

**FILED<sup>2</sup>**

JUL 8 2019

Missouri Public  
Service Commission

*Exhibit No.:*

*Issue: Staff's Recommendation  
Memorandum*

*Witness: Amanda C. McMellen*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Rebuttal Testimony*

*Case No.: WA-2018-0370*

*Date Testimony Prepared: February 6, 2019*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING DEPARTMENT**

**REBUTTAL TESTIMONY**

**OF**

**AMANDA C. McMELLEN**

**CARL RICHARD MILLS**

**CASE NO. WA-2018-0370** Staff Exhibit No. 100

Date 4/24 Reporter LRB

Jefferson City, Missouri  
February 2019

File No. WA-2018-0370

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**AMANDA C. McMELLEN**  
**CARL RICHARD MILLS**  
**CASE NO. WA-2018-0370**

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1 Memorandum filed on October 11, 2018, attached with this testimony as Appendix A and  
2 Attachments A-E.

3 **OPERATIONS AND MAINTENANCE EXPENSE**

4 Q. Has Staff updated its Operations and Maintenance expense amount for  
5 Carl Richard Mills since the filing of its Recommendation Memorandum?

6 A. Yes, Staff has updated the water testing and bush hogging expense.

7 Q. Why are Staff's changes appropriate for water testing expense?

8 A. Staff originally included \$400 (four quarterly \$100 payments) as was  
9 supported in Appendix F of the Amended Application for Convenience and Necessity filed  
10 on October 2, 2018. However, Company witness Carl Richard Mills filed Direct Testimony  
11 on January 3, 2019, page 10 lines 12-13, which stated, "The drinking water is tested by the  
12 county at least once or twice per year for quality, and has not had a negative report in any  
13 years." Therefore, Staff updated the water testing expense to reflect the most current  
14 information found in Mr. Mills' testimony.

15 Q. Did Staff attempt to verify Mr. Mills' statement concerning water testing?

16 A. Yes. Staff submitted Data Request No. 0010, requesting a copy of all water  
17 testing reports for each year discussed in Mr. Mills' testimony, including invoices or other  
18 documentation to confirm the timing of the water quality tests and the amounts due from  
19 Mr. Mills from January 1, 2016, to December 31, 2018.

20 Q. Did Mr. Mills respond to Staff's Data Request No. 0010?

21 A. Yes, for 2017 and 2018. On January 24, 2019, Mr. Mills submitted two water  
22 testing lab results taken by Stone County Health Department that were taken on 11/21/2018  
23 and 1/11/2017.

Rebuttal Testimony of  
Amanda C. McMellen

1 Q. What was the amount of expense associated with each water test by the Stone  
2 County Health Department?

3 A. Based on the information received from Staff Data Request No. 0010, a  
4 \$15.00 fee is charged for each private drinking water test for coliform bacteria.

5 Q. What is Staff's updated estimated annualized level for water testing?

6 A. Staff's estimated annualized level is \$30, which reflects two water testings per  
7 year at \$15 each.

8 Q. What was Staff's original recommended amount for bush hogging expense?

9 A. Staff originally included \$2,000 (ten times per year at \$20 per occurrence) as  
10 was supported in Appendix F of the Amended Application for Convenience and Necessity  
11 filed on October 2, 2018. However, this cost should have been split in half between the water  
12 and sewer system (Mr. Mills' sewer system is a non-regulated operation). Staff then  
13 calculated an estimated reasonable annualized cost for bush hogging related to water  
14 operations.

15 Q. Why are Staff's changes appropriate for bush hogging expense?

16 A. Staff has included a reasonable estimate for bush-hogging expense by  
17 estimating the annualized total at 30 weeks per year, approximately 15 minutes each time, at  
18 \$50 an hour, including labor and a tractor.

19 Q. What is Staff's updated estimated annualized level for bush hogging expense?

20 A. Staff's estimated annualized total is \$375.

21 Q. What is Staff's updated estimated annualized level for Operations and  
22 Maintenance expense?

23 A. \$2,277. See Attachment D-1 for Staff's updated estimated annualized level  
24 for Operations and Maintenance expense.

Rebuttal Testimony of  
Amanda C. McMellen

- 1 Q. What is the updated flat quarterly rate for water services?
- 2 A. \$271.42.<sup>1</sup>
- 3 Q. Does this conclude your rebuttal testimony?
- 4 A. Yes, it does.

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<sup>1</sup> Staff proposed a flat quarterly rate for water service of \$344.17 in its October 11, 2018, Staff Recommendation. This amount has been updated in Attachment D-1.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Carl R. Mills Trust Certificate )  
of Convenience and Necessity Authorizing it to ) Case No. WA-2018-0370  
Install, Own, Acquire, Construct, Operate, )  
Control, Manage and Maintain Water Systems )  
in Carriage Oaks Estates )

**AFFIDAVIT OF AMANDA C. McMELLEN**

STATE OF MISSOURI     )  
  )  
COUNTY OF COLE     )     ss.

COMES NOW AMANDA C. McMELLEN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony*; and that the same is true and correct according to her best knowledge and belief.

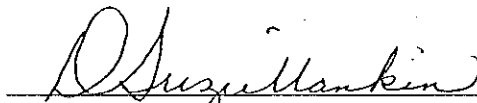
Further the Affiant sayeth not.

