

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



In the Matter of the Water Rate Request of)
Hillcrest Utility Operating Company, Inc.)

File No. WR-2016-0064 et al.

REPORT AND ORDER

Issue Date: July 12, 2016

Effective Date: August 11, 2016

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APPEARANCES

HILLCREST UTILITY OPERATING COMPANY, INC.:

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STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION:

Whitney Payne, Legal Counsel, **Jacob Westen**, Senior Staff Counsel, Post Office Box 360, Governor Office Building, 200 Madison Street, Jefferson City, Missouri 65102.

OFFICE OF THE PUBLIC COUNSEL:

Cydney D. Mayfield, Deputy Counsel, PO Box 2230, Jefferson City, Missouri, 65102.

SENIOR REGULATORY LAW JUDGE: Michael Bushmann

REPORT AND ORDER

I. Procedural History

A. Case Filing and Consolidation

On September 15, 2015, Hillcrest Utility Operating Company, Inc. (“Hillcrest”) filed a letter with the Missouri Public Service Commission (“Commission”) requesting that the Commission approve increases in its annual water and sewer operating revenues, which resulted in the Commission opening two cases, File Nos. WR-2016-0064 and SR-2016-0065. The case was initiated under Commission Rule 4 CSR 240-3.050, which describes the procedures by which small utilities, such as Hillcrest, may request increases in their overall annual operating revenues. On October 9, 2015, the Commission’s Staff filed a *Motion to Consolidate*, which requested that the Commission consolidate the two cases in the interests of administrative efficiency and economy of resources. The Commission granted the motion, consolidating both cases under File No. WR-2016-0064.

B. Test Period

The test period is a central component in the ratemaking process. Rates are usually established based upon a historical test year which focuses on four factors: (1) the rate of return the utility has an opportunity to earn; (2) the rate base upon which a return may be earned; (3) the depreciation costs of plant and equipment; and (4) allowable operating expenses.¹ From these four factors is calculated the “revenue requirement,” which, in the context of rate setting, is the amount of revenue ratepayers must generate to pay the costs of producing the utility service they receive while yielding a reasonable rate of return to the

¹ *State ex rel. Union Electric Company v. Public Service Comm’n*, 765 S.W.2d 618, 622 (Mo. App. 1988).

investors.² A historical test year is used because the past expenses of a utility can be used as a basis for determining what rate is reasonable to be charged in the future.³ Because Hillcrest's parent company acquired the water and sewer system in March 2015, Staff used a test period in this case of the four months ending July 31, 2015, with an update period through October 31, 2015, to annualize the available Hillcrest revenue and expense information and develop its revenue requirement recommendation in this case.

C. Local Public Hearing

On February 18, 2016, the Office of the Public Counsel requested that the Commission schedule a local public hearing to give Hillcrest's customers an opportunity to respond to the requested rate increase. The Commission conducted a local public hearing in Cape Girardeau, Missouri, on March 9, 2016.⁴

D. Disposition Agreements

On March 25, 2016, the Commission's Staff and Hillcrest filed *Company/Staff Partial Agreement Regarding Disposition of Small Water Company Revenue Increase Request* and *Company/Staff Partial Agreement Regarding Disposition of Small Sewer Company Revenue Increase Request*, including various attachments related to the disposition agreements (collectively, the "Agreement"). The Agreement was a partial resolution of Hillcrest's water and sewer rate requests but left unresolved certain other issues for which Staff and Hillcrest requested an evidentiary hearing. The Office of the Public Counsel objected to the Agreement, so the Agreement became a joint position statement of the

² *State ex rel. Capital City Water Co. v. Public Service Comm'n*, 850 S.W.2d 903, 916 n. 1 (Mo. App. 1993).

³ See, *State ex rel. Utility Consumers' Council of Missouri, Inc. v. Public Service Comm'n*, 585 S.W.2d 41, 59 (Mo. banc 1979).

⁴ Transcript, Vol 1.

signatory parties, and all the issues addressed in the Agreement remained for determination after hearing.⁵

E. Evidentiary Hearing

The evidentiary hearing was held on May 19, 2016.⁶ During the hearing, the parties presented evidence relating to the unresolved issues previously identified by the parties.

F. Case Submission

During the evidentiary hearing held at the Commission's offices in Jefferson City, Missouri, the Commission admitted the testimony of eight witnesses and received twenty-seven exhibits into evidence. Post-hearing briefs were filed according to the post-hearing procedural schedule. The final post-hearing briefs were filed on June 15, 2016, and the case was deemed submitted for the Commission's decision on that date.⁷

II. General Matters

A. General Findings of Fact

1. Hillcrest Utility Operating Company, Inc. ("Hillcrest"), which holds the utility assets, is wholly owned by Hillcrest Utility Holding Company, Inc., which is wholly owned by First Round CSWR, LLC, which is managed by Central States Water Resources, Inc.⁸ Hillcrest provides water and sewer service to approximately 218 residential customers, twenty apartment customers, and four commercial customers located in Cape Girardeau County, Missouri.⁹

⁵ Commission Rule 4 CSR 240-2.115(2)(D).

⁶ Transcript, Vols. 2 and 3.

⁷ "The record of a case shall stand submitted for consideration by the commission after the recording of all evidence or, if applicable, after the filing of briefs or the presentation of oral argument." Commission Rule 4 CSR 240-2.150(1).

⁸ Staff Ex. 6, Griffin Rebuttal, p. 8.

⁹ Hillcrest Ex. 1, Cox Direct, p. 4.

2. The Office of the Public Counsel (“Public Counsel”) is a party to this case pursuant to Section 386.710(2), RSMo¹⁰, and by Commission Rule 4 CSR 240-2.010(10).

3. The Staff of the Missouri Public Service Commission (“Staff”) is a party to this case pursuant to Section 386.071, RSMo, and Commission Rule 4 CSR 240-2.010(10).

