

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

In the Matter of the Request of Evergreen)
Lake Water Company, Inc. for a Rate)
Increase Pursuant to the Commission's)
Small Company Rate Increase Procedure)

Case No. WR-2006-0131

Tariff I.D. No. JW-2006-0233

**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. Evergreen Lake Water Company, Inc. ("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 May 2, 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") negotiated and executed a *Unanimous Agreement Regarding Disposition of Small Water Company Rate Increase Request* ("Disposition Agreement") regarding the Company's Request.

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

3. By a letter that was stamped "Received" at the Commission's offices on September 26, the Company submitted revised tariff sheets to the Commission for the purpose of implementing the provisions of the above-referenced Disposition Agreement, and the instant case was established. (The revised tariff sheets bear a proposed effective date of October 27.)

4. On September 30, the Staff filed the above-referenced Disposition Agreement in the case papers for this case.

5. On October 6, the Company filed a revised tariff sheet including agreed-upon language that could not be included in the tariff sheet until the rate case number established by the filing of the Company's revised tariff sheets was known.

6. 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.

7. 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.

8. 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.

9. 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 13th day of October 2005.

/s/ Keith R. Krueger

Keith R. Krueger

APPENDIX A

STAFF MEMORANDUM & ATTACHMENTS

CASE NO. WR-2006-0131

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Official Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WR-2006-0131 (Tariff Work I.D. No. JW-2006-0233)
Evergreen Lake Water Company, Inc.

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
John Cassidy – Auditing Department
Lisa Hanneken – Auditing Department
Greg Macias – Engineering & Management Services Department
Nila Hagemeyer – Engineering & Management Services Department
Matt Barnes – Financial Analysis Department
James M. Russo – Water & Sewer Department
Steve Jungmeyer – Water & Sewer Department

<u>/s/ Dale W. Johansen</u>	<u>10/13/05</u>
Project Coordinator	Date

<u>/s/ Keith R. Krueger</u>	<u>10/13/05</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: October 13, 2005

BACKGROUND

Evergreen Lake Water Company, Inc. ("Company") initiated the subject small company rate increase request ("Request") by submitting a letter to the Secretary of the Commission, which was received at the Commission's offices on May 2, 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 \$9,550 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; and to provide an adequate return on investment.

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

The Company provides water service to approximately 42 residential customers. The Company's current rates (those resulting from the Company's last rate case) went into effect on January 10, 1993.

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-2005-0007 to the Request. The Company's Request 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 dated May 31, 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 two responses to the Company's initial customer notice, one of which contained references to poor water pressure and bad taste. Steve Jungmeyer of the W/S Dept conducted an investigation regarding the water pressure and bad taste issue raised in the customer response. Mr. Jungmeyer was unable to contact the Mr. Evans listed on the public comment form. A different party lived at the address and the Company's records did not show a Mr. Evans as being a customer of the company. A summary of the customer responses and the results of Mr. Jungmeyer'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 \$4,538 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 August 18, 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 \$4,538 in the Company's annual water operating revenues is necessary; (2) that certain changes to the Company's administrative operations are appropriate; (3) that new depreciation rates need to be prescribed for the Company; (4) 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; (5) that the rates included in the above-referenced agreed-upon tariff revisions are just and reasonable; and (6) that the portion of rates included in the above-referenced agreed-upon tariff revisions related to insurance and a licensed operator are interim, subject to refund, if the Company does not purchase the insurance or hire a licensed operator within 120 days of the effective date of the revised tariff sheets. (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 30 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 September 26, 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 30.)

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, nor has it received any such notices since the end of the test year to the current date.

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 September 26 to be effective for service rendered on and after October 27;
- * 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 |

Memo Attachment 1

Ratemaking Income Statement, Rate Design
Worksheet and Customer Bill Comparison

EVERGREEN LAKE WATER COMPANY

Rate Making Income Statement-Water

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	10,542
2	Other Operating Revenues *	\$	5
3	Total Operating Revenues	\$	10,547

