets bore a proposed effective date of September 30.)

4. On September 2, the Staff filed the above-referenced Disposition Agreement in the case papers for this case.

5. The Staff's recommendations to the Commission regarding this case are set out on page 5 of the Staff Memorandum that is included in the document attached hereto and labeled Appendix A.

6. Also included in Appendix A are various documents regarding the Company's Request and the Staff's investigation of the Request, including the Staff's audit and rate design workpapers.

7. The Commission has the authority to approve the subject proposed tariff revisions in accordance with Sections 393.140(11) and 393.150, RSMo 2000. In addition, Section 393.130.1, RSMo 2000 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 and the OPC's agreements with the proposed tariff revisions are evidence that the rates and charges contained in the tariff revisions are just and reasonable, as that statute requires.

8. 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)(C) in particular.

WHEREFORE, the Staff respectfully requests that the Commission issue an order consistent with the recommendations set out on page 5 of the Staff Memorandum that is included in Appendix A attached hereto.

Respectfully Submitted,

DANA K. JOYCE
General Counsel

/s/ Keith R. Krueger

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

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Missouri Public Service Commission

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing 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 21st day of September 2005.

/s/ Keith R. Krueger

Keith R. Krueger

APPENDIX A

STAFF MEMORANDUM & ATTACHMENTS

CASE NO. WR-2006-0091

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Official Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WR-2006-0091 - - - Stockton Hills Water Company

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
Graham Vesely – Auditing Department
Scott Clark – Auditing Department
Rosella Schad – Engineering & Management Services Department
John Kiebel – Engineering & Management Services Department
and Financial Analysis Department
James M. Russo – Water & Sewer Department
Bill Nickle – Water & Sewer Department

<u>/s/ Dale W. Johansen</u>	<u>09/21/05</u>
Project Coordinator	Date

<u>/s/ Keith R. Krueger</u>	<u>09/21/05</u>
General Counsel's Office	Date

SUBJECT: Staff Recommendation for Approval of Tariff Revisions, Approval of Depreciation Rates and Approval of Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request

DATE: September 21, 2005

BACKGROUND

Stockton Hills Water Company ("Company") initiated the subject small company rate increase request ("Request") by submitting a letter to the Secretary of the Commission, which was received at the Commission's offices on April 14, 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 \$5,725 in its total annual water service operating revenues. As stated by the Company in its Request letter, the reasons for the requested increase in its water service operating revenues are: increases in operation and maintenance expenses; increases in utility plant investment; and increases in Workers Compensation Insurance.

* Unless noted otherwise, all dates hereafter refer to the year 2005.

The Company provides water service to approximately 145 residential customers. The Company's current rates (those resulting from the Company's last rate case) went into effect on December 1, 1995.

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-2005-0003 to the Request. The Company's letter was then forwarded to the Commission's Water & Sewer Department ("W/S Dept") for processing under the Small Company Rate Increase Procedure. A copy of the Company's request letter is identified as item number 1 in the EFIS tracking file for the Request.

By a letter dated May 4, which Staff members in the W/S Dept had previously approved, the Company notified its customers of the Request. As a part of this initial customer notice, the Company requested that its customers' questions or comments be directed to the Commission Staff and/or the Office of the Public Counsel ("OPC"). A copy of the initial customer notice is identified as item number 2 in the EFIS tracking file for the Request.

STAFF'S INVESTIGATION AND CONCLUSIONS

As noted at the beginning of this Memorandum, Staff members from the Accounting, Engineering & Management Services (EMSD), 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.

The W/S Dept and the OPC received three responses to the Company's initial customer notice, all of which contained references to poor water pressure. Bill Nickle of the W/S Dept conducted an investigation regarding the water pressure issues raised in the customer responses. A summary of the customer responses and the results of Mr. Nickle's investigation is included in the EFIS tracking file for the Request as item number 3.

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 \$5,417 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. In particular, the Staff and the Company agreed that the Company would implement quarterly billing for those customers that are currently billed annually.

On August 8, 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 *Unanimous Agreement Regarding Disposition of Small Company Rate Increase Request* ("Disposition Agreement") was reached between the Staff, Company and OPC ("the Parties"). The Parties also reached an agreement regarding the tariff revisions needed to implement the terms of the Disposition Agreement. Because the Disposition Agreement is between the Staff, the Company and the OPC, the Company was not required to send a notice to its customers regarding the rates and charges that would result from implementation of the provisions of this Disposition Agreement, and the OPC was not provided the opportunity to request a local public hearing.

The Disposition Agreement reflects the following agreements: (1) that an increase of \$5,417 in the Company's annual water operating revenues is necessary; (2) that certain changes to the Company's administrative operations are appropriate; (3) that the Company will implement quarterly billing for those customers that are currently billed annually; (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, Staff and OPC are set out on pages 2 and 3 of the Disposition Agreement, which the Staff filed in this case on September 2 and which can be found in the EFIS case file as item number 2.)

By a letter that was stamped "Received" by personnel in the Commission's Data Center on August 30, the Company submitted revised tariff sheets, including the agreed-upon tariff revisions that are necessary to implement the terms of the Disposition Agreement. Upon receipt of that tariff filing, Data Center personnel entered the filing 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 30 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 September 2.)

ADDITIONAL INFORMATION

In addition to the documents that have already been submitted to the EFIS tracking file and EFIS case file for this case, as noted previously herein, the following documents are included with this Memorandum: (1) the Staff's ratemaking income statement, rate design worksheet and customer bill comparison are included in Attachment 1; (2) the Staff's revenue requirement audit workpapers are included in Attachment 2; and (3) the Staff's overview of the Company and its customer service procedures and practices is included in Attachment 3.

Pursuant to a review of available electronic information maintained by the Commission's Budget & Fiscal Services Department and Data Center, and in EFIS, the Staff notes that the Company was current on the payment of its Commission assessments and on the filing of its Commission annual reports when it submitted its Request, as is required by the Small Company Rate Case Procedure. The Staff also notes that the Company is current on those matters as of the writing of this Memorandum. The assessment information reviewed covers fiscal years 1999 through 2006 and the annual report information reviewed covers calendar years 1997 through 2004.

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

The Staff notes that the Company received no "notices of violations" from the Missouri Department of Natural Resources (DNR) during the test year used for the Request, but also notes that the Company did receive a notice of violation that the DNR issued on September 8. However, the Company's owner has recently informed the Staff that the Company will be entering into a bilateral compliance agreement with the DNR regarding the issues raised in the subject notice of violation. Additionally, the Company's owner stated it is the Company's belief that the two bad water samples that are the basis for the notice of violation resulted from improper collection techniques that have been corrected, and that the DNR has agreed that the Company will be in compliance with existing regulations if they have one year of clean samples. Copies of the DNR's compliance letter to the Company, the notice of violation and the proposed bilateral compliance agreement are included in Attachment 4 hereto.

Lastly, the Staff notes that the Disposition Agreement contains provisions allowing the Staff to answer Commissioner questions regarding this case during any Commission agenda session during which the case is noticed to be considered by the Commission.

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 August 30 to be effective for service rendered on and after September 30;
- * Approves the schedule of depreciation rates that is included as Attachment 4 to the Disposition Agreement submitted in this case as the schedule of depreciation rates prescribed for the Company's use;
- * Approves the Disposition Agreement submitted in this case; and
- * Directs the Company to comply with the terms of the Disposition Agreement.