4. In File No. WO-2014-0340, Hillcrest applied to the Commission for approval to acquire its water and sewer systems from Brandco Investments, LLC (“Brandco”). Hillcrest sought permission to acquire the water and sewer assets and to issue indebtedness and encumber those assets in order to fund the construction necessary to bring the systems into regulatory compliance. The Commission issued an order in that case on October 22, 2014, that approved a stipulation and agreement, which provided that Hillcrest should be authorized to acquire and operate the water and sewer systems owned by Brandco and imposed certain other financial conditions. Hillcrest closed on the transaction with Brandco on March 13, 2015.¹¹

5. The water and sewer systems were in a complete state of disrepair when Hillcrest acquired the utility assets of Brandco.¹²

6. Since May 2014, the Hillcrest subdivision wastewater treatment plant had been under multiple compliance and enforcement actions from both the Missouri Department of Natural Resources (“MDNR”) and the Missouri Attorney General. Many years of general plant neglect and lack of investment by Brandco resulted in numerous MDNR citations for discharging wastewater directly into a creek without treatment during rain events, failing to disinfect sanitary sewer waste before discharging it into the adjoining

¹⁰ Unless otherwise stated, all statutory citations are to the Revised Statutes of Missouri, as codified in the year 2000 and subsequently revised or supplemented.

¹¹ Hillcrest Ex. 1, Cox Direct, p. 7-8.

¹² Hillcrest Ex. 1, Cox Direct, p. 8.

stream, and failing to treat waste for nutrient removal before discharge. In addition, the existing lagoon berm system was in significant danger of structural failure due to slope erosion and a lack of maintenance with the slope vegetation.¹³

7. MDNR issued citations for numerous regulatory violations for the Brandco drinking water system in the Hillcrest subdivision. Beginning in May 2014, the subdivision was put on an eight-week boil order due to positive E. coli test results in the water system.¹⁴

8. Before Hillcrest purchased the water and sewer systems, it entered into an agreement with MDNR that provided a means for the subdivision residents to receive water service. As part of this MDNR agreement, Hillcrest paid for emergency drinking water repairs, on-going drinking water system inspections, and a temporary chlorine disinfection system to protect subdivision residents.¹⁵

9. Hillcrest entered into a consent agreement with MDNR that required it to immediately make necessary improvements to the Hillcrest subdivision wastewater and drinking water systems.¹⁶

10. Hillcrest began construction on the drinking water and wastewater improvements approximately 30 days after it acquired those systems and completed the improvements in the fall of 2015. Hillcrest has invested approximately \$1,205,000 in the improved facilities.¹⁷

11. The Hillcrest water and sewer systems have not had a rate increase since April 9, 1989, and the cost of service has increased dramatically since that time.¹⁸

¹³ Hillcrest Ex. 1, Cox Direct, p. 8-9.

¹⁴ Hillcrest Ex. 1, Cox Direct, p. 9-10.

¹⁵ Hillcrest Ex. 1, Cox Direct, p. 11, Schedule JC-3..

¹⁶ Hillcrest Ex. 1, Cox Direct, p. 12, Schedule JC-3.

¹⁷ Hillcrest Ex. 1, Cox Direct, p. 12-13.

¹⁸ Staff Ex. 8, Harrison Direct, p. 4.

12. In its original rate request letter, Hillcrest set forth its request for an increase of \$236,016 in its total annual water service operating revenues and \$216,663 in its total annual sewer service operating revenues.¹⁹

13. Because Hillcrest's parent company acquired the water and sewer system in March 2015, Staff used a test period in this case of the four months ending July 31, 2015, with an update period through October 31, 2015, to annualize the available Hillcrest revenue and expense information and develop its revenue requirement recommendation in this case.²⁰

14. On March 25, 2016, the Commission's Staff and Hillcrest filed *Company/Staff Partial Agreement Regarding Disposition of Small Water Company Revenue Increase Request* and *Company/Staff Partial Agreement Regarding Disposition of Small Sewer Company Revenue Increase Request*, including various attachments related to the disposition agreements (collectively, the "Agreement"). The Agreement was a partial resolution of Hillcrest's water and sewer rate requests but left unresolved certain other issues for which Staff and Hillcrest requested an evidentiary hearing. Since Public Counsel objected to the Agreement, it is a joint position statement, but Staff and Hillcrest urge the Commission to adopt its terms. Public Counsel only objected to the disputed issues addressed at the evidentiary hearing. The Agreement is attached hereto as Attachment A and incorporated herein by reference as if fully set forth.²¹

15. The Commission finds that any given witness' qualifications and overall credibility are not dispositive as to each and every portion of that witness' testimony. The Commission gives each item or portion of a witness' testimony individual weight based

¹⁹ Staff Ex. 1, Bolin Direct, Schedule KKB-d2, p. 1, 7.

²⁰ Staff Ex. 8, Harrison Direct, p. 3.

²¹ Staff Ex. 1, Bolin Direct, p. 2-3; Schedule KKB-d2.

upon the detail, depth, knowledge, expertise, and credibility demonstrated with regard to that specific testimony. Consequently, the Commission will make additional specific weight and credibility decisions throughout this order as to specific items of testimony as is necessary.²²

16. Any finding of fact reflecting that the Commission has made a determination between conflicting evidence is indicative that the Commission attributed greater weight to that evidence and found the source of that evidence more credible and more persuasive than that of the conflicting evidence.²³

B. General Conclusions of Law

Hillcrest is a “water corporation”, a “sewer corporation”, and a “public utility” as defined in Sections 386.020(59), 386.020(49), and 386.020(43), RSMo, respectively, and as such is subject to the personal jurisdiction, supervision, control and regulation of the Commission under Chapters 386 and 393 of the Missouri Revised Statutes. The Commission’s subject matter jurisdiction over Hillcrest’s rate increase request is established under Section 393.150, RSMo.

Sections 393.130 and 393.140, RSMo, mandate that the Commission ensure that all utilities are providing safe and adequate service and that all rates set by the Commission are just and reasonable. Section 393.150.2, RSMo, makes clear that at any hearing involving a requested rate increase the burden of proof to show the proposed increase is just and reasonable rests on the corporation seeking the rate increase. As the party

²² Witness credibility is solely a matter for the fact-finder, “which is free to believe none, part, or all of the testimony”. *State ex rel. Public Counsel v. Missouri Public Service Comm'n*, 289 S.W.3d 240, 247 (Mo. App. 2009).