4 * See "Revenues - Current Rates" for Details

Base	Commodity
\$ 2,899	\$ 7,643
	\$ 5
\$ 2,899	\$ 7,648

Cost of Service

Item	Amount
1 Electricity-Pumping	\$ 1,555
2 Chemicals	\$ 120
3 Meter Reading	\$ 720
4 Maintenance Expense-Contract Services	\$ 2,300
5 System Maintenance/Fees	\$ 200
6 Alarm System	\$ 228
7 Administration & General - Salaries	\$ 1,200
8 Insurance	\$ 1,200
9 Bank Fees	\$ 24
10 Professional Services-Accounting	\$ 105
11 Telephone & Pagers	\$ 312
12 Postage	\$ 306
13 Office Supplies	\$ 200
14 Regulatory Commission Expense	\$ 53
15 Miscellaneous General Expenses	\$ 45
16 Sub-Total Operating Expenses	\$ 8,568
17 Property Taxes	\$ -
18 MO Franchise Taxes	\$ -
19 Employer FICA Taxes	\$ 179
20 Federal Unemployment Taxes	\$ -
21 State Unemployment Taxes	\$ -
22 State & Federal Income Taxes	\$ -
23 Sub-Total Taxes	\$ 179
24 Depreciation Expense	\$ 2,624
25 Amortization of Utility Plant	\$ -
26 Sub-Total Depreciation/Amortization	\$ 2,624
27 Return on Rate Base	\$ 3,714
28 Total Cost of Service	\$ 15,085

Base	Commodity
	\$ 1,555
	\$ 120
\$ 720	
	\$ 2,300
	\$ 200
	\$ 228
\$ 1,200	
\$ 1,200	
\$ 24	
\$ 105	
\$ 156.0	\$ 156
\$ 306	
\$ 200	
\$ 26.50	\$ 26.50
45	
\$ 3,983	\$ 4,586
\$ 179	
\$ -	\$ -
\$ 179	\$ -
204	\$ 2,420
\$ -	\$ -
\$ 204	\$ 2,420
\$ 520	\$ 3,194
\$ 4,886	\$ 10,200

25	Overall Revenue Increase Needed	\$	4,538
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\$ 1,987	\$ 2,552
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EVERGREEN LAKE WATER COMPANY

Development of Tariffed Rates-Water

Agreement is to increase currently tariffed rates

Revenues Generated by Current Tariffed Rates	\$ 10,542
Agreed-Upon Overall Revenue Increase	\$ 4,538
Percentage Increase Needed	43.050%

Revenue Requirement Base (Service Charge):	\$ 4,885.50
Customer Equivalents	77
Service charge before commercial adjustment	\$ 5.29
commercial (5.29 + (34x2.29))	\$ 83.15
residential	\$ 7.71
Revenue Requirement Commodity (Usage):	\$ 10,195
Total Annualized Commodity MGallons:	4,962.944
Usage Rate:	\$ 2.05

Metered Customer Rates

Meter Size	Current Service Charge	Proposed Service Charge	Current Usage Rate	Proposed Usage Rate
3/4"	\$ 5.14	\$ 7.71	\$ 1.540	\$ 2.054
1"	\$ 12.85	\$ 18.38	\$ 1.540	\$ 2.054
1 1/2"	\$ 25.69	\$ 83.15	\$ 1.540	\$ 2.054

EVERGREEN LAKE 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>
\$5.14	\$7.71	\$1.540	\$2.054

current service charge is monthly charge

MONTHLY BILL COMPARISON

Current Rates

Service Charge	\$ 5.14
Usage Charge	\$ 9.24
Total Bill	\$ 14.38

Proposed Rates

Service Charge	\$ 7.71
Usage Charge	\$ 12.32
Total Bill	\$ 20.03

INCREASES

Service Charge

\$ Increase	\$2.57
% Increase	50.00%

Usage Charge

\$ Increase	\$3.08
% Increase	33.38%

Total Bill

\$ Increase	\$5.65
% Increase	39.32%

Memo Attachment 2

Revenue Requirement Audit Workpapers

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
EXPENSE SCHEDULE

Line Number	A Description	B Account Number (Optional)	C Company/ Test Year Amount	D Staff Annualized	E Difference (1)	F Adjustment Number
1	OPERATIONS EXPENSES					
2	Management Salary (1)		\$0	\$0	\$0	
3	Support Staff Salary (1)		\$0	\$1,200	\$1,200	W-1
4	Operators Salary/Contract Services (1)		\$0	\$0	\$0	
5	Meter Reading		\$720	\$720	\$0	
6	Payroll Taxes		\$87	\$179	\$92	W-2
7	Electricity-(Pumping)		\$1,466	\$1,555	\$89	W-3
8	Alarm System		\$228	\$228	\$0	
9	Total Operations Expense		\$2,501	\$3,882	\$1,382	
10	MAINTENANCE EXPENSES					
11	Maintenance Salaries/ Contract Services (1)		\$3,783	\$2,300	-\$1,483	W-4
12	Chemicals		\$0	\$120	\$120	W-5
13	System Maintenance/Fees		\$425	\$200	-\$225	W-6
14	Total Maintenance Expense		\$4,208	\$2,620	-\$1,588	
15	ADMINISTRATIVE & GENERAL EXPENSES					
16	Professional Services- Accounting		\$105	\$105	\$0	
17	Telephone & Pagers		\$261	\$312	\$51	W-7
18	Postage		\$300	\$306	\$6	W-8
19	Office Supplies		\$0	\$200	\$200	W-9
20	Bank Fees		\$43	\$24	-\$19	W-10
21	Insurance		\$0	\$1,200	\$1,200	W-11
22	Other Misc. Expenses		\$20	\$45	\$25	W-12
23	Total Administrative and General		\$729	\$2,192	\$1,463	
24	OTHER OPERATING EXPENSES					
25	Taxes Other Than Income					
26	Property		\$0	\$0	\$0	
27	PSC Assessment		\$86	\$53	-\$33	W-13
	Primacy Fees - DNR		\$83	\$0	-\$83	W-14
28	Depreciation		\$2,807	\$2,624	-\$183	W-15
29	TOTAL EXPENSES BEFORE INCOME TAX		\$10,414	\$11,371	\$958	