List of Attachments

- Attachment 1: Ratemaking Income Statement, Rate Design Worksheet and Customer Bill Comparison
- Attachment 2: Revenue Requirement Audit Workpapers
- Attachment 3: Overview of Company and Customer Service Operations
- Attachment 4: Information Regarding DNR Notice of Violation

Memo Attachment 1

Ratemaking Income Statement, Rate Design
Worksheet & Customer Bill Comparison

STOCKTON HILLS WATER COMPANY

Rate Making Income Statement-Water

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	22,682
2	Other Operating Revenues *	\$	25
3	Total Operating Revenues	\$	22,707
4	* See "Revenues - Current Rates" for Details		

Cost of Service

Item	Amount
1 Water Tower Exterior Painting	\$ 366
2 Water Treatment -Testing/Laboratory Fees	\$ 672
3 Maintenance Shop Electricity	\$ 162
4 Purchased Power	\$ 2,279
5 Permit Fees	\$ 200
6 Administration & General - Salaries	\$ 15,091
7 Legal Services	\$ 300
8 Bookkeeping	\$ 265
9 Insurance Expense	\$ 822
10 Regulatory Commission Expense	\$ 178
11 Bad Debt Expense	\$ 59
12 Telephone Expense	\$ 300
13 Billing expense	\$ 206
14 Office Rent	\$ 360
15 Office Utilities	\$ 156
16 Sub-Total Operating Expenses	\$ 21,416
17 Property Taxes	\$ 190
18 MO Franchise Taxes	\$ -
19 Employer FICA Taxes	\$ -
20 Federal Unemployment Taxes	\$ -
21 State Unemployment Taxes	\$ -
22 State & Federal Income Taxes	\$ 639
23 Sub-Total Taxes	\$ 829
24 Depreciation Expense	\$ 3,870
25 Amortization of Utility Plant (CIAC)	\$ (1,458)
26 Sub-Total Depreciation/Amortization	\$ 2,412
27 Return on Rate Base	\$ 3,467
28 Total Cost of Service	\$ 28,124
25 Overall Revenue Increase Needed	\$ 5,417

STOCKTON HILLS WATER COMPANY

Development of Tariffed Rates-Water

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

Revenues Generated by Current Tariffed Rates	\$ 22,682
Agreed-Upon Overall Revenue Increase	\$ 5,417
Percentage Increase Needed	23.883%

Metered Customer Rates

Meter Size	Current Service Charge	Proposed Service Charge	Current Usage Rate	Proposed Usage Rate
3/4"	\$ 8.57	\$ 10.62	\$ 2.100	\$ 2.60
1"	\$ -	\$ -	\$ -	\$ -

STOCKTON HILLS WATER COMPANY

Residential Customer Bill Comparison-Water

Rates for 5/8" Meter

<u>Current Base Service Charge</u>	<u>Proposed Base Service Charge</u>	<u>Current Usage Rate</u>	<u>Proposed Usage Rate</u>
\$8.57	\$10.07	\$2.100	\$2.470

current service charge is monthly charge including 1,000 gallons

MONTHLY BILL COMPARISON

Current Rates

Service Charge	\$ 8.57
Usage Charge	\$ 12.60
Total Bill	\$ 21.17

Proposed Rates

Service Charge	\$ 10.07
Usage Charge	\$ 14.82
Total Bill	\$ 24.89

INCREASES

Service Charge

\$ Increase	\$1.50
% Increase	17.50%

Usage Charge

\$ Increase	\$2.22
% Increase	17.62%

Total Bill

\$ Increase	\$3.72
% Increase	17.57%

Memo Attachment 2

Revenue Requirement Audit Workpapers

Accounting Schedule: 1

Clark

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Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Revenue Requirement

Line 9.00%
Return

(A)	(B)
1 Net Orig Cost Rate Base (Sch 2)	\$ 38,520
2 Rate of Return	9.00%

3 Net Operating Income Requirement	\$ 3,467
4 Net Income Available (Sch 8)	\$ (1,311)

5 Additional NOI BT Needed	\$ 4,778
6 Income Tax Requirement (Sch 10)	
7 Required Current Income Tax	\$ 639
8 Test Year Current Income Tax	\$ 0

9 Additional Current Tax Required	\$ 639
10 Required Deferred ITC	\$ 0
11 Test Year Deferred ITC	\$ 0

12 Additional Deferred ITC Required	\$ 0

13 Total Additional Tax Required	\$ 639

14 Gross Revenue Requirement	\$ 5,417

Accounting Schedule: 1-1

Accounting Schedule: 2

Clark

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Rate Base

Line Description	Amount
(A)	(B)
1 Total Plant in Service (Sch 3)	\$ 125,552
Subtract from Total Plant	
2 Depreciation Reserve (Sch 6)	\$ 63,452

3 Net Plant in Service	\$ 62,100
Add to Net Plant in Service	
4 Cash Working Capital (Sch 11)	\$ 0
5 Materials and Supplies-Exempt	0
6 Prepaid Insurance	0
Subtract from Net Plant	
7 Federal Tax Offset 0.0000 %	\$ 0
8 State Tax Offset 0.0000 %	0
9 City Tax Offset 0.0000 %	0
10 Interest Expense Offset 0.0000 %	0
11 Customer Advances for Construction	0
12 Contribution in aid of Construction	23,580
13 Deferred Income Taxes-Depreciation	0

14 Total Rate Base	\$ 38,520
	=====

Accounting Schedule: 2-1

Accounting Schedule: 3

Clark

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Total Plant in Service

Line No	Acct	Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)
Intangible Plant					
1	301.100	Organization	\$ 2,492	\$ 0	\$ 2,492
2		Total	\$ 2,492	\$ 0	\$ 2,492
Source of Supply & Pumping Plant					
3	310.000	Land & Land Rights	\$ 1,188	\$ 0	\$ 1,188
4	311.000	Structures & Improvements	507	0	507
5	312.000	Collecting and Impounding Reservoir	15,615	(15,615) P-1	0
6	314.000	Wells & Springs	6,209	0	6,209
7	320.000	Pumping Plant Land	1,188	0	1,188
8	321.000	Pumping Plant Structures	862	0	862
9	325.000	Electric Pumping Equipment	3,224	321 P-4	3,545
10		Total	\$ 28,793	\$ (15,294)	\$ 13,499
Transmission & Distribution Plant					
11	342.000	Distribution Reservoirs & Standpipe	\$ 2,534	\$ 14,467 P-2	\$ 17,001
12	343.000	Transmission & Distribution Mains	65,589	0	65,589
13	345.000	Services	9,971	0	9,971
14	346.000	Meters	14,448	947 P-5	15,395
15	348.000	Hydrants	417	0	417
16		Total	\$ 92,959	\$ 15,414	\$ 108,373
General Plant					
17	303.500	Land & Land Rights	\$ 1,188	\$ 0	\$ 1,188
18	345.500	Power Operated Equipment	10,425	(10,425) P-3	0
19		Total	\$ 11,613	\$ (10,425)	\$ 1,188
20		Total Plant In Service	\$ 135,857	\$ (10,305)	\$ 125,552

Accounting Schedule: 3-1

Accounting Schedule: A

Clark

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Adjustments to Total Plant

Adj No Description	Total Co Adjustment	Mo Juris Adjustment

Collecting and Impounding Reservoir P-1		\$ (15,615)

1. To properly reclassify to account 342, Distribution Reservoirs & Standpipes.		\$ (15,615)
(Clark)		

Distribution Reservoirs & Standpipe P-2		\$ 14,467

1. To properly reclassify from account 312, Collecting & Impounding Reservoirs.		\$ 15,615
(Clark)		
2. To remove improperly capitalized water storage tank painting expense.		\$ (1,148)
(Clark)		

Power Operated Equipment P-3		\$ (10,425)