  
AMANDA C. McMELLEN

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 6<sup>th</sup> day of February 2019.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2020 Commission Number: 12412070
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Notary Public

**Amanda C. McMellen**  
**Utility Regulatory Auditor V**

**EDUCATION**

Bachelors of Science  
DeVry Institute of Technology, Kansas City, MO-June 1998

**PROFESSIONAL EXPERIENCE**

Missouri Public Service Commission  
Utility Regulatory Auditor V  
February 2013 – Present  
Utility Regulatory Auditor IV  
November 2006 – February 2013  
Utility Regulatory Auditor III  
June 2002 – November 2006  
Utility Regulatory Auditor II  
June 2000 – June 2002  
Utility Regulatory Auditor I  
June 1999 – June 2000

I am a Utility Regulatory Auditor for the Missouri Public Service Commission (Commission). I graduated from the DeVry Institute of Technology in June 1998 with a Bachelor of Science degree in Accounting. Before coming to work at the Commission, I worked as an accounts receivable clerk. I commenced employment with the Commission Staff in June 1999. As a Utility Regulatory Auditor, I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.



## Amanda C. McMellen

### SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Osage Water Company	SR-2000-556	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Osage Water Company	WR-2000-557	Plant in Service Depreciation Reserve Depreciation Expense Operation & Maintenance Expense
Empire District Electric Company	ER-2001-299	Plant in Service Depreciation Reserve Depreciation Expense Cash Working Capital Other Working Capital Rate Case Expense PSC Assessment Advertising Dues, Donations & Contributions
UtiliCorp United, Inc./ d/b/a Missouri Public Service	ER-2001-672	Insurance Injuries and Damages Property Taxes Lobbying Outside Services Maintenance SJLP Related Expenses
BPS Telephone Company	TC-2002-1076	Accounting Schedules Separation Factors Plant in Service Depreciation Reserve Revenues Payroll Payroll Related Benefits Other Expenses

# Amanda C. McMellen

## SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2004-0034	Revenue Annualizations Uncollectibles
Fidelity Telephone Company	IR-2004-0272	Revenue Revenue Related Expenses
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2005-0436	Revenue Annualizations Uncollectibles
Empire District Electric Company	ER-2006-0315	Payroll Payroll Taxes 401(k) Plan Health Care Costs Incentive Compensation Depreciation Expense Amortization Expense Customer Demand Program Deferred State Income Taxes Income Taxes
Aquila, Inc. d/b/a Aquila Networks-MPS & Aquila Networks-L&P	ER-2007-0004	Revenue Annualizations Uncollectibles Maintenance Expenses Turbine Overhaul Maintenance
Empire District Electric Company	ER-2008-0093	Revenues Bad Debts Employee Benefits Tree Trimming Storm Costs Customer Programs Amortizations Current Income Taxes Deferred Income taxes Jurisdictional Allocations Corporate Allocations

# Amanda C. McMellen

## SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Missouri Gas Energy, a Division of Southern Union Company	GR-2009-0355	Staff Report Cost of Service Revenues-Customer Growth Corporate Allocations Other Rate Base Items Amortization Expense Interest expense on customer Deposits Rents and Leases
Missouri-American Water Company	WR-2010-0131	Staff Report Cost of Service Corporate and District Allocations Lobbying Costs Net Negative Salvage Amortization of Regulatory Assets Belleville Lab Expenses Comprehensive Planning Study Payroll Payroll Taxes
Kansas City Power & Light Company	ER-2010-0355	Staff Report Cost of Service Revenues-Customer Growth In-Field Service Fees Gross Receipts Taxes Forfeited Discounts Other Revenues Credit Card Acceptance Program Bad Debts
KCP&L Greater Missouri Operations Company	ER-2010-0356	Staff Report Cost of Service Revenues-Customer Growth Other Revenues Credit Card Acceptance Program Bad Debts
Empire District Electric Company	ER-2011-0004	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Pensions & OPEBs Customer Programs Amortizations Carrying Costs Revenue Annualizations

## Amanda C. McMellen

### SUMMARY OF RATE CASE TESTIMONY FILED

<u>COMPANY</u>	<u>CASE NO.</u>	<u>ISSUES</u>
Empire District Electric Company	ER-2012-0345	Staff Report Cost of Service Plant in Service Depreciation Reserve Depreciation Expense Prepayments Materials and Supplies Customer Demand Programs Amortization of Electric Plant Customer Deposits Customer Advances Carrying Costs Customer Programs Customer Deposit Interest Expense Franchise Taxes Amortizations Banking Fees Lease Expense Pay Station Fees Amortizations
Summit Natural Gas Company of Missouri, Inc.	ER-2014-0086	Corporate Allocations Capitalization Policy MGU Purchase Price SMNG Legacy Asset Valuation Energy Efficiency Programs
Empire District Electric Company	ER-2016-0023	Staff Report Cost of Service Test Year/Update/True-Up Accumulated Deferred Income Taxes SWPA Hydro Reimbursement SPP Revenues and Expenses SPP Transmission Expenses ASM Revenue and Expense Miscellaneous SPP Related Revenues and Expenses Off-System Sales Revenue and Expense Current Income Taxes Deferred Income Taxes Rate Case Expense-Sharing Advertising Dues and Donations SWPA Amortization Tornado AAO Amortization Corporate Expenses Capitalized Depreciation Proposed Acquisition
Laclede Gas Company	GR-2017-0215	Staff Report Cost of Service Revenues Uncollectibles

**Amanda C. McMellen**

**SUMMARY OF RATE CASE TESTIMONY FILED**

<b><u>COMPANY</u></b>	<b><u>CASE NO.</u></b>	<b><u>ISSUES</u></b>
Missouri Gas Energy	GR-2017-0215	Staff Report Cost of Service Revenues Uncollectibles

## MEMORANDUM

**TO:** Missouri Public Service Commission  
Official Case File, Case No. WA-2018-0370

**FROM:** James A. Merciel, Jr - Water and Sewer Department  
Ashley Sarver - Auditing Department  
Deborah Bernsen - Customer Experience Department  
Ben Rankin - Customer Experience Department

/s/ James A. Merciel, Jr. 10-11-18  
Case Coordinator / Date

/s/ Alexandra Klaus 10-11-18  
Staff Counsel's Office / Date

**SUBJECT:** Recommendation of Approval on Amended Application

**DATE:** October 11, 2018

### CASE BACKGROUND

On June 7, 2018, the Carl R. Mills Trust (Mills Trust) filed its *Application for Convenience and Necessity* (Application) with the Missouri Public Service Commission (Commission). Mills Trust seeks a Certificate of Convenience and Necessity (CCN) to provide water service to a subdivision development named Carriage Oaks Estates, near Reed Spring in Stone County, Missouri.