(1) Automatic Description Required Description Should Provide Breakdown of Salaries

(2) Explained in Expense Adjustments Schedule

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
Expense Adjustment Schedule

A Expense Adjustment Number	B Subset Adjustment	C Adjustment Description	D Account Number	E Adjustment Subtotal (2)	F Total Adjustment Amount
W-1 (1)		Support Staff Salary	0		\$1,200
	A	Office Manager		\$1,200	
	B	Other Office Staff		\$0	
		Total		\$1,200	
W-2 (1)		Payroll Taxes	(Optional)		\$92
	A	Add taxes associated with support staff salary		\$92	
	B	Water Loss Adjustment		\$0	
		Total		\$92	
W-3 (1)		Electricity-(Pumping)	0		\$89
	A	Annualize to 12 month period		\$89	
	B	Other		\$0	
		Total		\$89	
W-4 (1)		Maintenance Salaries/ Contract Services	0		-\$1,483
	A	Removal of Tap ons		-\$2,400	
	B	Adjustment of Maintenance Costs		-\$883	
	C	Contract wages for operator		\$1,800	
		Total		-\$1,483	
W-5 (1)		Chemicals	0		\$120
	A	Annual expense of chlorination		\$120	
	B	Other		\$0	
		Total		-\$2,846	
W-6 (1)		System Maintenance/Fees	0		-\$225
	A	DNR Fees - Annualize to 12 month period		-\$200	
	B	Health Dept. Water Testing - Extraordinary		-\$25	
		Total		-\$2,951	
W-7 (1)		Telephone & Pagers	0		\$51
	A	Annualization		\$51	
	B	Other		\$0	
		Total		\$51	
W-8 (1)		Postage	0		\$6
	A	Annualization		\$6	
	B	Other		\$0	
		Total		\$6	
W-9 (1)		Office Supplies	0		\$200
	A	Annualization		\$200	
	B	Other		\$0	
		Total		\$200	
W-10 (1)		Bank Fees	0		-\$19
	A	Removal of Overdraft Charges		-\$19	
	B	Other		\$0	
		Total		-\$19	
W-11 (1)		Insurance	0		\$1,200
	A	New Policy		\$0	
	B	Other		\$0	
		Total		\$0	
W-12 (1)		Other Misc. Expenses	0		\$25
	A	To annualize corp registration fee for entire year		\$25	
	B	Other		\$0	
		Total		\$25	
W-13 (1)		PSC Assessment	0		-\$33
	A	Current Assessment		-\$33	
	B	Other		\$0	
		Total		-\$33	
W-14 (1)		Primacy Fees - DNR	0		-\$83
	A	This is a direct flow through mechanism		-\$83	
	B	Other		\$0	
		Total		-\$83	
W-15 (1)		Depreciation	0		-\$183
	A	To adjust for plant changes and rate changes		-\$194	
	B	Other		\$0	
		Total		-\$194	
Total Expense Adjustments					\$958

(1) Automatic Description Required Description Should Provide Breakdown of Salaries
(2) From Expense Schedule

Evergreen Lakes Water Company
 Informal Rate Case
 Tracking Number QW-2005-0007
 Test Year Ending March 31, 2005
REVENUE SUMMARY SCHEDULE