1. To reflect retired backhoe.		\$ (10,425)
(Clark)		

Electric Pumping Equipment P-4		\$ 321

1. To include labor paid to Don's Pump Shop for well pump replacement.		\$ 321
(Clark)		

Accounting Schedule: 4-1

Accounting Schedule: 4

Clark

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Stockton Hills Water

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1/1/04-12/31/04

Adjustments to Total Plant

Adj No Description	Total Co Adjustment	Mo Juris Adjustment

Meters P-5		\$ 947

1. To include meters and meter installations purchased during the year, but not recorded. (clark)		\$ 947

Accounting Schedule: 4-2

Accounting Schedule: 5

Clark

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Stockton Hills Water

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1/1/04-12/31/04

Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
		(A)	(B)	(C)	(D)
Intangible Plant					
1	301.100	Organization	\$ 2,492	0.0000	\$ 0
2		Total	\$ 2,492		\$ 0
Source of Supply & Pumping Plant					
3	310.000	Land & Land Rights	\$ 1,188	0.0000	\$ 0
4	311.000	Structures & Improvements	507	2.5000	13
5	312.000	Collecting and Impounding Reservoir	0	2.0000	0
6	314.000	Wells & Springs	6,209	2.0000	124
7	320.000	Pumping Plant Land	1,188	0.0000	0
8	321.000	Pumping Plant Structures	862	2.5000	22
9	325.000	Electric Pumping Equipment	3,545	5.0000	177
10		Total	\$ 13,499		\$ 336
Transmission & Distribution Plant					
11	342.000	Distribution Reservoirs & Standpipe	\$ 17,001	2.5000	\$ 425
12	343.000	Transmission & Distribution Mains	65,589	2.0000	1,312
13	345.000	Services	9,971	2.5000	249
14	346.000	Meters	15,395	10.0000	1,540
15	348.000	Hydrants	417	2.0000	8
16		Total	\$ 108,373		\$ 3,534
General Plant					
17	303.500	Land & Land Rights	\$ 1,188	0.0000	\$ 0
18	345.500	Power Operated Equipment	0	6.7000	0
19		Total	\$ 1,188		\$ 0
20		Total Depreciation Expense	\$ 125,552		\$ 3,870

Accounting Schedule: 5-1

Accounting Schedule: 6

Clark

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Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Depreciation Reserve

Line No	Acct	Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
		(A)	(B)	(C)	(D)
Intangible Plant					
1	301.100	Organization	\$ 0	\$ 0	\$ 0
2		Total	\$ 0	\$ 0	\$ 0
Source of Supply & Pumping Plant					
3	310.000	Land & Land Rights	\$ 0	\$ 0	\$ 0
4	311.000	Structures & Improvements	345	0	345
5	312.000	Collecting and Impounding Reservoir	9,924	(9,924) R-1	0
6	314.000	Wells & Springs	3,946	0	3,946
7	320.000	Pumping Plant Land	0	0	0
8	321.000	Pumping Plant Structures	354	0	354
9	325.000	Electric Pumping Equipment	(788)	0	(788)
10		Total	\$ 13,781	\$ (9,924)	\$ 3,857
Transmission & Distribution Plant					
11	342.000	Distribution Reservoirs & Standpipe	\$ 474	\$ 9,924 R-2	\$ 10,398
12	343.000	Transmission & Distribution Mains	40,094	0	40,094
13	345.000	Services	2,372	0	2,372
14	346.000	Meters	6,499	0	6,499
15	348.000	Hydrants	114	0	114
16		Total	\$ 49,553	\$ 9,924	\$ 59,477
General Plant					
17	389.000	Land & Land Rights	\$ 0	\$ 0	\$ 0
18	396.000	Power Operated Equipment	10,543	(10,425) R-3	118
19		Total	\$ 10,543	\$ (10,425)	\$ 118
20		Total Depreciation Reserve	\$ 73,877	\$ (10,425)	\$ 63,452

Accounting Schedule: 6-1

Accounting Schedule: 7

Clark

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Stockton Hills Water

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Adjustments to Depreciation Reserve

Adj No Description	Total Co Adjustment	Mo Juris Adjustment

Collecting and Impounding Reservoir R-1		\$ (9,924)

1. To reclassify to account 342, Distributions Reservoirs and Standpipes. (Clark)		\$ (9,924)

Distribution Reservoirs & Standpipe R-2		\$ 9,924

1. To reclassify from account 312, Collecting and Impounding Reservoirs. (Clark)		\$ 9,924

Power Operated Equipment R-3		\$ (10,425)

1. To retire backhoe. (Clark)		\$ (10,425)

Accounting Schedule: 7-1

Accounting Schedule: 8

Clark

12:20 08/03/2005

Stockton Hills Water

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1/1/04-12/31/04

Income Statement

Line No	Acct Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
(A)		(B)	(C)	(D)
Operating Revenues				
1	460.100 Unmetered sales (fixed)	\$ 0	\$ 0	\$ 0
2	461.100 Metered Sales (residential)	23,325	(351) S-1	22,972
3	474.000 Reconnection fee	25	0	25
4	Total	\$ 23,350	\$ (353)	\$ 22,997
Operation & Maintenance Expense				
5	601.000 Salaries and Wages-Employees	\$ 11,157	\$ 3,934 S-2	\$ 15,091
6	615.000 Purchased Power	1,853	426 S-10	2,279
7	630.100 Accounting Services	265	0	265
8	630.200 Water Testing Services	502	460 S-3	962
9	630.300 DNR operating permit	200	0	200
10	630.400 Legal Services	300	0	300
11	655.000 Insurance Expense	822	0	822
12	665.000 Regulatory Commission Expense	178	0	178
13	670.000 Bad debt expense	340	(281) S-9	59
14	675.003 Utility Office Telephone	0	300 S-4	300
15	675.005 Billing Expense	164	42 S-11	206
16	640.001 Office Rent	0	360 S-5	360
17	675.010 Office Utilities	0	156 S-6	156
18	Maintenance shop electricity	0	162 S-7	162
19	675.400 Water tower exterior painting	3,655	(3,289) S-8	366
20	Total	\$ 19,436	\$ 2,270	\$ 21,706
Depreciation Expense				
21	403.000 Depreciation Expense	\$ 3,555	\$ 315	\$ 3,870
22	Total	\$ 3,555	\$ 315	\$ 3,870
Other Operating Expenses				
23	407.000 Amortization of CIAC	\$ (1,458)	\$ 0	\$ (1,458)
24	408.000 Property Tax Expense	190	0	190
25	Total	\$ (1,268)	\$ 0	\$ (1,268)
26	Total Operating Expenses	\$ 21,723	\$ 2,585	\$ 24,308

Accounting Schedule: 8-1

Accounting Schedule: 8

Clark

12:20 08/03/2005

Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Income Statement

Line No	Acct Description	Missouri Jurisdictional	Jurisdictional Adjustment	Adjusted Jurisdictional
	(A)	(B)	(C)	(D)
27	Net Income Before Taxes	\$ 1,627	\$ (2,938)	\$ (1,311)

Current Income Taxes				
28	Current Income Taxes	\$ 0	\$ 0	\$ 0

29	Total	\$ 0	\$ 0	\$ 0
Deferred Income Taxes				
30	Deferred Income Taxes	\$ 0	\$ 0	\$ 0

31	Total	\$ 0	\$ 0	\$ 0
32	Total Income Taxes	\$ 0	\$ 0	\$ 0

33	Net Operating Income	\$ 1,627	\$ (2,938)	\$ (1,311)

Accounting Schedule: 8-2

Accounting Schedule: 9

Clark

12:20 08/03/2005

Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment

Metered Sales (residential) S-1		\$ (353)

1. To annualize and normalize from test year data.		\$ (353)
(Clark)		

Salaries and Wages-Employees S-2		\$ 3,934

1. To annualize and normalize test year data.		\$ 2,524
(Clark)		
2. Adjusts Thelma's salary to reflect additional labor required for meter readings/billings to bill customers quarterly per tariff.		\$ 1,410
(Clark)		

Water Testing Services S-3		\$ 460

1. To annualize test year data.		\$ 460
(Clark)		

Utility Office Telephone S-4		\$ 300

1. To include the expense of having a utility office telephone.		\$ 300
(Clark)		

Accounting Schedule: 9-1

Accounting Schedule: 9

Clark

12:20 08/03/2005

Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment

Office Rent S-5		\$ 360

1. To include an allowance for office rent of 30 per month. (Clark)		\$ 360

Office Utilities S-6		\$ 156

1. To include office utility expense of \$13 per month. (Clark)		\$ 156

Maintenance shop electricity S-7		\$ 162

1. To include electricity at the maintenance shop of \$13.5 per month. (Clark)		\$ 162
2.		

Water tower exterior painting S-8		\$ (3,289)

1. To normalize the tank painting expense over 10 years.		\$ (3,289)

(Clark)