²³ An administrative agency, as fact finder, also receives deference when choosing between conflicting evidence. *State ex rel. Missouri Office of Public Counsel v. Public Service Comm'n of State*, 293 S.W.3d 63, 80 (Mo. App. 2009).

requesting the rate increase, Hillcrest bears the burden of proving that its proposed rate increase is just and reasonable. In order to carry its burden of proof, Hillcrest must meet the preponderance of the evidence standard.²⁴ In order to meet this standard, Hillcrest must convince the Commission it is “more likely than not” that Hillcrest’s proposed rate increase is just and reasonable.²⁵

In determining whether the rates proposed by Hillcrest are just and reasonable, the Commission must balance the interests of the investor and the consumer.²⁶ In discussing the need for a regulatory body to institute just and reasonable rates, the United States Supreme Court has held as follows:

Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the services are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.²⁷

In the same case, the Supreme Court provided the following guidance on what is a just and reasonable rate:

What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure

²⁴ *Bonney v. Environmental Engineering, Inc.*, 224 S.W.3d 109, 120 (Mo. App. 2007); *State ex rel. Amrine v. Roper*, 102 S.W.3d 541, 548 (Mo. banc 2003); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 (Mo. banc 1996), citing to, *Addington v. Texas*, 441 U.S. 418, 423, 99 S.Ct. 1804, 1808, 60 L.Ed.2d 323, 329 (1979).

²⁵ *Holt v. Director of Revenue, State of Mo.*, 3 S.W.3d 427, 430 (Mo. App. 1999); *McNear v. Rhoades*, 992 S.W.2d 877, 885 (Mo. App. 1999); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 109 -111 (Mo. banc 1996); *Wollen v. DePaul Health Center*, 828 S.W.2d 681, 685 (Mo. banc 1992).

²⁶ *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603, (1944).

²⁷ *Bluefield Water Works & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 690 (1923).

confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.²⁸

The Supreme Court has further indicated:

‘[R]egulation does not insure that the business shall produce net revenues.’ But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.²⁹

In undertaking the balancing required by the Constitution, the Commission is not bound to apply any particular formula or combination of formulas. Instead, the Supreme Court has said:

Agencies to whom this legislative power has been delegated are free, within the ambit of their statutory authority, to make the pragmatic adjustments which may be called for by particular circumstances.³⁰

Furthermore, in quoting the United States Supreme Court in *Hope Natural Gas*, the Missouri Court of Appeals said:

[T]he Commission [is] not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function, moreover, involves the making of ‘pragmatic adjustments.’ ... Under the statutory standard of ‘just and reasonable’ it is the result reached, not the method employed which is controlling. It is not theory but the impact of the rate order which counts.³¹

²⁸ *Bluefield*, at 692-93.

²⁹ *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (citations omitted).

³⁰ *Federal Power Commission v. Natural Gas Pipeline Co.* 315 U.S. 575, 586 (1942).

³¹ *State ex rel. Associated Natural Gas Co. v. Public Service Commission*, 706 S.W. 2d 870, 873 (Mo. App. W.D. 1985).

Hillcrest and Staff signed and filed the Agreement, in which those parties reached agreement on most of the issues related to Hillcrest’s rate increase requests. Public Counsel objected, but only as to the disputed issues that were addressed at the evidentiary hearing. Based on the evidence in this case, the Commission concludes that acceptance of the provisions of the Agreement on the issues contained therein, other than those issues disputed at the evidentiary hearing, is a fair and reasonable resolution of those issues. The Commission will adopt the provisions of the Agreement, other than those issues disputed at the evidentiary hearing, as stated in Attachment A to this Report and Order.

III. Disputed Issues

A. Payroll

- **What level of experience should be used to set the labor expense associated with each employee?**
- **Should the Employment Cost Index inflation rates be applied in setting such amounts?**
- **What is the appropriate number of annual work hours to include in calculating salaries for each employee?**
- **What is the appropriate hourly rate for each employee?**
- **What are the appropriate job titles to use in MERIC to compare and determine labor expense associated with Mr. Josiah Cox and Mr. Jack Chalfant?**

Findings of Fact

1. Hillcrest has no employees. Several functions related to the operation of Hillcrest are provided by three employees of First Round CSWR, LLC (“First Round”) – a chief executive officer, a financial manager, and an administrative employee. A portion of the costs associated with those employees is then allocated to Hillcrest.³²

2. The Missouri Economic Research and Information Center (“MERIC”) is the research division for the Missouri Department of Economic Development. It provides

³² Transcript, Vol. 2, p. 96; Hillcrest Ex. 1, Cox Direct, p. 14.

analysis and assistance to policymakers and the public, including studies of the state's targeted industries and economic development initiative.³³

3. Staff developed the corporate payroll compensation for ratemaking purposes in this case by using MERIC data for the St. Louis region to compare regional base salaries to the base salary amounts sought by Hillcrest in this case for the three First Round employees.³⁴

4. The MERIC system provides three levels of wage estimates for each occupation. Those levels are "entry level", "mean level", and "experienced level". The entry level is the beginning level of each occupational study and is at the lowest pay level. The mean level is the mid-range of the pay scale and is an estimate of the hourly rate, which is calculated using the varying hourly rates of a group of workers in a specific occupation. The experienced level is at the top end of the scale, which are the highest paid employees in each occupation.³⁵

5. Hillcrest and Public Counsel do not disagree with the general approach of using MERIC data to establish labor costs for ratemaking purposes.³⁶

6. Hillcrest requests that the Commission use MERIC salaries for purposes of establishing the revenue requirement in this case corresponding to Experience Chief Executive for Mr. Josiah Cox, Experience Financial Manager for Mr. Jack Chalfant, and Experience Executive Administrative for Ms. Brenda Eaves, updated and adjusted for

³³ Staff Ex. 8, Harrison Direct, p. 5.

³⁴ Staff Ex. 8, Harrison Direct, p. 5.

³⁵ Staff Ex. 8, Harrison Direct, p. 5-6.

³⁶ Hillcrest Ex. 1, Cox Direct, p. 15; OPC Ex. 1, Roth Direct, p. 6.

inflation to the most recent reporting period of the Employment Cost Index for the U.S. Bureau of Labor Statistics.³⁷

7. In determining the annual amount of payroll for the three employees, Staff used the mean level of the MERIC occupational study to annualize the payroll. At the time Staff developed the cost of service for Hillcrest, all three First Round employees had a year of experience or less operating and running a regulated utility, and the company was just beginning to establish itself as a regulated utility.³⁸

8. All three employees had significant work experience in their respective fields before starting work with First Round.³⁹

9. Understanding the uniform system of accounts for managing a utility is radically different than Generally Accepted Accounting Principles, and understanding the tariffs associated with a regulated utility requires a specialized level of knowledge.⁴⁰

10. The data that Staff used for MERIC was taken from calendar year 2014. At the end of the update period in this case, this data was less than one year old.⁴¹

11. Hillcrest's parent company has already acquired three water and sewer systems and is planning to purchase more troubled systems, which will require the hiring of more employees to maintain the operations of Hillcrest and the other acquired utilities.⁴²

12. Staff was unable to calculate the number of annual work hours in determining the appropriate salaries for Mr. Chalfant and Ms. Eaves because they did not keep timesheets prior to November 2015.⁴³ Staff determined annual hours for Mr. Cox based on

³⁷ Hillcrest Ex. 1, Cox Direct, p. 17-18.