ANNUALIZED & NORMALIZED REVENUES

Line Number	<u>A</u> Description	<u>Residential</u>		<u>Commercial</u>		<u>Class #3</u>		<u>Total</u>	
		<u>B</u> Amount	<u>C</u> Amount	<u>D</u> Amount	<u>E</u> Amount	<u>F</u> Amount	<u>G</u> Amount	<u>H</u> Amount	<u>I</u> Amount
1	<u>Customer Charge Revenues:</u>								
2	Customer Number	42		1				43	
3	Customer Bills Per year	504		12				516	
4	Existing Monthly Customer Charge Tariff	<u>\$5.14</u>		<u>\$25.69</u>					
5	Annualized Customer Charge Revenues		\$2,591		\$308				\$2,899
6	<u>Commodity Charge Revenues:</u>								
7	Total Gallons Sold	2,308,050		2,696,100				5,004,150	
8	Less: Base Gallons Included In Customer Charge	<u>-</u>		<u>-</u>				<u>-</u>	
9	Commodity Gallons	2,266,844		2,696,100				5,004,150	
8	Existing Commodity Charge / 1,000 gallons	<u>\$1.54</u>		<u>\$1.54</u>					
9	Annualized Commodity Charge Revenues		<u>\$3,491</u>		<u>\$4,152</u>				<u>\$7,643</u>
10	Total Annualized Water Rate Revenues		\$6,081		\$4,460				\$10,542
11	Miscellaneous Revenues		<u>\$5</u>		<u>\$0</u>				<u>\$5</u> (1)
12	Total Annualized Water Service Revenues		<u>\$6,086</u>		<u>\$4,460</u>				<u>\$10,547</u> (1)

(1) To rate Design Schedule

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
RATE DESIGN SCHEDULE

Rate Making Income Statement - Water

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D	E
	Annualized Revenues	(1)	\$10,547		
1	OPERATIONS EXPENSES	(2)		Customer Charge	Commodity
2	Management Salary (1)		\$0		
3	Support Staff Salary (1)		\$1,200		
4	Operators Salary/Contract Services (1)		\$0		
5	Meter Reading		\$720		
6	Payroll Taxes		\$179		
7	Electricity-(Pumping)		\$1,555		
8	Alarm System		\$228		
9	Total Operations Expense		<u>\$3,882</u>		
10	MAINTENANCE EXPENSES				
11	Maintenance Salaries/ Contract Services (1)		\$2,300		
12	Chemicals		\$120		
13	System Maintenance/Fees		\$200		
14	Total Maintenance Expense		<u>\$2,620</u>		
15	ADMINISTRATIVE & GENERAL EXPENSES				
16	Professional Services- Accounting		\$105		
17	Telephone & Pagers		\$312		
18	Postage		\$306		
19	Office Supplies		\$200		
20	Bank Fees		\$24		
21	Insurance		\$1,200		
22	Other Misc. Expenses		\$45		
23	Total Administrative and General		<u>\$2,192</u>		
24	OTHER OPERATING EXPENSES				
25	Taxes Other Than Income				
26	Property		\$0		
27	PSC Assessment		\$53		
27	Primacy Fees - DNR		\$0		
28	Depreciation		<u>\$2,624</u>		
29	TOTAL EXPENSES BEFORE INCOME TAX		<u>\$11,371</u>		
30	Return on Investment & Current Income Taxes	(3)	<u>3,714</u>		
31	TOTAL COST OF SERVICE		<u>15,085</u>	<u>\$0</u>	<u>\$0</u>
32	Less: Miscellaneous Revenues	(4)	<u>5</u>	<u>5</u>	
33	COST TO RECOVER IN RATES		<u>15,080</u>	<u>-5</u>	<u>0</u>
34	INCREMENTAL INCREASE IN RATE REVENUES		<u>4,538</u>	<u>43.03%</u>	
35	REQUESTED INCREASE IN REVENUES		<u>\$9,550</u>		

- (1) From Revenue Summary
(2) From Expense Schedule
(3) From Rate Base & Return Schedule
(4) From Revenue Summary

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
Rate of Return Including Income Tax

		<u>A</u>		<u>B</u>	<u>formulas</u>
1	State Income Tax Rate Statutory / Effective	<u>6.27%</u>	(2)	<u>5.83%</u>	$(1 - (B2 \times .5)) \times A1$
2	Federal Income Tax Rate Statutory / Effective	<u>15.00%</u>	(1) & (2)	<u>14.13%</u>	$(1 - B1) \times A2$
3	Composite Effective Income Tax Rate			<u>19.95%</u>	$B1 + B2$
4	Equity Tax Factor			<u>1.2493</u>	$1 / (1 - B3)$
5	Recommended Weighted Rate of Return on Equity - Common and Preferred			<u>8.67%</u>	From Capital Struc
6	Weighted Rate of Return on Equity Including Income Tax			<u>10.83%</u>	$B4 \times B5$
7	Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term			<u>0.38%</u>	From Capital Struc
8	Total Weighted Rate of Return Including Income Tax			<u><u>11.21%</u></u>	$B6 + B7$

To Rate Base

(1)

Tax Rate Table

<u>Net Income</u>	<u>Tax Rate</u>
\$0 - 50,000	15%
\$50,001 - 75,000	25%
\$75,001 - 100,000	34%
\$100,001 - 335,000	39%
\$335,001 - and over	34%