On October 2, 2018, Mr. Carl R. Mills (Mr. Mills or Applicant) submitted in this case an *Amended Application for Convenience and Necessity* (Amended Application). The Amended Application stated that the Mills Trust is Mr. Mills' personal trust, that the Application "wrongfully" listed Mills Trust as the "original owner" of the water system, and the Amended Application now requests that the Commission grant a CCN to Mr. Mills to provide water service.

The Application and Amended Application were filed to comply with the Commission's *Report and Order* in Case No. WC-2017-0037 (ref. EFIS Item No. 91), effective on May 14, 2018, which ordered Mr. Mills to seek a CCN.

On June 29, 2018, several homeowners who are customers of the involved water system<sup>1</sup> submitted an *Application to Intervene*. The Commission granted intervention on July 10, 2018.

### BACKGROUND OF THE WATER SYSTEM

Some background information of this utility operation was submitted by Staff in its *Staff Report and Motion for Mediation* filed in WC-2017-0037 on October 28, 2016 (ref. EFIS No. 15). According to information provided to Staff by Respondents in that case, and observed by Staff in the field, the developed area of Carriage Oaks Estates consists of Phase I with eight (8) lots and

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<sup>1</sup> This current CCN case, as directed by the Commission's Report and Order in WC-2017-0037, pertains only to the water system. Operation of a sewer system in Carriage Oaks was also the subject of WC-2017-0037, but due to its small size was found by the Commission to not be subject to jurisdiction.

Phase II with twenty-four (24) lots, for a total of thirty-two (32) lots. Of these 32 existing lots in the developed area of the subdivision, at present there are seven (7) lots upon which homes have been constructed and which are receiving water and sewer service. Staff observed that water (and sewer) service connection components are visible upon some of the remaining lots, and available for water/sewer connections of future new homes on those lots.

There are also approximately twenty-three (23) acres of additional unplatted land available that could be developed in the future. A proposed Phase III would be included within this undeveloped area and could add approximately twenty-three (23) additional lots.

The water system consists of a single well with current production capacity of fifty-five (55) gallons per minute (gpm), a ground storage tank of an approximate volume of 35,000 gallons, high service pumps to provide distribution system water pressure and bladder type pressure tanks to normalize distribution system pressure. The distribution system is in place for all of the existing 32 lots in the developed area. The system includes meters for six of the seven customers, although at present they are neither being read nor used for billing. Expenses associated with operation of the water system are handled through a homeowners association,<sup>2</sup> another trust Mr. Mills has created, or other entities owned or controlled by Mr. Mills.

#### Utility Property Ownership – Compiled upon advice of Staff Counsel.

As a result of the Commission's decision in WC-2017-0037, and the operation of § 393.190 RSMo, Staff asserts that the amended applicant of the amended application, Mr. Mills, is the proper applicant for the utility currently used to provide service, and is correctly seeking a CCN from the Commission. However, to Staff's knowledge at this time, actual legal title to the utility property is still held by Carriage Oaks Not-for-Profit Water and Sewer Corporation. Mr. Mills will need to obtain legal title to the utility property from Carriage Oaks Not-for-Profit Water and Sewer Corporation, to ensure that he has complete and independent access and control over the entire water system. Therefore, Staff recommends that Mr. Mills re-obtain legal title to the utility property within thirty (30) days after the effective date of an order from the Commission granting a CCN to Mr. Mills, and file a statement of accomplishing such in this case file.

#### STAFF'S INVESTIGATION

##### Service Area

In the Application and Amended Application, the Applicant included a map of the subdivision, and a series of metes and bounds property descriptions, intended to represent the requested service area. However, Staff does not agree that the submitted information is accurate for the purpose of depicting the service area. During Staff's field visit on August 14, 2018, to observe the water system and service area, Mr. Mills provided a better map that adequately illustrates the requested service area. Staff proposes an alternative map as well as new metes and bounds

<sup>2</sup> For detail regarding control of utility expenses, ref. the *Staff Report and Motion for Mediation* filed in WC-2017-0037, EFIS No. 15.

description based on the most recently provided information. Staff's proposed water service area map is shown as Attachment A, and the metes and bounds written description is shown as Attachment B, each included with this Memorandum.

#### Plant-In-Service Balances

Mr. Mills sent Staff invoices for the cost of the storage tank and high-service pumping system constructed in 2015. Records for the cost of plant-in-service constructed during the beginning of the subdivision development, almost 20 years ago, were not provided to Staff. Using this information, some of the information stated in the Application and Amended Application, and its own judgement, Staff created an estimate of water utility plant-in-service, along with an estimated depreciation reserve. Further, this water system was apparently constructed with the intention of providing service to a total of approximately 55 customers in all three development phases as described above. However, since there are only seven customers at present, Staff proposes applying a capacity adjustment as the small fraction of the total customer potential should not be required to pay for the entire capital cost of the water system. Staff's estimated rate base and the capacity adjustment are shown on Attachment C, included with this Memorandum.