Accounting Schedule: 9-2

Accounting Schedule: 9

Clark

12:20 08/03/2005

Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Adjustments to Income Statement

Adj No Description	Total Co Adjustment	Mo Juris Adjustment

Bad debt expense	S-9	\$ (281)

1. To correct the uncollectible amount for meter #37(Jerry and AshleyBaker) (Clark)		\$ (41)
2. To remove bad debt expense recorded for meter #23(Brandie Cardwell) that could not be verified. (Clark)		\$ (240)

Purchased Power	S-10	\$ 426

1. To exclude pumping costs related to excessive water loss(above 15%). (Clark)		\$ 426

Billing Expense	S-11	\$ 42

1. To adjust billing expense to reflect quarterly billing per tariff.		\$ 42

(Clark)		

Accounting Schedule: 9-3

Accounting Schedule: 10

Clark

12:20 08/03/2005

Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Income Tax

Line		Test Year	9.00% Return
(A)		(B)	
1	Net Income Before Taxes (Sch 8)	\$ (1,311)	\$ 4,106
2	Add to Net Income Before Taxes Book Depreciation Expense	\$ 3,870	\$ 3,870
3	Total	\$ 3,870	\$ 3,870
4	Subtr from Net Income Before Taxes Interest Expense 2.5000 %	\$ 963	\$ 963
5	Book depreciation	3,805	3,805
6	Total	\$ 4,768	\$ 4,768
7	Net Taxable Income	\$ (2,209)	\$ 3,208
8	Provision for Federal Income Tax Net Taxable Income	\$ (2,209)	\$ 3,208
9	Deduct Missouri Income Tax 100.0 %	\$ 0	\$ 186
10	Deduct City Income Tax	0	0
11	Federal Taxable Income	(2,209)	3,022
12	Total Federal Tax	\$ 0	\$ 453
13	Provision for Missouri Income Tax Net Taxable Income	\$ (2,209)	\$ 3,208
14	Deduct Federal Income Tax 50.0 %	\$ 0	\$ 227
15	Deduct City Income Tax	0	0
16	Missouri Taxable Income	(2,209)	2,982
17	Total Missouri Tax	\$ 0	\$ 186

Accounting Schedule: 10-1

Accounting Schedule: 10

Clark

12:20 08/03/2005

Stockton Hills Water

Case: WR-05-0030

1/1/04-12/31/04

Income Tax

Line		Test Year	9.00% Return
(A)		(B)	
	Provision for City Income Tax		
18	Net Taxable Income	\$ (2,209)	\$ 3,208
19	Deduct Federal Income Tax	\$ 0	\$ 453
20	Deduct Missouri Income Tax	0	186
21	City Taxable Income	(2,209)	2,569
22	Total City Tax	\$ 0	\$ 0
	Summary of Provision for Income Tax		
23	Federal Income Tax	\$ 0	\$ 453
24	Missouri Income Tax	0	186
25	City Income Tax	0	0
26	Total	\$ 0	\$ 639
	Deferred Income Taxes		
27	Deferred Investment Tax Credit	\$ 0	\$ 0
28	Deferred Repair Allowance	0	0
29	Deferred Tax Depreciation	0	0
30	Amort of Deferred Tax Depreciation	0	0
31	Amort of Repair Allowance	0	0
32	Amort of Deferred ITC	0	0
33	Deferred Unbilled	0	0
34	Total	\$ 0	\$ 0
35	Total Income Tax	\$ 0	\$ 639

Accounting Schedule: 10-2

Memo Attachment 3

Overview of Company & Customer Service Operations

Summary Overview of Stockton Hills Water Company Customer Service Operations

The Engineering and Management Services Department (EMSD) staff initiated a review of the customer service processes, procedures and practices at Stockton Hills Water Company (Stockton Hills or Company) on June 2, 2005. Prior to on-site interviews, the EMSD staff examined the Company's 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 scope of this review focused on processes, procedures and practices related to:

- Customer Billing/Meter Reading
- Credit and Collection
- Customer Deposits
- Complaint Handling and Recording
- Customer Communications

This overview contains an explanation of the Company's customer service operations.

Overview

Stockton Hills provides water service to approximately 143 customers in a rural unincorporated area consisting of six subdivisions on or near the west shore of Stockton Lake. According to the Company, a majority of its customers are residents from the Kansas City area who have summer homes near Stockton Lake. Stockton Hills was certificated by the Commission on June 25, 1980.

The President of the Company assumed those responsibilities in 2003. Stockton Hills employs a part-time bookkeeper, who performs meter reading, customer billing,

remittance processing and other office functions. The Company also employs a part-time plant operator to manage and maintain the field operations.

The Company's business office is located in Stockton, which is the county seat of Cedar County. The normal business hours are Monday through Friday 8 a.m. to 5 p.m. The business office telephone is answered during normal business hours by an employee who also works for the President's primary business venture as a real estate developer. According to the President, this employee does not charge a portion of her time to Stockton Hills.

The current proceeding is the Company's first request for rate relief in almost a decade, and the first request since the new President assumed her duties in the Spring of 2003.

Customer Billing/Meter Reading

Customers can apply for service either in person or over the telephone. If a deposit is required, the customer must apply for service in person and pay the appropriate deposit amount at that time.

Stockton Hills bills approximately 115 of its 143 customers annually. The Company stated that a significant number of customers live in the area primarily during the summer months and have become accustomed to this practice.

The meter is typically read on June 30 of each year for annual bill customers, while monthly bill customers typically have their meter read during the last week of each month. The meter reading, billing and remittance processing functions are the same for both annual and monthly customers, with slight differences in the bill calculation process.

The meter reading process starts with the manual transfer of previous meter reads (annual or monthly) from each customer's page of the meter book to the monthly/annual meter route read sheet. The meter route read sheet has the customer premise number, name, and 'previous' meter read amount handwritten on the sheet. The 'present' meter read is to be filled in by the bookkeeper as she reads the route during the last week of each month.

After the route is read, the 'previous' and 'present' meter reads are transferred from the meter route read sheet to the customer billing post card. The 'present' meter read is also transferred to each customer's page of the meter book.

The bookkeeper calculates the bill manually up to three times for each customer. The calculations are done on the meter read route sheet, on both halves of the post card bill and on each customer's page of the meter book.

Annual bill customers receive a bill in early July that has two primary components to its calculation. The first component is the flat monthly rate for the upcoming 12 months (12 months with the minimum 1,000 gallons per month usage). The second component is the actual usage in excess of 12,000 gallons that was used in the previous year.

Annual bill customers were billed in early July 2005 for a monthly minimum usage for the upcoming 12-month period of July 1, 2005 through June 30, 2006. These customers are billed the monthly minimum usage of 1,000 gallons at the current monthly minimum rate, or for 12,000 gallons on an annual basis.

The actual usage is the amount of water usage above 12,000 gallons between July 2004 and July 2005. This usage is calculated as the difference in the readings between the 'previous' meter read (June 2004) and the 'present' meter read (June 2005). From this reading, the bookkeeper will subtract the 12,000 gallons that were billed during July 2004 to arrive at the number of gallons used by the customer during the 2004-2005 year that was not billed in advance.

For example, if a customer uses 4,000 gallons each month, they would prepay for 12,000 gallons during July 2005 and pay for the additional 36,000 gallons used in 2004-2005 during July 2005. This could theoretically mean that customers would prepay for one quarter of usage and the Company would finance the associated carrying costs on the outstanding three quarters of usage until the bill was paid in full during July 2005.

Although the EMSD staff is unaware of any other Missouri investor-owned water company that predominantly uses an annual billing time frame, Company management stated that this system has worked well for them. However, Stockton Hills does run the risk of customers leaving the system and having a significant balance owed to the Company.

Post card bills are mailed to each customer in an envelope, but there is no return envelope provided to the customer to mail the payment back to Stockton Hills. The customer keeps one half of the post card and remits the other half with the amount of payment.