(2) Insert 0s For The Tax Rates If Sub-Chapter S Corporation

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
RATE BASE, RETURN on INVESTMENT
and INCOME TAX SCHEDULE

Line Number	<u>A</u> Rate Base Description	<u>B</u> Dollar Amount
1	Plant In Service	\$108,190
2	Less Accumulated Depreciation Reserve	<u>\$75,059</u>
3	Net Plant In Service	\$33,131
4	Other Rate Base Items:	<u>\$0</u>
5	Total Rate Base	\$33,131
6	Total Weighted Rate of Return Including Income Tax	<u>11.21%</u>
7	Required Return & Income Tax	<u>\$3,714</u>

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
Capital Structure Schedule

Line Number	<u>A</u> Description	<u>B</u> Dollar Amount	<u>C</u> Percentage of Total Capital Structure	<u>D</u> Embedded Cost of Capital	<u>E</u> Weighted Cost of Capital
1	Common Stock	\$48,945	94.77%	9.15%	8.672%
2	Preferred Stock	\$0	0.00%	0.00%	0.000%
3	Long Term Debt	\$2,700	5.23%	7.18%	0.375%
4	Short Term Debt	<u>\$0</u>	<u>0.00%</u>	0.00%	<u>0.000%</u>
5	TOTAL CAPITALIZATION	<u><u>\$51,645</u></u>	<u><u>100.00%</u></u>		<u><u>9.0470%</u></u>

To PreTax Return Rate

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
Plant In Service

Line Number	A Account # (Optional)	B Plant Account Description	C Total Plant	D Adjustment Number	E Adjustments	F As Adjusted Plant
1		SOURCE OF SUPPLY PLANT				
2	314	Wells & Springs	\$7,500			\$7,500
3		Total Source of Supply Plant	\$7,500		\$0	\$7,500
4		PUMPING PLANT				
5	321	Structures & Improvements	\$2,200	P - 1	\$450	\$2,650
6	325	Electric Pumping Equipment	\$24,462	P - 2	-\$19,050	\$5,412
7		Total Pumping Plant	\$26,662		-\$18,600	\$8,062
8		WATER TREATMENT PLANT				
9	332	Water Treatment Equipment	\$400			\$400
10		Total Water Treatment Plant	\$400		\$0	\$400
11		TRANSMISSION & DISTRIBUTION PLANT				
12	342	Distribution Reservoirs & Standpipes	\$13,200			\$13,200
13	343	Transmission & Distribution Mains	\$76,853			\$76,853
14	345	Services	\$2,400	P - 3	-\$225	\$2,175
15		Total Trans. & Distribution Plant	\$92,453		-\$225	\$92,228
16		TOTAL PLANT IN SERVICE	\$127,015		-\$18,825	\$108,190

To Rate Base & Depreciation Schedules

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
Schedule of Adjustments for
Plant In Service

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustments Description	<u>C</u> Adjustment Subtotal	<u>D</u> Total Adjustment Amount
P-1	Structures & Improvements - 321		\$450
	Addition - well house roof May 1 2005	\$450	
P-2	Electric Pumping Equipment - 325		(\$19,050)
	Retirement of pump	(\$6,800)	
	To adjust for CIAC- Contingency Fund	(\$12,250)	
P-3	Services - 345		(\$225)
	To adjust for CIAC- Tap ons fee collected	(\$225)	
Total Plant Adjustments			<u><u>-\$18,825</u></u>
		To Plant Schedule	

Evergreen Lakes Water Company
 Informal Rate Case
 Tracking Number QW-2005-0007
 Test Year Ending March 31, 2005
 Accumulated Depreciation Reserve

Line Number	A Account Number	B Depreciation Reserve Description	C Total Reserve	D Adjustment Number	E Adjustments	F As Adjusted Reserve
1		SOURCE OF SUPPLY PLANT				
2	314	Wells & Springs	\$5,038			\$5,038
3		Total Source of Supply Plant	\$5,038		\$0	\$5,038
4		PUMPING PLANT				
5	321	Structures & Improvements	\$2,929			\$2,929
6	325	Electric Pumping Equipment	\$19,029	R - 1	-\$12,506	\$6,523
7		Total Pumping Plant	\$21,958		-\$12,506	\$9,452
8		WATER TREATMENT PLANT				
9	332	Water Treatment Equipment	\$141			\$141
10		Total Water Treatment Plant	\$141		\$0	\$141
11		TRANSMISSION & DISTRIBUTION PLANT				
12	342	Distribution Reservoirs & Standpipes	\$8,888			\$8,888
13	343	Transmission & Distribution Mains	\$51,540			\$51,540
14	345	Services	\$0			\$0
15		Total Trans. & Distribution Plant	\$60,428		\$0	\$60,428
16		TOTAL DEPRECIATION RESERVE	\$87,565		-\$12,506	\$75,059