#### Rate and Tariff Matters

Staff obtained information for some operating expenses from Mr. Mills, and also calculated or estimated certain operating expenses on a pro-forma basis, to reflect expenses Applicant is likely to incur as a regulated water utility. Staff's summary of expected operating expenses is shown on Attachment D, included with this Memorandum. Based on these expenses, Staff proposes a flat quarterly rate for water service of \$344.17,<sup>3</sup> also shown on Attachment D. Staff acknowledges that this is a high rate for water service. This is primarily due to the fact that there are only (7) seven customers on the system to share the fixed costs of operating the water system. The fixed costs include the electric utility's customer charge portion of the electric bill, the cost of day-to-day routine tasks and undertaking system repairs, all of which are unrelated to both water usage and the number of customer connections.

Staff suggests that Mr. Mills start reading customer meters at least quarterly, read the master meter located in the well house at least weekly, and record all meter readings. There are two reasons for this suggestion: one is to collect water usage information for possible consideration of metered rates in the future, if Mr. Mills intends to propose metered rates; and the other is to be able to analyze distribution system water loss.

Assuming the Commission grants a CCN in this case, the Applicant will need to keep water utility financial records in accordance with the National Association of Regulatory Utility

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<sup>3</sup> Although Applicant proposed a metered rate in its Application and Amended Application, Staff does not have sufficient water usage information to recommend metered water rates at this time. Also, if a metered rate were in place then aging meters may need to be tested or replaced in accordance with Commission rule 4 CSR 240-10.030 (38).



Commissioners (NARUC) Uniform System of Accounts. Staff will offer assistance in setting up records, if such assistance is desired by Mr. Mills.

Applicant will additionally need to submit a water tariff that includes service area depiction, rates, and rules pertaining to water service. Staff will work with Mr. Mills to create the document.

The above mentioned Report and Order in Case No. WC-2017-0037 also required that, “upon obtaining a Certificate of Convenience and Necessity, Carl Mills shall initiate a rate case with the Missouri Public Service Commission.” Staff, having reviewed available financial information, suggests that a rate case filed by Mr. Mills immediately after the granting of a CCN in this current case would be unproductive. The reason is that expense records that exist were reviewed by Staff, with known and estimated expenses included in the recommended rates for this case. Staff recommends that, alternatively, the Commission allow postponement of the requirement to file a rate case for one (1) year after the effective date of a CCN granted to Mr. Mills. This would allow Mr. Mills, as a regulated utility, to properly record all utility-related expenses incurred, including that for billing, along with water usage information. Further, Staff recommends that as a regulated water utility, Mr. Mills make available for audit and review all available invoices, originals or copies, for expenses pertaining to the capital costs of constructing and installing the water utility assets. Staff anticipates that these invoices could belong to Mr. Mills’ other entities including, but not limited to, Carriage Oaks Estates Homeowners Association, Distinctive Designs, Ltd., and Caring Americans Trust Foundation, Inc.

#### Technical, Managerial, and Financial Capacity, and Tartan Energy Criteria

Staff utilizes the concepts of technical, managerial, and financial capacities (TMF) in studying situations involving newly certificated water and/or sewer operations. Mr. Mills will rely on technical consultants for design, construction and major repairs. Mr. Mills oversees or undertakes operations of the water system. Financial resources largely are from Mr. Mills as the developer of the subdivision. Staff observes that the water system appears to be adequately designed and constructed, is in good condition, and customers are not complaining about service issues.

When considering a request for a new CCN, the Commission applies criteria originally developed in Case No. GA-94-127, a CCN case filed by the Tartan Energy Company and referred to now as the “Tartan criteria.” The Tartan criteria contemplate 1) need for service; 2) the utility’s qualifications; 3) the utility’s financial ability; 4) the feasibility of the proposal; and, 5) promotion of the public interest. For its reviews, Staff also analyzes whether or not other utility entities are available to provide similar service. In this situation, no other utilities are readily available to provide water and sewer services.

**(1) Need for Service**

There is a need for service. Existing residential customers have, and possible future residential customers will have, a desire and need for water service. Mr. Mills, through one or more affiliated entities, presently operates an existing water system that is utilized to provide such service, and no other water systems are readily available.

**(2) Applicant's Qualifications**

Mr. Mills has provided safe and adequate water service for this service area in past years. Staff concludes Mr. Mills is sufficiently qualified through experience to provide the service.

**(3) Applicant's Financial Ability**

Staff's observation of current operations indicates that upgrades and repairs that have required financial resources appear to have been adequate in the past. Mr. Mills has primarily used personal financial resources to address upgrades and repairs.

**(4) Economic Feasibility of Proposal**

Mr. Mills' proposal to own and operate the water system serving Carriage Oaks subdivision is economically feasible, based on an observation that operations presently appear to support current expenses. However, if expenses associated with rate base are actually included in rates, then a rate base capacity adjustment similar to Staff's proposal would likely be necessary for feasibility purposes.

**(5) Promotion of the Public Interest**

As the Commission determined in Case No. GA-94-127, positive findings with respect to the other four standards above will in most instances support a finding that an application for a certificate of convenience and necessity will promote the public interest. For the reasons outlined throughout this Memorandum, and considering this operation exists with customers receiving water service at present, with no known service complaints, Staff asserts that Mr. Mills' request for a CCN serves the public interest. Staff concludes that the points regarding TMF capacities and the Tartan Energy criteria are all met for this case.

**Depreciation**

For existing and future plant-in-service, Mr. Mills will need depreciation rates prescribed by the Commission for water utility plant accounts. Staff recommends the Commission approve water depreciation rates similar to those prescribed for most small regulated water systems, as shown on Attachment E, included with this Memorandum.