Customer payments are due within 21 days, and are usually received by personal check through the U.S. mail at the business office in Stockton. Customers can also pay by personal check or with cash at the business office or during a field collection call. Stockton Hills does not offer credit card or other type of electronic payment options or the use of an outside agent for customers to pay their bill and late fees are not assessed.

Payments are manually entered into three places when they are received. The first listing is on the daily cash receipts log (by date, customer name, premise number, and amount received). The second listing is on each customer's individual page of the accounts receivable log, with the date and amount of payment is listed. The third listing is on each customer's page of the meter book.

The accounts receivable log and the meter book are updated to bring the customer's account to a zero balance, assuming that full payment was received. As payments are received from annual bill customers during July 2005, the payment is posted with the notation of 'paid to July 2006' (assuming the customer paid in full) on each customer's page of the meter book. This serves as a reminder to the bookkeeper when making out the schedule for meters to be read for the following month or for the following June 30.

The Stockton Hills tariff allows for monthly and quarterly billing, but does not allow for annual billing. The President stated that annual bill customers will be billed on a quarterly basis beginning in the Summer of 2006. The change in the billing frequency should help the Company identify potential leaks on a timely basis since meters will be read four times per year as opposed to the annual reading on June 30. The President is undecided on whether monthly bill customers will be moved to the quarterly billing schedule.

Deposits are made on a daily basis during July as the annual bill payments are received. Deposits are typically made on a weekly or twice-monthly basis during the remaining months, as fewer than 30 payments are normally received from monthly bill

customers during the other 11 months. Payments that are held overnight are kept in a fireproof safe.

Credit and Collections

The President acknowledged that the few write-offs that Stockton Hills has (\$0 in 2002, \$246 in 2003 and \$340 in 2004) are monthly bill customers. According to the President, these customers are typically mobile home renters who often move without giving Stockton Hills a forwarding address.

The Company stated that it has a 'zero tolerance' policy regarding past due bills. A disconnection letter is mailed approximately 10 days prior to the announced disconnection date asking the customer to pay the arrearage in full. The bookkeeper also calls the customer a day or two ahead of the scheduled disconnect date in order to remind the customer of the need to pay the bill in full or that service will be disconnected. A \$25 reconnect fee will be assessed if the customer is disconnected and subsequently wants to be reconnected.

The EMSD staff reviewed the Stockton Hills tariff, and these measures are contained in the tariff.

Customer Deposits

Given the gradual increase in write-offs, the Company has been very aggressive in collecting customer deposits. According to the Stockton Hills annual reports for the past three years, the ending balance of deposits on hand were \$535 in 2002, \$655 in 2003 and \$955 in 2004.

Management currently requires all renters to pay a customer deposit of \$25 to \$50. According to the President, this stems from the recent problems associated with the timely collection of monthly bills from some of the Company's mobile home renters.

Stockton Hills does not have a current list of customer deposits. A current list of customer deposits can only be obtained by reviewing the accounts receivable ledger for each customer, as the amount of the deposit is listed at the top of each individual customer ledger for those customers who have been assessed a deposit. The date of the customer deposit is not always noted on the customer ledger, so the complete customer

payment history may be necessary to review in order to determine the appropriate interest to be refunded to the customer in addition to the deposit.

The Company's tariff requires that the customer deposit be refunded (with 6% interest) if the customer meets refund eligibility requirements. This can be accomplished typically if the customer has an adequate payment history, usually 12 consecutive months without receiving a late payment warning or disconnect notices.

The bookkeeper could not remember when the last customer deposit was refunded other than when a customer moved out of the Stockton Hills service territory. The bookkeeper also stated that Stockton Hills does not normally pay the 6% interest associated with the customer deposit.

Complaint Handling and Recording

The Company's policy is to have complaints handled by the appropriate personnel as soon as possible. If the complaint is related to a field activity, the plant manager is dispatched to investigate and resolve. If the complaint is related to a billing or payment concern, the bookkeeper is usually able to resolve the matter.

Stockton Hills has not had any formal customer complaints registered with the Commission's Consumer Service Department for the three-year period of August 2002 through July 2005.

Customer Communications

The letter to all customers describing the Company's need for the current request for rate relief was mailed in May 2005. The President stated that any customer messages are normally included in the bill.

Customers can contact Stockton Hills on a 24/7 basis, with after hours calls typically answered at the President's home. The last four digits of the Stockton Hills telephone number is listed on customer receipt portion of the bill, while the telephone numbers for both the Company and President are listed in the local telephone directory. The Company may want to add the area code (417) and the Stockton three-digit prefix (276) to the bill when the next purchase of bill card stock is made.

Findings, Conclusions and Recommendations

The following discussion presents a summary of the findings, conclusions and recommendations regarding the Company's customer service operations. The information presented in this section focuses on the following areas that require management's attention:

- Automation in the business office
- Customer deposit criteria
- Customer deposit log
- Customer deposit refunds

Automation in the Business Office

Stockton Hills currently does not utilize any type of automation regarding the recordkeeping functions associated with its meter reading, customer billing and payment remittance functions. Given the multiple times that bills are calculated and payments are posted, there is a greater potential for human error.

From a timing standpoint, these processes could be now be automated as the July 2005 annual bills have been mailed to those customers and that all that remains is the completion of remittance processing. This would allow Stockton Hills to develop a cost-effective strategy using Microsoft Excel and Word software packages that are currently available on the PC in the President's office. This should also allow the bookkeeper a sufficient amount of time to acquire a comfort level for automating these processes.

The EMSD staff estimates that the amount of time associated with these processes could be reduced by at least 50% once the data is converted. The EMSD staff is willing to assist Stockton Hills on-site should management transition to Microsoft Excel and Word.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Consider automating the record keeping functions using Microsoft Excel and Word software for meter reading, customer billing and payment remittance processes.

Customer Deposit Criteria

The criteria for assessing customer deposits and the amount of the deposit are applied on an inconsistent basis at Stockton Hills. Deposit amounts and deposit criteria may depend more on a customer's location than a customer's credit history.

The EMSD staff believes that very few customers should be charged a deposit given the liberal waivers (have a job, own a home, own a car, or have a utility waiver letter) associated with Chapter 13. As a result, the EMSD staff believes that requiring all Stockton Hills rental customers to pay a deposit is unfair to rental customers with good payment histories.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop a written customer deposit policy to ensure compliance with Commission Rule 4 CSR 240-13.030.

Customer Deposit Log

Stockton Hills does not have a log of customer deposits available for a review on a regular basis. Customer deposit amounts are written on the top of each individual ledger card, which does not facilitate a timely or orderly review of deposits.

The lack of a current customer deposit log could make it difficult for management to review customer deposits on a regular basis and to subsequently make the appropriate refund in a timely manner.

The EMSD staff believes it is appropriate for Stockton Hills to generate a list of customer deposits and to review them on a quarterly basis. Once the review is complete, management can then determine who is eligible for a deposit refund.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Create a log of customer deposits and review the log on a quarterly basis.

Customer Deposit Refunds

Stockton Hills does not refund customer deposits with the appropriate interest on a timely basis. The EMSD staff believes it is appropriate for customer deposits should be refunded to those customers who have had a satisfactory payment history for at least 12

months. This review should be complete and the appropriate refunds (with interest) issued by the end of 2005.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Refund customer deposits in a timely manner and with the appropriate interest.

Memo Attachment 4

Information Regarding DNR Notice of Violation

Compliance Letter (2 pages)

NOV and Related Information (4 pages)

Bilateral Compliance Agreement and Related Information (7 pages)

STATE OF MISSOURI
DEPARTMENT OF NATURAL RESOURCES

Matt Blunt, Governor • Doyle Childers, Director

www.dnr.mo.gov

September 8, 2005

NOTICE OF VIOLATION #11309SW

Ms. Wanda Cassell, President
Stockton Hills Water Company
P. O. Box 276
Stockton, MO 65785

RECEIVED
SEP 12 2005
UTILITY OPERATIONS
DIVISION

Dear Ms. Cassell:

Stockton Hills Water Company public water system has violated the federal and state Safe Drinking Water Law and Regulations as listed below:

The public water system failed to meet microbiological maximum contaminant level requirements during September, October, November, and December 2004; January, February, July, and August 2005.