To Rate Base

Evergreen Lakes Water Company
Informal Rate Case
Tracking Number QW-2005-0007
Test Year Ending March 31, 2005
Schedule of Adjustments for
Accumulated Depreciation Reserve

<u>A</u> Reserve Adjustment Number	<u>B</u> Accumulated Depreciation Reserve Adjustments Description	<u>C</u> Adjustment Subtotal	<u>D</u> Total Adjustment Amount
R - 1	Electric Pumping Equipment - 325		(\$12,506)
	Retirement of pump	(\$6,800)	
	To adjust for CIAC- Contingency Fund	(\$5,706)	
	Total Reserve Adjustments		<u>(\$12,506)</u>
		To Reserve Schedule	

Evergreen Lakes Water Company
 Informal Rate Case
 Tracking Number QW-2005-0007
 Test Year Ending March 31, 2005
 Depreciation Expense

Line Number	A Account Number	B Plant Account Description	C Adjusted Plant	D Depreciation Rate	E Depreciation Expense
1		SOURCE OF SUPPLY PLANT			
2	314	Wells & Springs	\$7,500	2.0000%	\$150
3		Total Source of Supply Plant	<u>\$7,500</u>		<u>\$150</u>
4		PUMPING PLANT			
5	321	Structures & Improvements	\$2,650	0.0000%	\$0
6	325	Electric Pumping Equipment	\$5,412	10.0000%	\$541
7		Total Pumping Plant	<u>\$8,062</u>		<u>\$541</u>
8		WATER TREATMENT PLANT			
9	332	Water Treatment Equipment	\$400	2.9000%	\$12
10		Total Pumping Plant	<u>\$400</u>		<u>\$12</u>
11		TRANSMISSION & DISTRIBUTION PLANT			
12	342	Distribution Reservoirs & Standpipes	\$13,200	2.5000%	\$330
13	343	Transmission & Distribution Mains	\$76,853	2.0000%	\$1,537
14	345	Services	\$2,175	2.5000%	\$54
15		Total Trans. & Distribution Plant	<u>\$92,228</u>		<u>\$1,921</u>
16		Total Depreciation	<u><u>\$108,190</u></u>		<u><u>\$2,624</u></u>
			From Plant	To Income Statement	

Memo Attachment 3

Overview of Company and Customer Service Operations

**Engineering and Management Services Department Report
Customer Service Operations for
Evergreen Lake Water Company
QW-2005-0007**

Nila Hagemeyer – July 19, 2005

The Engineering and Management Services Department (EMSD) staff initiated an informal review of customer service processes, procedures, and practices at Evergreen Lake Water Company (Evergreen or Company) on July 6, 2005. 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:

- Meter Reading
- Customer Billing
- Credit and Collections
- Complaint and Inquiry Handling and Recording
- Customer Communications
- Document Storage
- Security Issues
- Disaster Plan

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

Overview

On June 15, 1970, in Case No. 16,916, the Commission granted Evergreen Lake Water Company, a division of Evergreen Lake, Inc., a certificate of authority to provide water service to customers in Evergreen Lake Subdivision located in Franklin County, Missouri. According to Evergreen's 2004 Annual Report, the well yields 100,000 gallons per day. From this well, Evergreen currently provides water service to 45 residential customers plus one additional meter that serves approximately 40 mobile homes.

Most activities associated with overall Company management and operations are performed by the Secretary, including maintenance to the well house, disconnects for non-pay and subsequent reconnects. The Secretary subcontracts a local service technician on an as-needed basis to perform minor repairs to service lines. Major repairs are performed by Shepherd Well Drilling of Pacific, MO.

The Secretary is also responsible for business office functions and is occasionally assisted by the President/Owner. 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. In general, the Secretary is responsible for accounts receivable and accounts payable. The President/Owner readies water samples to send to DNR for quality testing.

The Secretary stated that the current system was designed to service Evergreen Lake Subdivision's 400 lots. Builders presently purchase two lots for each new house constructed, so according to the Secretary, the system should be adequate to service existing, as well as new customers. In the past year, there has been a 12.5% increase in the number of customers served.

Improvements made in the last two years to the well house include a new roof, a new ceiling, and painted walls. Leaks in the concrete reservoir have also been recently repaired. The Company's short-term plans include continued upgrades to the existing plant, including pipe replacement. Long-term plans include replacing meters and hiring someone to help maintain and oversee the water system.