³⁸ Staff Ex. 8, Harrison Direct, p. 6; Transcript, Vol. 2, p. 96.

³⁹ Hillcrest Ex. 1, Cox Direct, p. 16-17.

⁴⁰ Transcript, Vol. 2, p. 95-96.

⁴¹ Staff Ex. 9, Harrison Rebuttal, p. 4.

⁴² Staff Ex. 9, Harrison Rebuttal, p. 2.

⁴³ Hillcrest Ex. 2, Cox Rebuttal, p. 13.

his timesheets, but Staff did not include those hours worked prior to the acquisition date of March 13, 2015, in annualized payroll expense. Those hours prior to March 13, 2015, were capitalized into plant in service and included as part of Hillcrest's rate base.⁴⁴

13. Hillcrest uses the titles of President and Chief Financial Officer for Mr. Cox and Mr. Chalfant, respectively.⁴⁵

Conclusions of Law and Decision

The Commission finds that Staff's approach to resolving all the payroll issues is the most reasonable. It was appropriate for Staff to select the "mean" experience level in using the MERIC data to establish labor expenses for each employee. Those employees have significant prior professional experience, so they should not be categorized as "entry." However, Mr. Cox admitted at the hearing that a utility's uniform system of accounts and regulated utility tariffs require specialized understanding beyond general business practices. Since all three employees had a year or less in working for a regulated utility, the "experienced" level is also not appropriate.

The Employment Cost Index inflation rates should not be applied in setting the labor costs in this case. The data that Staff used for MERIC was taken from calendar year 2014, so at the end of the update period in this case the data was less than one year old. Adjusting salaries for inflation is not necessary, and granting this unusual treatment would further increase rates, with little justification, that are already increasing significantly. In calculating salaries for each employee, the annual work hours determined by Staff should be used for Mr. Cox, based on his timesheets. Since Mr. Chalfant and Ms. Eaves did not keep time sheets during the test period, 14% of those two employees' annualized salaries

⁴⁴ Staff Ex. 9, Harrison Rebuttal, p. 3.

⁴⁵ Hillcrest Ex. 1, Cox Direct, p. 16-17; Staff Ex. 8, Harrison Direct, p. 4-5.

should be used.⁴⁶ The appropriate hourly rate for each employee should be those rates calculated by Staff based on its positions on the above issues.

The appropriate job titles to use in MERIC to determine labor expense for Mr. Cox and Mr. Chalfant are President and Chief Financial Officer, respectively. These are the titles presently used by Hillcrest to describe those two employees, and Staff's comparison of their job duties to MERIC found that these titles should continue to be used for ratemaking purposes. Since Hillcrest is part of a group of commonly-owned regulated utilities and has plans to acquire additional utilities, it is appropriate to assign employee titles similar to larger utilities rather than single utility companies.

B. Property Taxes

- **What is the appropriate amount of property taxes to include in the Hillcrest revenue requirements?**
- **Should estimated property tax amounts be included in rates?**

Findings of Fact

1. Property taxes are computed using assessed property values. Utilities are required to file with the taxing authorities a valuation of their utility property at the first of each year based on the January 1 assessment date. Several months later, the taxing authorities provide the utility with what they refer to as an "assessed value" for each category of property owned. Much later in the year (typically in the fall) the utilities are given the property tax rate. Property tax bills are then issued to the utilities with due dates of December 31 for each year based on the property tax rates applied to assessed value. For

⁴⁶ 14% refers to the corporate allocation percentage the Commission determines on page 33 below to be appropriate to apply to corporate costs for Hillcrest.

example, a utility will pay property taxes on December 31, 2015, based upon an assessment made of its asset values as of January 1, 2015.⁴⁷

2. Staff included \$164 for water and \$164 for sewer in the cost of service for property tax expense, based on Hillcrest's actual taxes paid as of December 31, 2015. This amount included Hillcrest's property taxes paid to Cape Girardeau County and Hillcrest's 14% share of First Round's St. Louis County property taxes, combined and allocated equally between Hillcrest's water and sewer operations.⁴⁸

3. The actual property taxes paid as of December 31, 2015, best matches the test period in this case, which ended October 31, 2015.⁴⁹

4. The term "matching principle" refers to the practice that all elements of the revenue requirement, including revenues, expenses, and rate base, be measured and included in the utility's cost of service at the same general point in time. It is very important that all elements of the revenue requirement be considered at a consistent point in time because various events cause changes to a utility's revenues, expenses, and rate base amounts, individually or in combination, causing the utility's overall revenue requirement to change over time. Reflecting changes to only one element of the revenue requirement in rates, in this case property taxes, without consideration of all other possible offsetting changes in the other cost of service components, would likely lead to a distorted and inaccurate level of customer rates.⁵⁰

5. Plant additions and improvements made by Hillcrest between April 1, 2015, and October 31, 2015, would not be assessed for property tax purposes until January 1,

⁴⁷ Staff Ex. 11, Sarver Direct, p. 3.

⁴⁸ Staff Ex. 11, Sarver Direct, p. 4-5.

⁴⁹ Staff Ex. 11, Sarver Direct, p. 5.

⁵⁰ Staff Ex. 11, Sarver Direct, p. 6.

2016, and will not be paid until December 31, 2016, which is fourteen months beyond the update period in this case.⁵¹

6. Hillcrest has requested that the amount of \$2,972 be included in its cost of service for property tax. This amount has not yet been paid, is an estimate of the property tax costs, and could change during the summer of 2016.⁵²

Conclusions of Law and Decision

Hillcrest has proposed that estimated property taxes in the amount of \$2,972 be included in its cost of service in this case. That estimated property tax will not be paid until approximately December 31, 2016, so it is beyond the test and update periods for this case. Since it occurs after the update period, to be included in Hillcrest's cost of service the expense must have been realized (known) and must be calculable with a high degree of accuracy (measurable).⁵³ However, the evidence shows that the 2016 property tax amount has not yet been paid, is an estimate of the property tax costs, and could change during the summer of 2016. Therefore, that property tax estimate is not known and measurable, so it is inappropriate to include that amount in the revenue requirement for this case. The correct property tax expenses to include in Hillcrest's cost of service are the amounts determined by Staff based on actual property tax paid in 2015, as those amounts are consistent with the matching principle.