These violations are also formally listed in the enclosed Notice of Violation NOV#11309SW.

It is the responsibility of this department to take actions to bring your public water system back into compliance with the provisions of the Safe Drinking Water Law. This letter is to inform you that your water system is in violation of safe drinking water law and, as such, may be subject to court actions in the event the deficiencies remain uncorrected.

It is the policy of the Missouri Department of Natural Resources (department) to engage in Conference, Conciliation, and Persuasion (CC&P) in resolving issues of regulatory noncompliance on the part of the public water systems regulated by the department. The Revised Statutes of Missouri RSMo. 640.102(2) defines CC&P as "a process of verbal or written communications consisting of meetings, reports, correspondence, or telephone conferences between authorized representatives of the department and the alleged violator. The process shall, at a minimum, consist of one offer to meet with the alleged violator tendered by the department. During any such meeting the department and the alleged violator shall negotiate in good faith to eliminate the alleged violation and shall attempt to agree upon a plan to achieve compliance."

At this time, we would prefer to pursue a voluntary course of action on your part that would bring the water system back into compliance. Enclosed is a proposed *Bilateral Compliance Agreement* (BCA) which contains a program of events and actions to be accomplished over a twelve-month period that will address and correct the original violations and prevent their

Ms. Wanda Cassell
Stockton Hills Water Company
September 8, 2005
Page 2

recurrence. Read this proposed BCA carefully and if you believe you can satisfy the various provisions within the time frames listed, please sign the document, keep one copy for your records, and send a signed copy (the signature page is all we need) to this office. If you need further explanation of the terms of the BCA or need to negotiate modifications, please contact Ms. Judith Dill of this office to arrange a meeting. We can meet in this office or at your facility. We can also discuss the issues by telephone if you prefer.

Should you choose not to voluntarily enter into a compliance agreement, the department will seek a court judgement to correct the violations through all necessary legal remedies. The department also has the authorization to seek penalties for noncompliance with drinking water laws. To demonstrate your voluntary willingness to comply, you must respond to this letter by signing and returning the BCA or arranging for a meeting to negotiate an alternate BCA within 15 calendar days of the date of this letter. Please note that failure to comply with the terms of a signed and agreed to compliance agreement will also cause us to escalate this to a higher level of enforcement action.

Again, if you have questions or need to negotiate an alternate compliance agreement, please contact Ms. Judith Dill by calling 417-891-4300 or via mail at the Southwest Regional Office, 2040 W. Woodland, Springfield, Missouri, 65807-5912.

Sincerely,

SOUTHWEST REGIONAL OFFICE



Cynthia S. Davies
Interim Regional Director

CSD/jdb

Enclosure

c: Mr. Ian Hafer, Operator
Mr. Dale Johansen, Public Service Commission
Mr. John MacEachen, Enforcement, Public Drinking Water Branch

CEDAR/PDWP
STOCKTON HILLS WATER COMPANY
MO5036164
039.pdwp.StocktonHillsWaterCo.mo5036164.x.2005.09.08.fy06.bca.x.jgd.doc



MISSOURI DEPARTMENT OF NATURAL RESOURCES
NOTICE OF VIOLATION

VIOLATION NUMBER

11309SW

DATE AND TIME ISSUED

September 8, 2005

SOURCE (NAME, ADDRESS, PERMIT NUMBER, LOCATION)

Stockton Hills Water Company

East 1674 Road, Stockton, Missouri

Missouri Public Water System ID# MO5036164

Section 29, Township 34 North, Range 26 West, Cedar County

MAILING ADDRESS

P. O. Box 276

CITY

Stockton

STATE

MO

ZIP CODE

65785

NAME OF OWNER OR MANAGER

Ms. Wanda Cassell

TITLE OF OWNER OR MANAGER

President

LAW, REGULATION OR PERMIT VIOLATED

National Primary Drinking Water Regulations
40 CFR 141.63

Missouri Safe Drinking Water Regulations
10 CSR 60-4.020(7)

NATURE OF VIOLATION

DATE(S):

TIME(S):

The public water system failed to meet the microbiological maximum contaminant levels during September 2004, October 2004, November 2004, December 2004, January 2005, February 2005, July 2005, and August 2005.

SIGNATURE (PERSON RECEIVING NOTICE)

Sent Via US Mail

SIGNATURE (PERSON ISSUING NOTICE)

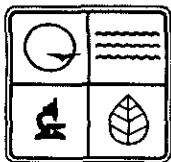
Judith Dill

TITLE OR POSITION

TITLE OR POSITION

Environmental Specialist/SWRO

DISTRIBUTION: SOURCE CENTRAL OFFICE REGIONAL OFFICE



Missouri Department of Natural Resources
Water Protection and Soil Conservation Division
Public Drinking Water Program
P.O. Box 176
Jefferson City, MO 65102-0176



**Notice of Noncompliance
Public Notice Required**

Date of Report: September 7, 2005
PWS Name: STOCKTON HILLS WATER CO
Mail to:
DALE JOHANSEN
PUBLIC SERVICE COMMISSION
PO BOX 360
JEFFERSON CITY, MO 65102-0000

PWS ID: MO5036164

County: CEDAR

RECEIVED
SEP 12 2005
UTILITY OPERATIONS
DIVISION

Please notify us of any name or address changes

The following is a summary of the bacteriological analysis of water samples submitted for the period ending 8/31/2005

Sample Type	No. TC Positive	No. FC or EC Positive
Routine/Repeat	2	

Violation Type:

MCL (TCR), MONTHLY

This is a violation of 10 CSR 60-4.020(7)(A). Two or more samples tested positive for total coliform bacteria.

Required Actions:

1. The enclosures give instructions on how to perform public notice and a copy of the public notice itself to distribute, post and provide to any media.
2. Fill in the appropriate information requested on the certification page and sign where indicated.
3. Make copies of the certification and public notice (as seen by the public) for your files.
4. Send the completed certification and a copy of the public notice (as seen by the public) back to DNR at the address given.

For assistance, contact the SOUTHWEST REG OFFICE - SWRO at 417-891-4300 or the Public Drinking Water Program at (573) 751-5331.

**Instructions for Public Notice
for August, 2005 MCL Violations for Total Coliform Bacteria
Subdivisions and Mobile Home Parks**

DNR Notification Date: 9/7/2005

Date Public Must be Notified by: 10/7/2005

Date to send Public Notification back to DNR by: 10/15/2005

A. Within 30 days you must notify your customers of the maximum contaminant level violation for total coliform bacteria. The following methods must be used:

1. Mail or hand deliver a copy of the public notice to all customers. No waiver is allowed for this part of the public notice requirement.
2. Post the notice in logical places. This may include the laundry room, mail boxes, club house or manager's office, etc.

B. **AFTER** public notice has been made, return a copy of the published, posted, and/or distributed version and the completed certification below to:

Missouri Department of Natural Resources
Public Drinking Water Program
P.O. Box 176
Jefferson City, MO 65102-0176

Please send us this documentation to us within a week after completion of notifying the public. You also need to make copies of the completed certification and public notice for your files. If you have any questions or need any additional information, please call Patty Ritchie, public notice coordinator, directly at (573) 751-8309. You may also contact the Public Drinking Water Program at (573) 751-5331 or DNR's toll-free number at 1-800-361-4827.

CERTIFICATION OF PUBLIC NOTICE

I certify public notice was performed by at the methods checked below:

☐ Hand delivery

Date: _____

☐ Standard Mail

Date: _____

☐ Posting:

Begin Posting Date: _____

End Posting Date: _____

Locations: _____

(Signature)

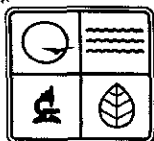
(Title)

(Date)

PWS ID #: MO5036164

System Name: STOCKTON HILLS WATER CO

County: CEDAR



IMPORTANT INFORMATION ABOUT YOUR DRINKING WATER

Tests Show Coliform Bacteria Standard Exceeded
in STOCKTON HILLS WATER CO Water for August, 2005



**Este informe contiene información muy importante sobre su agua potable.
Tradúzcalo o hable con alguien que lo entienda bien.**

Our water system recently violated a drinking water standard for August, 2005. Although this is not an emergency, as our customers, you have a right to know what happened, what you should do, and what we are doing to correct this situation.