Meter Reading

A field employee spends approximately four hours reading meters between the 15th and 20th of each month. Readings are recorded by hand or on a tape recorder, then transferred to the customer account cards. On occasion, the meter reader must clean or dip water from the meter wells before the meters can be read. Estimated meter reads are only allowed when snow covers the meters or meter wells are completely flooded.

The pump contains a master meter so the Secretary calculates and compares the amount of water pumped to the amount used on a quarterly basis. Evergreen has lost water due to breaks in the lines and a recent incident when a truck backed over a meter and destroyed it. One incident of theft of water service by a new home builder was discovered, and corrective action was taken.

Evergreen has experienced incidents of tampering with the water system. During the field audit, staff from the Commission's Water and Sewer Department and EMSD observed water gushing from a hose that had been connected to the main that is currently used to release air from the water main. Tampering with the water system has resulted in a substantial loss of water.

On July 19, 2005, staff from the Commission's Water and Sewer Department and EMSD discussed with Company alternatives to alleviate the tampering problem. The Company informed staff that it is in the process of installing an air release valve and eliminating the air release site where tampering has occurred. Installation of the air release valve into a concrete box with a locked metal lid is due to occur by August 1, 2005.

Customer Billing

At one time customers completed applications for water service at the Company office; however, this has not been the practice for several years. The Secretary stated that when a customer moves out of the subdivision, they generally give her the name of the person purchasing their home. In other instances the real estate agent telephones her to establish service for the client purchasing the home. To the Secretary's knowledge, she has never had a problem with fictitious names on any customer accounts. No customers are currently charged deposits.

The Secretary prepares customers' bills using Microsoft Word. Each bill is checked to ensure accuracy before mailing. Customer bills are mailed approximately two days after the meters are read, generally between the 17th and 22nd of each month. Payment is due on the 15th of the following month, giving the customer at least 21 days from rendition of the bill until payment is due in accordance with Commission Rule 4 CSR 240-13.020(7).

Customer bills include the Company name, address, and telephone number, as well as the customer's name, address, billing period, current reading, previous reading, gallons of water used, current bill amount, any previous balance, the balance due, and the rates as listed in Company's tariffs. The EMSD staff reviewed all bills for service rendered from May 24 to June 20, 2005. The tariff rates were applied to the usage rates to determine that the bills rendered were accurate. The EMSD staff's review found that all computations were accurately made according to Evergreen's tariffs.

Credit and Collections

As noted in the previous section, payments are due on the 15th of each month, and customers are considered delinquent after that date. Customers send either their check or money order to Evergreen's Post Office Box. The Secretary posts payments weekly to the appropriate customer account cards and makes bank deposits at least twice a month or more, as deemed necessary.

Evergreen receives approximately two insufficient funds checks each year. When this occurs, the Secretary makes a note on the customer's account card and mails a letter to the customer informing him/her that their check has been returned for insufficient funds. The letter notifies the customer of the bank service fee on the returned check and informs the customer of the total amount needed to rectify the problem.

Nine customer account balances in arrears as of June 20, 2005, totaled \$494.86. In addition, the account that serves the mobile home court in Evergreen Lake Subdivision was 30 days in arrears with a balance of \$390.83. The Secretary explained that the mobile home court manager pays the bill in full, but is always one month late in paying due to collecting from the tenants. Payments are sometimes collected in the field to prevent discontinuance of service.

Although no specific criteria for discontinuing service have been established, when the Secretary deems it necessary to discontinue service for nonpayment, she types a notice on the bottom of the customer's bill stating: "Evergreen Lake Water Company has not received a payment from you since (date). Your past due amount is \$____. If you do not call for payment arrangements or pay the past due amount, your water service will be shut off on (date)." In accordance with PSC rule 4 CSR 240-13.050(5) Evergreen has sent the discontinuance notice at least 10 days prior to discontinuance, but has not been in the practice of attempting to contact customers 24 hours in advance of pending discontinuance to advise them of the discontinuance and the steps that must be taken to avoid it.

The Secretary has disconnected service to four customers for nonpayment during the past year. The disconnections were generally performed on Saturdays. The Secretary only disconnects service when she or the local service technician is available to reconnect service that day and the next. All customers were immediately reconnected upon payment of the entire amount due, plus a \$10 reconnection fee. As the following table illustrates, the amount of uncollectibles for the past two years was:

2003	2004
\$200.00	\$47.97

The uncollectible amount for 2003 was due to a bankruptcy, while the uncollectible amount for 2004 was due to a customer moving out of the area without notification.

Complaint and Inquiry Handling and Recording

The Secretary's home telephone number appears on every bill. If someone is not immediately available, an answering machine takes the message, and the Secretary returns the call shortly.