**Publicity and Customer Notice**

Staff notes that this matter is before the Commission as a result of customers of this water system who filed Case No. WC-2017-0037. The same customers were granted intervention by the Commission in this pending case. Mr. Mills additionally stated to Staff in a data request

response that due to the small size of Carriage Oaks Estates, residents were individually notified of the case pending before the Commission. Therefore, Staff asserts that there is no need for any special customer notice or a local public hearing regarding this proposal. Mr. Mills will need to communicate with customers after the granting of a CCN, as is normal procedure for all regulated water utilities.

#### Customer Experience Department

The Customer Experience Department (CXD) submitted a number of data requests to determine the present operating practices of the water system and entities related to providing customer service. The transition to becoming a regulated utility will necessitate a number of changes from the water system's current customer service practices, including billing and payment processing. Mr. Mills will be required to comply with the provisions of 4 CSR 240-13 (Chapter 13) which governs billing, meter reading, payment, discontinuance of service, and other customer service processes.

At the present time, all customer service functions, including billing for water service, are performed within the activities connected to the Carriage Oaks Estates Homeowners Association (HOA). Currently, the HOA issues an annual assessment that covers, among other things, the water service. Historically the assessment was delivered to the residents by Mr. Mills. The most recent HOA assessment for 2017 was \$2,100.00 per lot; however, the bills are not itemized and it is not possible to determine what portion of the assessment is for the operation of the water system. As a regulated utility, Mr. Mills will be required to produce monthly or quarterly bills for his water customers that specifically delineate the water charges and follows the requirements of Chapter 13.

Mr. Mills states he currently handles customer service inquiries himself under an "open door policy" and is available to customers "seven (7) days a week within reasonable hours." Mr. Mills has informed Staff that he "fully intends to turn over the operation of the water system to an independent third party as soon as possible." Mr. Mills has asserted that many of the current customer service practices, such as his "open door policy," will change once a contract manager becomes involved with regulated water utility business matters for Mr. Mills. Staff notes that even if contract operations and/or contract management are utilized by Mr. Mills, all regulatory requirements will remain with Mr. Mills, as the regulated water utility. At the time of this memorandum, Staff has not reviewed any contract for proposed management, and has not included any cost of contract management in proposed rates.

CXD Staff sent a letter to Mr. Mills dated August 1, 2018, which included a copy of Chapter 13 along with some explanations of various rule requirements. CXD Staff participated in phone calls with Mr. Mills to assist in his understanding of the rules pertaining to customer service functions. In addition, CXD Staff has offered to share documents that may provide guidance to Mr. Mills in meeting various requirements of the rules.

### REGULATORY COMPLIANCE ISSUES

Staff notes that, assuming the Commission grants a CCN to be a regulated water utility, Mr. Mills will have obligations that include compliance with various regulations, including but not limited to 4 CSR 240 Chapters 3, 10, 13 and 50. Some specific items include keeping the aforementioned tariff current with any changes to requirements of customers, maintaining water quality to meet state and federal drinking water standards, complying with requirements for regularly occurring filings such as annual reports, developing customer billing procedures, the aforementioned recording of expenses in accordance with the Uniform System of Accounts, and the payment of annual assessments imposed by the Commission.

### STAFF'S RECOMMENDATIONS AND CONCLUSIONS

Staff's position, based on its review as described herein, is that the proposal for a new CCN issued to Mr. Mills to provide water service, along with approval of service area, rates, and depreciation rates as described in this Memorandum, serves the public interest as the operations providing service and the customers receiving the same will receive the attendant benefits of rate regulation and oversight; and, Staff recommends approval, with the conditions as outlined below.

### STAFF'S RECOMMENDATIONS

Staff recommends that the Commission:

1. Grant Mr. Mills a CCN to provide water service;
2. Approve the water service area depicted by the map and metes and bounds description included with this Memorandum;
3. Approve a quarterly flat rate for water service of \$344.17;
4. Require Mr. Mills, as a regulated water utility, to follow all applicable requirements pertaining to regulated water utilities;
5. Require Mr. Mills, as a regulated water utility, to create and keep financial books and records for plant-in-service, revenues, and operating expenses (including invoices) in accordance with the NARUC Uniform System of Accounts;
6. Require Mr. Mills to, going forward, keep and make available for audit and review all invoices and documents pertaining to the capital costs of constructing and installing the water utility assets;
7. Approve depreciation rates for water utility plant accounts as described and shown herein;
8. Require Mr. Mills to submit a complete tariff for water service, as a thirty (30) day filing, within ten (10) days after the effective date of approval of a CCN by the Commission;

9. Require Mr. Mills, as the regulated water utility, to submit information in this case file indicating he owns pertinent water utility real estate, and has access and control of water-related utility easements throughout the service area, within thirty (30) days after the effective date of approval of a CCN by the Commission;
10. Extend the requirement for Mr. Mills to submit a rate case before the Commission upon issuance of a CCN, as ordered in the Commission's *Report and Order* issued in WC-2017-0037, to submitting a rate case one year after the effective date of the issuance of a CCN in this case;
11. Make no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters in any later proceeding;
12. Require Mr. Mills to distribute to all customers an informational brochure detailing the rights and responsibilities of the utility and its customers regarding its water service, consistent with the requirements of Commission Rule 4 CSR 240-13, within thirty (30) days after the effective date of approval of a CCN by the Commission;
13. Require Mr. Mills to provide to the CXD Staff a sample of three (3) bills from the first billing cycle after the effective date of approval of a CCN by the Commission; and,
14. Require Mr. Mills to file notice in this case once Staff recommendations Nos. 12-13 above have been completed.

Staff will submit a further recommendation regarding a water tariff to be filed by Mr. Mills in this matter.