In its initial brief, Hillcrest requested for the first time in this case that if it does not receive the \$2,972 in its revenue requirement, the Commission should authorize a refundable surcharge or a tracker for property taxes. Since this request was first submitted

⁵¹ Staff Ex. 11, Sarver Direct, p. 6.

⁵² Hillcrest Ex. 2, Cox Rebuttal, p. 20-21; Staff Ex. 11, Sarver Direct, p. 5.

⁵³ *In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service*, ER-2014-0370, 2015 WL 5244724, at *71 (Sept. 2, 2015). *State ex rel. GTE North, Inc. v. Missouri Public Service Commission*, 835 S.W. 2d 356, 368 (Mo App. 1992).

in a brief, it violates Commission Rule 4 CSR 240-2.130(7)(A), which requires that “[d]irect testimony shall include all testimony and exhibits asserting and explaining that party’s entire case-in-chief.” By submitting the request for the first time after the close of evidence, Hillcrest has prevented other parties from having a sufficient opportunity to conduct discovery or provide testimony on that matter. In addition, a tracker is a type of deferral accounting to defer costs which may be incurred in the future for “extraordinary items,” as defined in the Uniform System of Accounts.⁵⁴ The Commission concludes that Hillcrest has not met its burden of proof to demonstrate that projected property taxes are extraordinary. For all these reasons, the Commission concludes that Hillcrest’s request for a refundable surcharge or a tracker should be denied. Hillcrest’s 2016 property tax may be eligible for inclusion in its cost of service in a future rate case.

⁵⁴ “Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future.” 18 C.F.R. § Pt. 101, General Instruction No. 7; See also, Report and Order, ER-2012-0174, *In the Matter of Kansas City Power & Light Company’s Request for Auth. to Implement A Gen. Rate Increase for Elec. Serv. & in the Matter of KCP&L Greater Missouri Operations Company’s Request for Auth. to Implement A Gen. Rate Increase for Elec. Serv.*, 2013 WL 299322 (Jan. 9, 2013); Report and Order, *In the Matter of the Application of S. Union Co. for the Issuance of an Accounting Auth. Order Relating to Its Natural Gas Operations & for A Contingent Waiver of the Notice Requirement of 4 CSR 240-4.020(2)*, GU-2011-0392, 2012 WL 363727 (Jan. 25, 2012).

C. Auditing and Income Tax Preparation Fees

- **What is the appropriate amount of Hillcrest's auditing and tax preparation (accounting) costs to include in Hillcrest's cost of service?**
- **What is the appropriate allocated level of auditing and tax preparation (accounting) costs for Central States Water Resources to include in Hillcrest's cost of service?**
- **Should accounting costs incurred and paid in 2016 by Hillcrest be included in Hillcrest's cost of service?**

Findings of Fact

1. Hillcrest issued requests for proposals to a variety of accountants and accounting firms in order to determine the least expensive qualified firm for auditing and tax preparation services for Hillcrest and its parent company. Hillcrest hired the firm with the lowest qualified costs. Hillcrest is requesting that its share of those bid amounts be included in its revenue requirement in this case.⁵⁵

2. The bid that Hillcrest received for auditing and tax preparation services is only an estimate of the expected cost of those services.⁵⁶ Those fees have not yet been paid.⁵⁷

3. Staff determined costs for auditing and tax preparation services by using actual costs of the parent company in 2015 and allocating 14% of that amount to Hillcrest.⁵⁸ Staff calculated that Hillcrest's share of the costs was approximately \$326, divided equally between water and sewer operations.⁵⁹

Conclusions of Law and Decision

Hillcrest requests that an estimate of its auditing and tax preparation fees to be paid in 2016 be included in the revenue requirement for this case. Those costs would occur

⁵⁵ Hillcrest Ex. 1, Cox Direct, p. 20-21.

⁵⁶ Staff Ex. 8, Harrison Direct, p. 9.

⁵⁷ Transcript, Vol. 2, p. 98.

⁵⁸ 14% refers to the corporate allocation percentage the Commission determines on page 33 below to be appropriate to apply to corporate costs for Hillcrest.

⁵⁹ Staff Ex. 8, Harrison Direct, p. 8-9.

outside of the test and update periods, which would violate the matching principle. Hillcrest has not met its burden of proof to demonstrate that the costs are both known and measurable, as the evidence shows they have not yet been paid and are only an estimate of those costs. The Commission concludes that any accounting costs incurred and paid in 2016 by Hillcrest should not be included in Hillcrest's cost of service for this case. The appropriate amount of auditing and tax preparation costs to include in Hillcrest's cost of service is the allocated amount of \$326, divided equally between water and sewer operations, as determined by Staff to have actually been paid in 2015.

D. Rate of Return

- **What is the appropriate capital structure for purposes of setting Hillcrest's allowed rate of return?**
- **What is the appropriate allowed return on equity to apply to the equity in the ratemaking capital structure?**
- **What is the appropriate allowed debt rate to apply to the debt in the ratemaking capital structure?**

Findings of Fact

1. An essential ingredient of the cost-of-service ratemaking formula is the rate of return, which is premised on the goal of allowing a utility the opportunity to recover the costs required to secure debt and equity financing. If the allowed rate of return is based on the costs to acquire capital, then it is synonymous with the utility's weighted average cost of capital, which is calculated by multiplying each component ratio of the appropriate capital structure by its cost and then summing the results. In order to arrive at a rate of return, the Commission must examine an appropriate ratemaking capital structure, Hillcrest's cost of debt, and Hillcrest's cost of common equity, or return on equity.⁶⁰

⁶⁰ Staff Ex. 4, Griffin Direct, Schedule SG-d2, p. 6-8.

2. As of September 2015, Hillcrest's actual capital structure was 19% equity and 81% debt.⁶¹

3. Staff recommended a hypothetical capital structure for Hillcrest consisting of 25% equity and 75% debt.⁶²

4. Staff calculated a return on equity ("ROE") for Hillcrest by taking the projected yield on long-term public utility bonds that would be assigned to a three-month average of debt with a B rating and adding a 4% risk premium to that amount. Taking into consideration the change in spread for corporate bond yields in the early part of 2016, Staff determined an appropriate ROE range of 12.88% to 14.13% for Hillcrest.⁶³

5. Hillcrest agrees that the ROE range determined by Staff is reasonable.⁶⁴ Public Counsel did not take a position on an appropriate ROE.