The Secretary responds to customer inquiries and complaints. The Secretary indicated there had been two recent complaints regarding low water pressure. On rare occasions, customers have shared concerns with the meter reader when she was taking the monthly reads. Currently, no complaint and inquiry log is maintained. The

Commission's Consumer Services Department records indicated that Evergreen had one complaint during 2005, and no complaints in 2002, 2003, and 2004.

Customer Communications

Rate increase messages were communicated to customers through a printed letter sent with the water bills. Evergreen's water quality report was also mailed to customers. When a water main breaks, the Secretary telephones customers to warn them to boil their water. The Secretary also places "boil order" signs at the entrance to the Evergreen Lake Subdivision.

No public meetings of Evergreen are held. Other than the customer calls made to the area office, no indication of the customers' satisfaction level with their service has been determined. No customer surveys have been instituted.

Document Storage

During the EMSD staff's on-site review, the Secretary stated and staff observed that the customers' account cards are not stored in a fireproof safe. Customer billing records are currently kept in a computerized Word document, but are not being copied onto a computer disk and stored in a fireproof safe.

Security Issues

Evergreen has had an alarm on the well house for several years. After the events of 9/11, Evergreen installed a more secure lock on the door to the well house. Residents in the vicinity of the well house have also informed the Secretary of any suspicious vehicles in the area.

Disaster Plan

The Secretary stated they have contacted Pacific Water to provide water in the event it was needed. Pacific Water brought water and poured it into the concrete reservoir on one occasion. Since Evergreen's system is gravity fed, due to the back-up plan with Pacific Water, water service continued to be available for customers.

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:

- Applications for Service
- Complaint and Inquiry Handling and Recording
- Customer Record Storage
- Discontinuance of Service

Applications for Service

Evergreen Lake Water Company does not currently require a written application for service before providing water service to customers. P.S.C.MO. No. 2, Sheet No. 9, Section (a) of Evergreen's tariff states:

A written application for service, signed by the customer, stating the type of service required and accompanied by any other pertinent information, will be required from each customer before service is provided to any unit. Every customer, upon signing an application for any service rendered by the Company, or upon taking of service, shall be considered to have expressed consent to the Company's rates, rules and regulations.

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

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

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

Complaint and Inquiry Handling and Recording

A log of all complaints and inquiries received by Company personnel is not being kept. The Secretary stated that she responds to complaints and inquiries, but does not log

them. The lack of a complaint and inquiry log of all calls makes it difficult for the Company to provide accurate documentation of the nature of its complaints and inquiries.

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

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

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

In addition to compliance with the Commission rule, the availability of documented complaint information is a good tool that would enable Company management to evaluate the reasons 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 and retain the information for at least two years.

Customer Record Storage

Account cards used to manually record customer bills and payments and computerized monthly billing records are not being kept in a fireproof safe. The EMSD staff noted that the Secretary works from her home office and maintains customer account cards and computerized customer billing records at that location.

It is a good practice to keep customer account cards and a backup computer disk of Company billing records in a fireproof safe as it could eliminate the cost and labor-intensive process to re-create lost or destroyed data. Evergreen's computerized monthly billing records contain the customer's name, address, current and previous meter readings, gallons used, current bill, previous balance, and total balance due. Maintaining a monthly backup disk of Company billing records in a fireproof safe, along with the customer account cards, would provide a reasonable set of data should it become necessary.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Maintain customer account cards and a monthly backup disk of computerized Company billing records in a fireproof safe.

Discontinuance of Service

Evergreen does not have established criteria for discontinuance of service. At the present time, nine customer account arrearages total \$494.86, excluding the mobile home court which has an arrearage of \$390.83, but consistently pays one month late. Having established criteria for discontinuance of service when payment has not been received after a certain period of time would enable the Company to take a more consistent and aggressive stance toward discontinuance for nonpayment, thus resulting in the Company being more likely to collect revenues owed. In addition, when customers with arrearage balances realize that Evergreen will consistently disconnect service for nonpayment, they may alter their payment patterns to avoid future discontinuances.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Establish criteria for discontinuance of service, and discontinue service to those customers meeting the established criteria.

Evergreen does not currently contact customers 24 hours in advance of discontinuance to advise them of the pending discontinuance and the steps that must be taken to avoid it. In accordance with PSC rule 4 CSR 240-13.050(5), Evergreen does notify customers in writing of the pending disconnection at least 10 days in advance of disconnection. However, PSC rule 4 CSR 240-13.050(7) takes customer notification one step farther:

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

Attempting to contact customers 24 hours preceding discontinuance will provide one last reminder that disconnection is imminent unless payment is made, thus increasing the likelihood that Evergreen will be able to collect monies owed and avoid discontinuing service.

THE EMSD STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Make reasonable efforts to contact the customer 24 hours before discontinuing service, pursuant to Commission rule 4 CSR 240-13.050(7).