Attachments:

- A: Proposed Revised Water Service Area Map
- B: Proposed Revised Water Service Area Description
- C: Staff's Estimated Plant-in-Service Accounts, Rate Base, and Capacity Adjustment
- D: Staff's Estimated Expenses and Rate Calculation
- E: Schedule of Depreciation Rates for Water Plant



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

In the Matter of Carl R. Mills Trust for a	)	
Certificate of Convenience and Necessity	)	
Necessity Authorizing it to Install, Own, Acquire,	)	<u>Case No. WA-2018-0370</u>
Construct, Operate, Control, Manage and	)	
Maintain Water Systems in Carriage Oaks	)	
Estates	)	

**AFFIDAVIT OF JAMES A. MERCIEL, JR.**

State of Missouri    )  
                              ) ss.  
County of Cole        )

COMES NOW James A. Merciel, Jr., and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Staff Memorandum; and that the same is true and correct according to his best knowledge and belief.

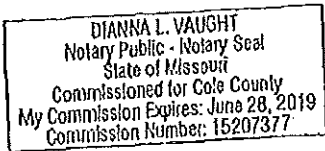
Further the Affiant sayeth not.

  
\_\_\_\_\_  
James A. Merciel, Jr.

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11<sup>th</sup> day of October, 2018.

  
\_\_\_\_\_  
NOTARY PUBLIC







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

In the Matter of Carl R. Mills Trust for a                     )  
 Certificate of Convenience and Necessity                   )  
 Necessity Authorizing it to Install, Own, Acquire,       )  
 Construct, Operate, Control, Manage and                   )  
 Maintain Water Systems in Carriage Oaks                   )  
 Estates   )

Case No. WA-2018-0370

**AFFIDAVIT OF ASHLEY SARVER**

State of Missouri    )  
                             ) ss.  
 County of Cole      )

COMES NOW Ashley Sarver, and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Memorandum; and that the same is true and correct according to her best knowledge and belief.

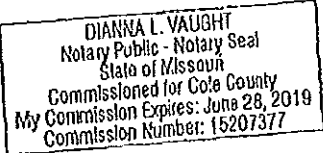
Further the Affiant sayeth not.

*Ashley Sarver*  
 Ashley Sarver

**JURAT**

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11<sup>th</sup> day of October, 2018.

*Dianna L. Vaughn*  
 NOTARY PUBLIC



# Carriage Oaks Service Area Map

## How to Find and Download Products

Box/Print  Current Extent  Coordinates  Located Point  Polygon

Map Indices  
Users can find products in the following steps. (Tutorial Videos)  
 1 Degree  15 Minute  7.5 Minute  All Zoom in to make 7.5 min indices visible

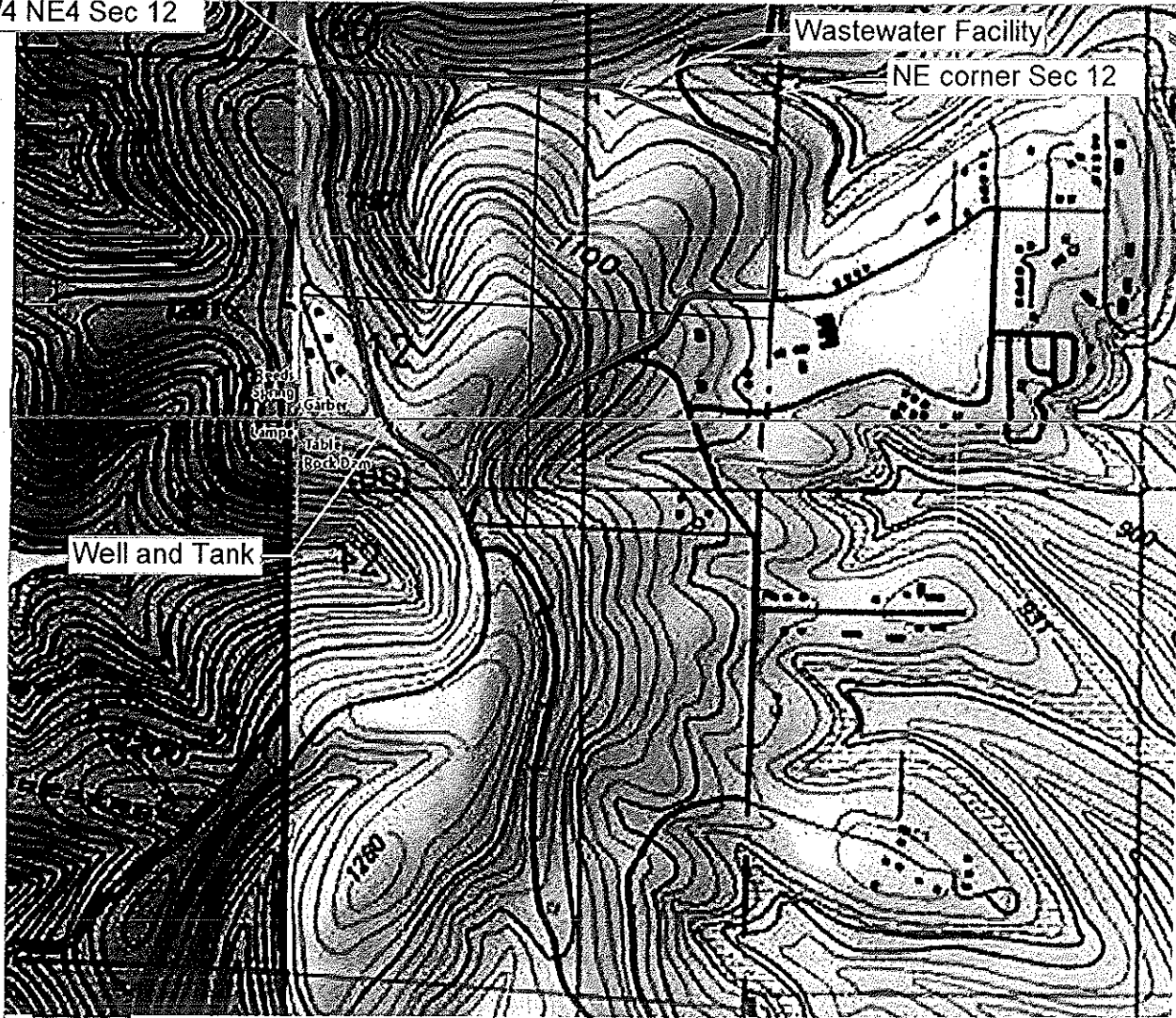
Address: [Using The National Map Download Client](#)