We routinely monitor for the presence of drinking water contaminants. The standard is that at small water systems no more than 1 sample may test positive. At larger systems, required to take at least 40 samples a month, no more than 5% of samples may test positive for total coliform bacteria.

What should I do?

1. For this type of violation, boiling drinking water is usually not deemed necessary for the general population. However, if you have specific health concerns, consult your doctor.
2. People with severely compromised immune systems, infants, and some elderly may be at increased risk. These people should seek advice about drinking water from their health care providers. General guidelines on ways to lessen the risk of infection by microbes are available from EPA's Safe Drinking Water Hotline at 1 (800) 426-4791.

What does this mean?

This is not an emergency. If it had been you would have been notified immediately. Total coliform bacteria are generally not harmful themselves. Coliforms are bacteria which are naturally present in the environment and are used as an indicator that other, potentially-harmful, bacteria may be present. Coliforms were found in more samples than allowed and this was a warning of potential problems.

Usually, coliforms are a sign that there could be a problem with the treatment or distribution system (pipes). Whenever we detect coliform bacteria in any sample, we do follow-up testing to see if other bacteria of greater concern, such as fecal coliform or *E. coli*, are present. **We did not find any of these bacteria in our subsequent testing.** If we had, we would have notified you immediately.

What happened? What is being done? (Describe corrective action.)

For more information, please contact water system staff indicated below:

_____ at _____ or _____
(name of water system contact) (phone number) (mailing address)

Additionally you may contact the Missouri Department of Natural Resources' SOUTHWEST REG OFFICE - SWRO at 417-891-4300 or Public Drinking Water Program at (573) 751-5331.

Please share this information with all the other people who drink this water, especially those who may not have received this notice directly (for example, people in apartments, nursing homes, schools, and businesses). You can do this by posting this notice in a public place or distributing copies by hand or mail.

This notice is being sent to you by STOCKTON HILLS WATER CO.
State Water System ID#: MO5036164.

Date mailed or hand delivered: _____

MISSOURI DEPARTMENT OF NATURAL RESOURCES
PUBLIC DRINKING WATER BRANCH
BILATERAL COMPLIANCE AGREEMENT
STOCKTON HILLS WATER COMPANY
CEDAR COUNTY, MISSOURI
PUBLIC WATER SYSTEM ID# MO5036164

September 8, 2005

The Missouri Department of Natural Resources Southwest Regional Office (hereinafter referred to as "the department") and the Stockton Hills Water Company public water system (hereinafter referred to as "public water system") agree to the following statement of facts and agree on the following compliance schedule to correct violations of the Missouri Safe Drinking Water Law and Regulations.

STATEMENT OF FACTS

1. The person in responsible charge of the public water system is Ms. Wanda Cassell, President, Stockton Hills Water Company, P. O. Box 276, Stockton, Missouri, 65785; telephone 417-276-4433.
2. The public water system is located on East 1674 Road in Section 29, Township 34 North, Range 26 West, in Cedar County.

<u>PWS Feature</u>	<u>Location</u>
Well	Latitude 37.65384° North, Longitude 93.80871° West

3. The following is a list of Notice of Violations (NOV's) issued to the public water system during the past 24 months.

<u>NOV Number</u>	<u>Date Issued</u>	<u>Brief Summary of Violations</u>
11309SW	September 8, 2005	Microbiological maximum contaminant level

4. The public water system serves piped water for human consumption to at least 25 residents on a year-round basis and is therefore a community public water system as defined in Safe Drinking Water Regulation 10 CSR 60-2.015.
5. The public water system failed to meet microbiological maximum contaminant levels outlined in Safe Drinking Water Regulation 10 CSR 60-4.020 during September, October, November, and December 2004; January, February, July, and August 2005.

General Provisions -

- A. The term of this compliance schedule shall begin on the date of signature by the person in responsible charge indicating acceptance of the agreement and shall expire on the last day of the month in which the 12-month anniversary of that signature shall occur. This period shall be referred to as the compliance period.

COMPLIANCE SCHEDULE

- B. During the compliance period, it is agreed that the department will not commence any formal litigation for past violations of the Missouri Safe Drinking Water Law or Regulations as stipulated in the Statement of Fact section of this agreement, with the exception that continued violation of those stated regulations would indicate a lack of "good faith effort" in returning to compliance and would jeopardize the validity of this agreement.
- C. Failure to comply with the terms of this agreement shall result in heightened enforcement action by the department to include extension of the term of the compliance period as appropriate, legal prosecution seeking orders for immediate repair/relief and imposition of fines and/or penalties as prescribed by 192.320 RSMo., or referral to the U. S. Environmental Protection Agency (U.S. EPA) for federal enforcement.
- D. In the event of transfer of ownership of this public water system, the terms of this agreement shall be binding on the heirs, successors, assigns, and agents of the current ownership until such time as said terms have been fulfilled and satisfactory to the department.
- E. The public water system shall make public notification for any and all past violations of the Safe Drinking Water Regulations using the required language for the particular violations as prescribed in 10 CSR 60-8.010, including return of the public notice certification to the Missouri Department of Natural Resources Public Drinking Water Branch, P.O. Box 176, Jefferson City, Missouri 65102. Forms for public notification and certification are provided by the Public Drinking Water Branch in Jefferson City. Public notification for any further violations will be made promptly as directed by the department.
- F. The responsible person in charge of the public water system shall adequately maintain and operate the public water system to prevent future violation of the Missouri Safe Drinking Water Law and Regulations.
- G. The responsible person in charge of the public water system shall provide written notice to the department within one week of completion of each of the terms in the Specific Provisions section of this agreement.
- H. In the event that the terms of this agreement are not met according to the specific time frames and 14 days prior to referral of this matter to higher enforcement, the department will provide the public water system with the opportunity to meet and discuss the failure to satisfy terms. If appropriate, the department may modify or extend the time frame necessary to meet the term(s).

- I. At the expiration of the compliance period, if the terms of this agreement have been successfully completed, the department shall issue a letter of notification to the public water system indicating the system has satisfied said terms, that said system has been returned to compliance status, and that the compliance period is formally at an end.
- J. After the compliance period, the public water system shall continue to monitor for contaminants as required by the Missouri Safe Drinking Water Law and Regulations at the frequency specified in the regulations. The public water system further agrees to perform any and all operational and control monitoring as prescribed in the regulations.

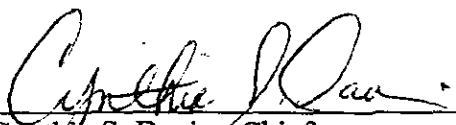
Specific Provisions –

- K. Beginning the date of execution of this compliance schedule, the public water system shall either hand chlorinate or install emergency chlorine disinfection to maintain a minimum free chlorine residual level as directed below. This emergency disinfection shall be maintained until permanent full-time disinfection is installed and operational.
- L. During the compliance period, the public water system shall maintain a minimum free chlorine residual of 0.5 milligrams per liter (mg/L) at the well and a minimum total chlorine residual of 0.2 mg/L in all parts of the distribution system.
- M. During the compliance period, the public water system shall notify the Southwest Regional Office by the end of the next business day of any free chlorine level at the entry point to the distribution that is below 0.5 mg/L and shall also advise the Southwest Regional Office if the time in which the free chlorine level was below 0.5 mg/L exceeded four hours.
- N. During the compliance period, the public water system shall test daily the free chlorine residual at the entrance to the distribution system and record these results in the water operational records. By the 15th day of the following month, the public water system shall submit a photocopy of the free chlorine residual, daily test results from each entry point to the distribution system for each month to the Southwest Regional Office.
- O. During the compliance period, the public water system shall test the total chlorine residual at the site of each routine bacteriological collection and record this information on the sample card and in the water operational records.
- P. After completion of the compliance period, the public water system shall continue to maintain and test for chlorine residuals, report low chlorine levels to the department, and make public notice for low chlorine residuals as required by Safe Drinking Water Regulation 10 CSR 60-4.055.