6. Mr. Cox testified credibly that prior to filing the first asset acquisition and financing case with the Commission, he met with over fifty specialized infrastructure institutional investors, private equity investors, investment bankers, and commercial banks on behalf of Hillcrest and its parent company in an attempt to create a program to build water and wastewater improvements to support distressed small water and sewer utilities in Missouri.⁶⁵ His attempts to secure debt and equity financing from traditional lending sources were unsuccessful.⁶⁶

7. In general, small distressed water and sewer systems are shut off from traditional capital markets because of potential liability associated with existing health and

⁶¹ Hillcrest Ex. 2, Cox Rebuttal, p. 21; Transcript, Vol. 2, p. 44.

⁶² Staff Ex. 4, Griffin Direct, p. 2.

⁶³ Staff Ex. 4, Griffin Direct, p. 7-9.

⁶⁴ Hillcrest Ex. 2, Cox Rebuttal, p. 21-22.

⁶⁵ Hillcrest Ex. 1, Cox Direct, p. 24; Transcript, Vol. 2, p. 51.

⁶⁶ Hillcrest Ex. 1, Cox Direct, p. 27.

environmental compliance failures, lack of professional management, and a complex regulatory system.⁶⁷

8. Mr. Cox testified credibly that the best deal he could obtain to finance the necessary improvements to the Hillcrest water and sewer systems was a financing agreement dated March 6, 2015, with Fresh Start Venture LLC (“Fresh Start”) at an interest rate of 14%.⁶⁸

9. Fresh Start was originally formed in 2014 by a group of 12 equity investors and created specifically to provide financing for this investment opportunity pursuant to a contractual agreement.⁶⁹ In 2014, Fresh Start obtained a 33% ownership interest in First Round and a financing agreement at an interest rate of 14%.⁷⁰

10. At some time prior to March 6, 2015, two new investors (“New Investors”) acquired 87% of the membership interest of First Round and all of Fresh Start.⁷¹

11. Staff recommended a cost of debt for Hillcrest within the range of 8.88% to 10.13%.⁷² Staff determined this proposed range by estimating a cost of debt based on junk bond debt yields from published indices that Staff believes would satisfy a hypothetical third-party debt investor’s market requirements.⁷³

12. Staff recommends a hypothetical cost of debt much lower than Hillcrest’s actual debt cost with Fresh Start because Staff does not know how the 14% debt cost was determined and suspects that the debt cost did not result from arms-length good faith

⁶⁷ Hillcrest Ex. 1, Cox Direct, p. 25-26.

⁶⁸ Transcript, Vol. 2, p. 114; Staff Ex. 4, Griffin Direct, p. 4; Staff Ex. 14.

⁶⁹ Staff Ex. 6, Griffin Rebuttal, p. 10.

⁷⁰ Staff Ex. 6, Griffin Rebuttal, p. 9.

⁷¹ Staff Ex. 6, Griffin Rebuttal, p. 9; Staff Ex. 13, p. 2; Staff Ex. 14, p. 28 and signature page.

⁷² Staff Ex. 4, Griffin Direct, p. 4.

⁷³ Staff Ex. 4, Griffin Direct, p. 4-7; Staff Ex. 6, Griffin Rebuttal, p. 5.

negotiations.⁷⁴ Staff is concerned about accepting 14% as a market-based cost of debt because it views the investment structure of Hillcrest and associated entities as complex, not transparent, and consisting of non-traditional affiliations between investors.⁷⁵ However, Staff has not alleged that Hillcrest's debt is imprudent.⁷⁶

13. The Fresh Start loan agreement specifically prohibits Hillcrest from issuing any additional debt, and the make whole premiums for any potential early retirement of the Fresh Start debt make it uneconomical to do so.⁷⁷

14. Public Counsel did not take a formal position on the appropriate cost of debt for Hillcrest.⁷⁸

Conclusions of Law and Decision

Capital structure

In determining the rate of return, the Commission must first consider Hillcrest's capital structure. The Commission concludes that in calculating Hillcrest's cost of capital and cost of debt, the appropriate capital structure to use is the actual capital structure of Hillcrest as of September 2015, which was 19% equity and 81% debt. In order to set a fair rate of return for Hillcrest, the Commission must determine the weighted cost of each component of the utility's capital structure.

⁷⁴ Staff Ex. 6, Griffin Rebuttal, p. 4.

⁷⁵ Staff Ex. 6, Griffin Rebuttal, p. 13.

⁷⁶ Transcript, Vol. 2, p. 178.

⁷⁷ Staff Ex. 6, Griffin Rebuttal, p. 15; Staff Ex. 14, p. 21, section 6.15.

⁷⁸ Public Counsel argues that Mr. Cox's testimony should not be believed regarding his efforts to secure financing. Public Counsel alleges that Mr. Cox improperly failed to disclose certain information to creditors in a previous personal bankruptcy proceeding. The Commission does not have the authority or expertise to make a legal conclusion about whether Mr. Cox violated bankruptcy laws, so declines to rely on that allegation in evaluating Mr. Cox's credibility.

Return on equity

One component at issue in this case is the estimated cost of common equity, or the return on equity. Estimating the cost of common equity capital is a difficult task, as academic commentators have recognized.⁷⁹ Determining a rate of return on equity is imprecise and involves balancing a utility's need to compensate investors against its need to keep prices low for consumers.⁸⁰ Missouri court decisions recognize that the Commission has flexibility in fixing the rate of return, subject to existing economic conditions.⁸¹ "The cases also recognize that the fixing of rates is a matter largely of prophecy and because of this commissions, in carrying out their functions, necessarily deal in what are called 'zones of reasonableness', the result of which is that they have some latitude in exercising this most difficult function."⁸² Moreover, the United States Supreme Court has instructed the judiciary not to interfere when the Commission's rate is within the zone of reasonableness.⁸³

The evidence shows that both Hillcrest and Staff agree that an ROE within the range of 12.88% to 14.13% would be a reasonable and accurate estimate of the current market cost of capital for Hillcrest. Based on the competent and substantial evidence in the record and on its balancing of the interests of the company's ratepayers and shareholders, the Commission concludes that 13.0% is a fair and reasonable return on equity for Hillcrest.