Download: [Downloading Data with The National Map Download Client](#)

Search: [Downloading Maps with The National Map Download Client](#)

Go: [Using The National Map Download Manager](#)

POB - NW corner  
NW4 NE4 Sec 12



- \*1: Click to show/hide the footprint on the map.
- \*2: Click to show/hide the thumbnail on the map.
- \*3: Click to zoom to the footprint.
- \*4: Click to display the metadata.
- \*5: Click to download the product.
- \*6: Save URLs of all items (max. 5000 items) to a text file.
- \*7: Save all items (max 5000 items) to a CSV file.

\*+ to add the item to the Cart.  
\*- to remove the item from the Cart.

## Attachment A

**WA-2018-0370**  
**Carriage Oaks Service Area**  
**Attachment Page 1 of 2**

(Revised Sept 21, 2018)

Beginning at the NW corner of the NW quarter of the NE quarter of Section 12 T22 R23, Stone County Missouri; thence along the north line of Section 12 S 87°31'18"E 8.80 feet to the true Point of Beginning;

Thence continuing westerly along the north line of Section 12 S 87°31'18"E 1,301.2 feet to the NW corner of the NE quarter of the NE quarter of Section 12;

Thence continuing along the said north line of Section 12 S87°23'00" 332.45 feet to US Corp of Engineers monument 211-1-6;

Thence S67°19'40"E 309.60 feet to US Corp of Engineers monument 211-1-6A;

Thence S67°19'40"E 754.98 feet to US Corp of Engineers monument B211-1-7 and the east line of Section 12;

Thence southerly along the said east section line S01°49'05"W 334.93 feet to US Corp of Engineers monument B211-1-7A;

Thence continuing along the said east section line S01°49'05"W 510.15 feet to a point;

Thence departing the said east section line along Road DD-20 N85°28'09"W 200.00 feet;

Thence N81°49'18"W 175.32 feet;

Thence along a curve to the left with a radius 175.01 feet, an arc distance 241.96 feet and change in direction 79°12'56";

Thence S18°57'46"W 102.99 feet;

Thence S34°51'00"W 102.63 feet;

Thence S65°25'00"W 435.94 feet;

Thence S57°22'00"W 267.17 feet;

Thence S48°48'00"W 540.61 feet;

Thence S14°13'00"W 216.79 feet;

Thence S62°59'46"W 63.25 feet to a point at the intersection of said road DD-20 and MO State Highway DD;

Thence northwesterly along said Highway DD N24°03'59"W 99.18 feet;

**WA-2018-0370**  
**Carriage Oaks Service Area**  
**Attachment Page 2 of 2**

Thence along a curve to the left with a radius 405.13 feet, an arc distance 193.34 feet and change in direction 27°20'36";

Thence N51°24'35"W 187.30 feet;

Thence along a curve to the right with a radius 538.69 feet, an arc distance 348.65 feet and change in direction 37°05'00";

Thence N14°19'35"W 356.88 feet;

Thence N14°27'49"W 333.46 feet;

Thence N12°57'35"W 356.98 feet;

Thence along a curve to the right with a radius 681.78 feet, an arc distance 238.98 feet and change in direction 20°05'00";

Thence N07°07'25"E 210.21 feet;

Thence along a curve to the left with a radius 672.27 feet, an arc distance 320.52 feet and change in direction 27°19'00";

Thence N20°11'35"W 85.44 feet, to the Point of Beginning;

