

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

In the Matter of Lake Region Water and Sewer)	
Company's Application to Implement a General)	<u>Case No. SR-2013-0459</u>
Increase in Water and Sewer Service)	

In the Matter of Lake Region Water and Sewer)	
Company's Application to Implement a General)	<u>Case No. WR-2013-0461</u>
Increase in Water and Sewer Service)	

STAFF'S STATEMENT OF POSITION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and for its *Statement of Position* concerning the issues identified in the *Joint List of Issues, Order of Witnesses, Order of Cross-Examination, and Order of Opening Statements* filed on February 7, 2014, as modified per the *Notice of Settlement* filed this day, states as follows:

1. Availability Fees

- a. Should availability fees collected from owners of undeveloped lots in Lake Region's service territory be classified as Lake Region revenue or applied against rate base?

STAFF'S POSITION: Availability fees should be included as revenue in the calculation of rates for Lake Region. Specifically, rates should reflect an annual amount of \$93,136 for Shawnee Bend Sewer and \$139,704 for Shawnee Bend Water. Revenues derived from availability fees are utility-related and intended for utility use. Lake Region is the entity supporting the utility plant facilities and infrastructure that exists in order to provide water and sewer service. The lot owners are paying availability fees in order to support the utility service, which was built for the purpose of providing service to their lots. The entity presently collecting the availability fees, Lake Utility Availability 1, is not providing anything in consideration of the money that is being paid to them by the lot owners and, because it is not a utility, cannot do so.

2. Capital Structure

- a. Should the capital structure for Lake Region be based on its actual capital structure or a hypothetical capital structure?

STAFF'S POSITION: A hypothetical capital structure should be used for Lake Region. Lake Region is financed with 100% debt after giving consideration to the outstanding acquisition loan. Because estimating a fair and reasonable cost of capital becomes more uncertain at extreme levels of leverage, Staff recommended a hypothetical capital structure of 75% debt and 25% equity, which still gives some consideration to the leverage used to finance Lake Region.

- b. If the capital structure for Lake Region should be based on its actual capital structure, what is Lake Region's actual capital structure?

STAFF'S POSITION: Lake Region is financed with 100% debt. Staff determined this by subtracting the long-term debt amount, which includes the acquisition loan and the loan held at Lake Region, from the total capital amount (rate base).

- c. If the capital structure for Lake Region should be based on a hypothetical capital structure, what is a balanced and reasonable capital structure for Lake Region?

STAFF'S POSITION: Staff recommends a hypothetical capital structure of 75% debt and 25% equity. Because estimating a fair and reasonable cost of capital becomes more uncertain at extreme levels of leverage, Staff determined a hypothetical capital structure, which still gives some consideration to the leverage used to finance Lake Region.

3. Return on Equity

- a. What is the appropriate return on equity for Lake Region?

STAFF'S POSITION: The appropriate return on equity for Lake Region is 13.89% if applied to Staff's hypothetical common equity ratio of 25%. Alternatively, if the Commission accepts the capital structure proposed by Lake Region, Staff recommends a lower return on equity of 11.93%.

4. Consulting Fee

- a. Should the consulting fee paid to Lake Region's General Manager, John Summers, be included in the calculation of rates for Lake Region?

STAFF'S POSITION: No. In addition to a base salary, Lake Region includes a consulting fee of \$38,896 (excluding payroll taxes and retirement plan costs) for the General Manager in the Company's payroll costs, which is allocated 30% to Ozark Shores and 70% to Lake Region. This fee has not previously been included in rates. Staff compared the General Manager's base salary against the annual wage for General and Operations Managers for the Central Region as published by the Missouri Economic Research and Information Center (MERIC) and found that the base salary was comparable to the annual wage for an experienced individual. The additional consulting fee is neither a necessary nor

reasonable expense for ratepayers to bear. The consulting fee should not be included in the calculation of rates for Lake Region.

5. Legal Fees

- a. Should the legal fees incurred during the test year for *Shawnee Bend Development Company, LLC v. Lake Region Water & Sewer* be included in the calculation of rates for Lake Region?

STAFF'S POSITION: Staff agrees that the \$15,365 in legal fees incurred by the Company during the test year in defending this appeal were reasonable and should be included in the calculation of rates for Lake Region.

- b. If so, what is the appropriate mechanism for recovery of these costs?

STAFF'S POSITION: Since these expenses are not a normal recurring cost that would otherwise be included in rates indefinitely, Staff has determined that a five-year amortization with a tracker to prevent over-recovery is the appropriate mechanism to recover these expenses.

6. Rental Equipment

- a. What is the appropriate level of rental expense to include for the equipment Lake Region currently rents from Camden County Public Water Supply District 4?

STAFF'S POSITION: The appropriate level of expense for this equipment is \$15,780, which represents the cost for sharing ownership of the equipment, rather than the cost for renting it. The cost of shared ownership is \$3,120 less than the expense of renting the equipment from Camden County Public Water Supply District 4. The Company has been unable to provide any type of usage logs or other evidence to prove the necessity or prudence of the current rental agreement in place between Lake Region and Camden County.

WHEREFORE, Staff respectfully requests the Commission accept this *Statement of Position* concerning the issues identified in the *Joint List of Issues, Order of Witnesses, Order of Cross-Examination, and Order of Opening Statements* filed on February 7, 2014, as modified per the *Notice of Settlement* filed this day.

Respectfully submitted,

/s/ Amy E. Moore

Amy E. Moore
Deputy Counsel
Missouri Bar No. 61759

Tim Opitz
Legal Counsel
Missouri Bar No. 65082

Attorneys for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-4140 (Telephone)
(573) 751-9285 (Fax)
amy.moore@psc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed with first-class postage, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 10th day of February, 2014.

/s/ Amy E. Moore

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