⁷⁹ See Phillips, *The Regulation of Public Utilities*, Public Utilities Reports, Inc., p. 394 (1993).

⁸⁰ *State ex rel. Public Counsel v. Public Service Commission*, 274 S.W.3d 569, 574 (Mo. Ct. App. 2009).

⁸¹ *State ex rel. Laclede Gas Co. v. Public Service Commission*, 535 S.W.2d 561, 570-571 (Mo. App. 1976).

⁸² *Id.* In fact, for a court to find that the present rate results in confiscation of the company's private property, that court would have to make a finding based on evidence that the present rate is outside of the zone of reasonableness, and that its effects would be such that the company would suffer financial disarray. *Id.*

⁸³ *State ex rel. Public Counsel v. Public Service Commission*, 274 S.W.3d 569, 574 (Mo. App. 2009). See, *In re Permian Basin Area Rate Cases*, 390 U.S. 747, 767, 88 S.Ct. 1344, 20 L.Ed.2d 312 (1968) ("courts are without authority to set aside any rate selected by the Commission [that] is within a 'zone of reasonableness'").

Cost of debt

The other component of Hillcrest's capital structure in dispute in this case is the appropriate cost of debt. Hillcrest requests that the Commission utilize the debt cost of 14%, which is the actual interest rate Hillcrest is obligated to pay to Fresh Start under their financing agreement. Staff urges the Commission to reject the actual cost of debt and instead impute a hypothetical cost of debt to Hillcrest's capital structure. Staff is concerned about accepting 14% as a market-based cost of debt because it views the investment structure of Hillcrest and its associated entities as complex, not transparent, and consisting of non-traditional affiliations between investors. Staff recommends a hypothetical cost of debt much lower than Hillcrest's actual debt cost with Fresh Start because Staff does not know how the 14% debt cost was determined and suspects that the debt cost did not result from arms-length good faith negotiations. In addition, Staff alleges that Hillcrest has failed to sufficiently demonstrate that it sought the least-cost option available to it when obtaining financing, which was a condition in the stipulation and agreement signed by Hillcrest and approved by the Commission in Hillcrest's asset acquisition proceeding in File No. WO-2014-0340.

The Commission has the legal authority to impose for ratemaking purposes a lower cost of debt than a utility's actual debt cost.⁸⁴ However, Staff's arguments are not persuasive that a hypothetical debt cost should be imposed on Hillcrest in this case. Staff expressed suspicions that the financing agreement with Fresh Start was not an arms-length transaction but did not present sufficient evidence to support that allegation. The interest rate under the financing agreement did not change when the New Investors took over

⁸⁴ *State ex rel. U.S. Water/Lexington v. Missouri Public Service Commission*, 795 S.W.2d 593, 597 (Mo. App. 1990).

Fresh Start and acquired the majority ownership interest in First Round, but there is not enough information in the record concerning the circumstances surrounding that transaction to reach the conclusion that the transaction was not in good faith. While the Commission expects Hillcrest to be responsive to Staff's appropriate requests for information, the company should not be penalized because it chooses to utilize a complex or non-traditional investment structure for its own business purposes. With regard to Hillcrest's compliance with the condition in the stipulation and agreement in File No. WO-2014-0340, Staff did not present evidence that Hillcrest failed to seek a lower-cost financing arrangement. On the contrary, Mr. Cox testified credibly that he made significant efforts, although unsuccessful, to obtain financing from more traditional commercial banks and financial institutions. The Commission concludes that Hillcrest has met its burden of proof to demonstrate that it sought the least-cost financing option available to it.

The Commission is very concerned about the effect dramatically increasing water and sewer rates will have on Hillcrest's customers. However, as stated in the *Bluefield* Supreme Court case, in setting just and reasonable rates the Commission must provide a return to the utility that is "reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties".⁸⁵ It is important that utility companies be able to attract sufficient capital to meet their financial obligations and provide adequate service to their customers. Hillcrest acquired these systems when they were in a complete state of disrepair, and the company had to find funds to immediately make necessary improvements to protect the health of its customers and to satisfy MDNR and the Missouri

⁸⁵ *Bluefield*, at 692-93.

Attorney General. The evidence shows that after diligent efforts to obtain financing from a variety of potential lenders, the only financing available to Hillcrest at that time was the transaction with Fresh Start. Penalizing Hillcrest now for that decision would be unfair and may discourage other companies from acquiring and improving troubled water and sewer utilities in the future, which would be contrary to good public policy. The Commission concludes that the appropriate allowed debt rate to apply to the debt in the ratemaking capital structure is the actual debt cost of 14%.

E. Rate Design

- **How many classes should Hillcrest's customers be divided into for the purposes of designing rates for both water and sewer?**
- **What are the proper allocation percentages to be used to allocate expenses between the customer charge and volumetric rate?**
- **Should a rate increase be implemented all at once or phased-in over time?**

Findings of Fact

1. Hillcrest provides water and sewer service to residential, apartment, and commercial customers.⁸⁶ Currently, Hillcrest's sewer customers are divided into two rate classes, one for residential and commercial with a flat monthly customer charge of \$14.63 and another for apartments with a flat monthly charge of \$11.70. Its water customers currently have only one rate class with a customer charge of \$3.58 per month and a commodity fee of \$1.84 per 1,000 gallons used.⁸⁷ These rates have been unchanged since 1989.⁸⁸

⁸⁶ OPC Ex. 5, Russo Direct, p. 3-4.

⁸⁷ Staff Ex. 2, Robertson Direct, p. 6-7.

⁸⁸ Hillcrest Ex. 1, Cox Direct, p. 13.

2. Public Counsel has proposed to change Hillcrest's rate design by creating three customer classifications for water and sewer service – residential, apartment, and commercial classes.⁸⁹ Hillcrest and Staff do not object to this proposal.⁹⁰

3. The customer charge is the amount charged to customers each month regardless of the amount of water used. The monthly minimum customer charge includes the costs that remain relatively constant throughout the course of the year, including operating expenses and capital costs not directly associated with the production of water.⁹¹

4. The volumetric rate is the rate charged to customers based on the amount of water used by the customer at specifically-set intervals. The volumetric rate includes the operating and capital costs related to the production of water.⁹²

5. Public Counsel's witness James Russo testified credibly regarding the proper allocation percentages to be used to allocate expenses between the customer charge and volumetric rate for water service. Under Public Counsel's rate design, all costs are assigned directly as a customer charge or a volumetric rate or, alternatively, a representative portion of the costs are allocated by a percentage to either the customer charge or the volumetric rate based on the particular characteristics of the cost.⁹³ Neither Hillcrest nor Staff provided evidence in the record of the hearing regarding how expenses should be assigned between the fixed customer charge and volumetric rate.