**Carriage Oaks**

WA-2018-0370

**rate base estimate**  
With Capacity Adjustment

Staff estimated rate base

Account Description	Acct No	Plant in Service		Depreciation Expense				Reserve Balance	Reserve		Net Plant 2018	Capacity Net Plant 2018	
		estimated original	Capacity END PIS	vintage	%	annual depr expense	Capacity End Dep Exp	2018	Capacity End Reserve				
Land and Land Rights	301-310	\$15,000	\$1,808		0.0		\$0		\$0	\$15,000	\$1,000		
Structures and Improvements	311	\$6,800	\$865	2000	2.5	\$170	\$22	\$3,000	\$389	\$3,740	\$476		
Wells and Springs	314	\$83,000	\$10,564	2000	2.0	\$1,600	\$211	\$28,880	\$3,803	\$53,120	\$8,761	\$93,000 for entire well system - allocate out	
Supply mains	316			ignore	2.0								
Electrical - well pump	325	\$3,000	\$382	2000	10.0	\$300	\$36	\$3,000	\$382	\$0	\$0	entire account is depreciated	
hl service electrical	325	\$3,000	\$382	2015	10.0	\$300	\$36	\$3,000	\$382	\$0	\$0		
Electric Submersible Pumping	325.1	\$8,000	\$764	2000	10.0	\$800	\$76	\$8,000	\$764	\$0	\$0	\$0 depreciated	
High Service pumping	325.2	\$9,850	\$1,286	2015	6.7	\$887	\$85	\$2,000	\$255	\$7,850	\$1,012	\$9,850 for entire high service setup - allocate out	
Water Treatment Equip	332	\$1,000	\$127	2000	2.0	\$28	\$4	\$522	\$68	\$479	\$81	chlorinator	
Dist Reservoirs and Standpipes	342	\$28,500	\$3,755	2015	2.5	\$738	\$94	\$2,213	\$282	\$27,288	\$3,473	30,000 gallons	
Trans & Dist Mains	343	nao			2.0		\$0	\$0	\$0		\$0		
Services	345	\$13,750	\$1,750	2002	2.5	\$344	\$44	\$5,500	\$700	\$8,250	\$1,050	estimate 25 ft ave \$10.00 per foot per customer	
Meters	346			ignore	10.0							depreciated, and not being used	
Meter Installation Cost (~1m)	347	\$11,000	\$1,400	2002	2.5	\$275	\$35	\$4,400	\$560	\$6,600	\$840	estimate \$200.00 per customer	
Hydrants	348				2.0								
Office Furniture & Equip	381/372				5.0								
Office Computer Equip	381.1/372.1				14.3								
Transportation Equip	382/373				13.0								
Stores Equipment	393				4.0								
Tools, Shop, Garage Equip	394				5.0								
Laboratory Equip	395				5.0								
Power Operated Equip	398				6.7								
Communications Equip	397				6.7								
Other General Equipment	379				6.7								
<b>TOTALS</b>		<b>\$182,000</b>	<b>\$23,164</b>							<b>\$122,420</b>	<b>\$15,581</b>	<b>total net plant-total rate base</b>	
		plant-in-service (excluding mains)											
						\$5,082	\$647	\$59,574	\$7,582				

capacity adjustment - exclude per-customer items  
55  
7

lots total  
customers at present

plant in service	\$ 182,000
current total rate base	\$ 122,420
capacity adj rate base	\$ 15,581

\$2,225.80 per customer

capacity adjustment is based on the ratio of present customers to total lots  
this is the "developer-style" capacity adjustment calculation

<b>PLANT IN SERVICE</b>	<b>\$23,164</b>	<b>DEPRECIATION EXPENSE</b>	<b>\$647</b>	<b>RESERVE</b>	<b>\$7,582</b>	<b>RATE BASE</b>	<b>\$15,581</b>
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NOTE: Plant in Service is overstated, due to an assumption that services and meter settings are in place for all 55 lots.

This assumption is used in order to easily compute the capacity adjustment  
Service and meter settings likely exist only for the 32 developed lots  
This overstating does not impact rates, if the capacity adjustment is included in rate calculations.

Return on Rate Base \$ 1,277.64

**Carl R. Mills - Carriage Oaks WA-2018-0370**

**COST OF SERVICE**

<u>Expense</u>	<u>Amount</u>
Operations & Maintenance - Outside Services Employed	\$4,314.00
Maintenance (Estimate)	\$300.00
Billing (Quarterly)	\$76.74
Chemical Expense (Estimate)	\$51.10
Electricity Expense	\$2,882.67
PSC Assessment (1.01654078% of revenue)	\$87.72
Depreciation Expense	\$646.84
Weighted Return on Rate Base (8.20%)	\$1,277.64
<b>Total Annual Cost of Service - Water</b>	<b>\$9,636.70</b>

Quarterly Flat Rate \$ 344.17

7 customers

**Carl R. Mills**  
**SCHEDULE of DEPRECIATION RATES**  
**(WATER Class C & D)**  
**WA-2018-0370**

NARUC USOA ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)	NET SALVAGE
<b>Source of Supply</b>				
311	Structures & Improvements	2.5%	44	-10%
314	Wells & Springs	2.0%	55	-8%
<b>Pumping Plant</b>				
321	Structures & Improvements	2.5%	44	-10%
325.1	Submersible Pumping Equipment	10.0%	12	-20%
325.2	High Service or Booster Pumping Equip.	6.7%	15	0%
<b>WaterTreatment Plant</b>				
331	Structures & Improvements	2.5%	44	-10%
332	Water Treatment Equipment	2.9%	35	0%
<b>Transmission and Distribution</b>				
342	Distribution Reservoirs & Standpipes	2.5%	42	-5%
343	Transmission & Distribution Mains	2.0%	50	0%
345	Customer Services	2.5%	40	0%
346.1	Customer Meters, Plastic Compnents	10.0%	10	0%
347	Customer Meter Pits & Installation	2.5%	40	0%
348	Hydrants	2.0%	50	0%
<b>General Plant CLASS D</b>				
371	Structures & Improvements	2.5%	40	0%
372	Office Furniture & Equipment	5.0%	20	0%
372.1	Office Electronic & Computer Equip.	20.0%	5	0%
373	Transportation Equipment	13.0%	7	9%
379	Other General Equipment (tools, shop equip., backhoes, trenchers, etc.)	6.7%	13	13%

**Carl R. Mills - Carriage Oaks WA-2018-0370**

**COST OF SERVICE**

<u>Expense</u>	<u>Amount</u>
Operations & Maintenance - Outside Services Employed	\$2,277.00
Maintenance (Estimate)	\$300.00
Billing (Quarterly)	\$76.74
Chemical Expense (Estimate)	\$51.10
Electricity Expense	\$2,882.67
PSC Assessment (1.01654078% of revenue)	\$87.72
Depreciation Expense	\$646.84
Weighted Return on Rate Base (8.20%)	\$1,277.64
<b>Total Annual Cost of Service - Water</b>	<b>\$7,599.70</b>

Quarterly Flat Rate \$ 271.42

7 customers