- Q. Within 90 calendar days of the date of execution of this compliance schedule, the public water system shall submit two copies of an engineering report prepared by a professional engineer registered in Missouri to the Missouri Department of Natural Resources Public Drinking Water Branch, P.O. Box 176, Jefferson City, Missouri 65102, 573-751-5331, for providing public water system improvements designed in accordance with the August 2003 Public Drinking Water Branch *Design Guide for Community Water Systems*. This report shall examine the wells, treatment system, storage facilities, and distribution system for possible causes of the microbiological problem and shall propose corrections for any problems found and shall propose a new source or permanent chlorination facilities including detention that will provide 4_{LOG} (99.99%) virus inactivation for the well if the cause of the microbiological problem is not otherwise identified and corrected.
- R. Within 30 calendar days of receipt of any request for additional information or changes in the engineering report from the Public Drinking Water Branch, the public water system shall submit engineering report modifications to the Public Drinking Water Branch.
- S. Within 120 calendar days of department approval of the engineering report, the public water system shall submit a completed application for a construction permit plus two copies of engineering plans and specifications prepared by a professional engineer registered in Missouri for public water system improvements to the department's Public Drinking Water Branch.
- T. Within 30 calendar days of receipt of any request for additional information or changes in the engineering plans and specifications from the Public Drinking Water Branch, the public water system shall submit engineering plans and specification modifications to the Public Drinking Water Branch.
- U. Within 180 calendar days of Public Drinking Water Branch approval to construct, the public water system shall construct public drinking water system improvements.
- V. Within 21 calendar days of completion of construction of public water system improvements, the public water system shall submit certification by the professional engineer stating that the project has been completed substantially in accordance with the approved plans and specifications to the Public Drinking Water Branch, P.O. Box 176, Jefferson City, Missouri 65102, 573-751-5331.
- W. The public water system shall disinfect and flush the affected portion of the system after each pressure loss, main break repair, new main installation, well pump repair, or tank repair. To the extent practical, the disinfection and flushing shall be done in accordance with American Water Works Association (AWWA) standards. Chlorination guidelines are enclosed.

- X. During the compliance period, the public water system shall submit one routine bacteriological sample each month to the Missouri Department of Health Laboratory (or another laboratory certified by the department for bacteriological examination of water) for analysis. Samples shall be taken at locations identified in the written coliform sampling site plan.
- Y. If any bacteriological samples analyzed during the compliance period are found to be invalid, the public water system shall submit replacement samples within 24 hours of being notified of the result or as directed by the department.
- Z. If any bacteriological samples analyzed during the compliance period are found to be unsafe (total coliform positive), the public water system shall submit four repeat samples for each unsafe sample within 24 hours of being notified of the unsafe sample, or as directed by the department. During the next month following an unsafe sample, the public water system shall submit five routine samples.

SIGNATURES


Cynthia S. Davies, Chief
Water Section
Southwest Regional Office
Missouri Department of Natural Resources

9/8/05

(Date)

(Signature)

(Date)

(Typed or Printed Name)

(Title)

(Public Water System)

Chlorination Guidelines

Mild Chlorination Guidance - allows the water to be used while disinfecting

The amount of chlorine need for any particular well to achieve a 2 mg/L residual can only be determined by experience. For small (6inch diameter) wells it is best to add bleach in $\frac{1}{2}$ gallon increments or HTH in 1/3 pound increments until the 2 mg/L chlorine residual is obtained. Bleach or HTH should be added down the casing vent hole. Do not put bleach or HTH in the pipe coming up from the pump. Rinse after the bleach or HTH addition with a garden hose since the chlorine will rust any metal with which it stays in contact. DO NOT ADD HTH TO WELLS THAT HAVE OIL LUBED VERTICAL SHAFT TURBINE PUMPS. Oil and HTH form an explosive mixture.

For large systems without chlorinators that have unpressurized tanks, disinfection can be done by adding enough chlorine to the storage tank(s) to achieve 2 mg/L free chlorine residual, adding enough chlorine to the wells to obtain a 2 mg/L free chlorine residual then flushing hydrants on large mains beginning near the storage tanks and moving outward until at least a 0.2 mg/L total chlorine residual is obtained at each hydrant. In storage tanks, one gallon of unscented household bleach added to 25,000 gallons of water will result in a 2 mg/L chlorine residual. One pound of 65% active calcium hypochlorite (HTH) added to 39,000 gallons of water will result in a 2 mg/L chlorine residual.

For large systems equipped with chlorinators that have unpressurized tanks, disinfection can be done to increasing the chlorinator feed rate to achieve a 2 mg/L free chlorine residual or adding additional bleach/HTH to the tanks to raise the chlorine level to 2 mg/L then flushing as indicated above.

For small systems without chlorinators that have pressurized tanks, disinfection can be done by adding bleach/HTH to the well(s) to achieve a 2 mg/L free chlorine residual as described above then flushing the system. If fire hydrant/flushing valves are not available, residents can be asked to flush building plumbing until a chlorine odor is observed. On very small systems, the building plumbing taps can be flushed.

For small systems with chlorinators that have pressurized tanks, disinfection can be done by increasing the chlorine feed rate to achieve a 2 mg/L free chlorine residual then flushing the system as indicated above.

The American Water Works Association's standard for disinfecting wells and water mains is on the other side of this form.

The AWWA Standard for Disinfecting Water Mains C651-99 Section 4.7 includes the following:

- a. Isolate the section of main in which the break is located by closing valves and shutting off service connections. Use the distribution system map to choose appropriate valves for isolation and hydrants for flushing.
- b. After excavation, liberally apply hypochlorite (calcium hypochlorite tablets are best) to any water in the trench.
- c. Swab or spray the interior of all pipe and fittings to be used in the repair with 1% hypochlorite solution.
- d. During the repair add sufficient hypochlorite inside the main to result in a 300 ppm chlorine solution. Slowly fill the main after repairs with water and allow the 300 ppm chlorine solution to have contact with the main for 15 minutes or more.
- e. Flush very thoroughly until all discolored water and chlorine are eliminated. If valves and hydrants permit, flush toward the work area from both directions.
- f. Reopen all valves and service connections.
- g. Collect SPECIAL bacteria samples in area affected after all chlorine is eliminated (for unchlorinated systems) or chlorine levels return to normal (for chlorinated systems).

The AWWA Standard for Disinfecting Wells C654-7 includes the following:

- a. Add sufficient hypochlorite to the well through the well vent so that the water in the drill hole contains 50 ppm. Allow 30 minutes for calcium hypochlorite tablets to dissolve. To calculate the amount needed, the diameter of the drill hole, the total well depth, and the static water level are needed.
- b. Surge the well (run for very short periods of time) 3 times to provide some mixing.
- c. Allow the well to rest 12 to 24 hours.
- d. Install temporary piping from the well pump discharge to the casing vent and circulate a portion of the water back down the well while the remaining portion is discharged to waste. Continue until the chlorine residual measures zero then continue an additional 15 minutes.
- e. Collect two samples at least 30 minutes apart while the well is circulating/pumping to waste after the 15 minute period following no chlorine residual is completed. If both samples are found to be free of total coliform, return the well to service. If either sample contains total coliform, repeat disinfection procedure until 2 total coliform free samples are obtained.
- f. It is obvious the AWWA procedure applies to wells that can be left out of service for an extended period. For public water supplies without an adequate number of wells to serve as backup, a much simpler, faster procedure must be used. This will involve chlorinating with a strong dose, pumping to waste until water is clear and contains 3 ppm chlorine or less, returning the well to service and collecting a SPECIAL sample when all traces of chlorine are gone in the raw water. If the SPECIAL sample is total coliform positive, repeat the procedure.