6. The water and sewer rates for Hillcrest customers will be raised dramatically under the proposals offered by the parties in this case.⁹⁴

⁸⁹ OPC Ex. 5, Russo Direct, p. 6.

⁹⁰ Hillcrest Ex. 2, Cox Rebuttal, p. 2; Staff Ex. 3, Robertson Rebuttal, p. 4.

⁹¹ OPC Ex. 5, Russo Direct, p. 5.

⁹² OPC Ex. 5, Russo Direct, p. 5.

⁹³ OPC Ex. 5, Russo Direct, p. 6-8 and included Schedules.

⁹⁴ OPC Ex. 5, Russo Direct, p. 12-14.

7. Both Staff and Public Counsel have proposed alternative rate design plans to phase-in increased utility rates over a period of time in an effort to mitigate the rate shock attributed to high rates.⁹⁵

8. The rate phase-in plans would not provide Hillcrest with sufficient cash to pay its operations costs and would cause Hillcrest to default on its debt service payments in the first year of operations under the new rate.⁹⁶

9. Under the rate phase-in proposals, the carrying costs associated with the booking of those deferred revenues means that, in the end, the customers would pay more out of their pockets than they would in the absence of a phase-in, all else being equal.⁹⁷

Conclusions of Law and Decision

Public Counsel has proposed to change Hillcrest's rate design by creating three customer classifications for water and sewer service – residential, apartment, and commercial classes, and Hillcrest and Staff do not object to this proposal. The Commission agrees that the rate design should be changed to include the three customer classifications as proposed.

Public Counsel's witness James Russo provided the only evidence regarding the proper allocation percentages to be used to allocate expenses between the customer charge and volumetric rate for water service. The Commission concludes that the proper allocation percentages and methodologies to be used for this purpose are those described in James Russo's direct testimony.

Staff and Public Counsel have both proposed alternate rate design plans that provide a rate phase-in to help mitigate rate shock for Hillcrest's ratepayers. "[T]he Public

⁹⁵ Staff Ex. 2, Robertson Direct, p. 8-9; OPC Ex. 5, Russo Direct, p. 14-15, Schedule 12.

⁹⁶ Hillcrest Ex. 2, Cox Rebuttal, p. 8-10.

⁹⁷ Hillcrest Ex. 2, Cox Rebuttal, p. 10-11.

Service Commission is a body of limited jurisdiction and has only such powers as are expressly conferred upon it by the statutes and powers reasonably incidental thereto.”⁹⁸ As the Commission is an administrative agency with limited jurisdiction, “the lawfulness of its actions depends directly on whether it has statutory power and authority to act.”⁹⁹ Accordingly, the Commission does not have the legal authority to order a phase-in of rates unless it has been given such authority by the General Assembly of this state. Section 393.155, RSMo, authorizes the Commission to phase-in rate increases over time under certain circumstances, but that authority is only provided with regard to electrical corporations. The statute does not give express authority for a rate phase-in for other types of utilities, such as water or sewer companies. The statutory authority for the Commission to order a rate phase-in for Hillcrest in this case is uncertain.

Moreover, the evidence shows that the rate phase-in plans would not provide Hillcrest with sufficient cash to pay its operations costs; would cause Hillcrest to default on its debt service payments in the first year of operations under the new rate, and would, in the end, cost the ratepayers more than not using a phase-in. The Commission finds that the two phase-in plans are not in the best interests of either Hillcrest or the ratepayers. The Commission concludes that any rate increase should be implemented all at once and not phased-in over time.

F. Corporate Allocation

- **What is the appropriate corporate allocation percentage to apply to corporate costs?**

⁹⁸ *State ex rel. Kansas City Power & Light Co. v. Buzard*, 168 S.W.2d 1044, 1046 (Mo. 1943); *State ex rel. City of West Plains v. Public Service Commission*, 310 S.W.2d 925, 928 (Mo. banc 1958).

⁹⁹ *State ex rel. Gulf Transp. Co. v. Public Service Commission*, 658 S.W.2d 448, 452 (Mo. App. 1983).

Findings of Fact

1. Hillcrest has requested that the Commission allocate 14% of the corporate costs of the parent company to it for ratemaking purposes. Hillcrest's proposed allocation of 14% represents the percentage of work time the company believes will be required of its employees in the future taking into consideration the completion of additional acquisitions of water and sewer companies.¹⁰⁰

2. In addition to Hillcrest, First Round owns and operates Raccoon Creek Utility Operating Company, Inc. and Indian Hills Utility Operating Company, Inc., with approximately 500 and 700 customers, respectively.¹⁰¹ Based on total existing customers for the three companies that First Round currently operates, Hillcrest customers represent over 28% of the current total customer base.¹⁰² First Round has contracts to acquire two additional water or sewer utilities.¹⁰³

3. Staff determined a 14% corporate cost allocation factor based on the number of customers in Hillcrest compared to the number of customers in utilities acquired by First Round and utilities that are planned to be acquired.¹⁰⁴

4. Public Counsel proposed a corporate cost allocation factor of 10.49% based on a review of Mr. Cox's time sheets from March 13, 2015 through October 31, 2015.¹⁰⁵ Public Counsel did not use the time sheets of Mr. Chalfant and Ms. Eaves in calculating an allocation factor because those two employees did not begin recording their time until after October 31, 2015.¹⁰⁶ If Public Counsel had taken the time sheets for operational duties of

¹⁰⁰ Hillcrest Ex. 1, Cox Direct, p. 15; Hillcrest Ex. 2, Cox Rebuttal, p. 13.

¹⁰¹ OPC Ex. 1, Roth Direct, p. 2-3.

¹⁰² Transcript, Vol. 2, p. 198.

¹⁰³ Transcript, Vol. 2, p. 112-113.

¹⁰⁴ Staff Ex. 8, Harrison Direct, p. 7.

¹⁰⁵ OPC Ex. 3, Roth Rebuttal, p. 2; OPC Ex. 4, Roth Rebuttal Schedule KNR-1; Hillcrest Ex. 3.

¹⁰⁶ OPC Ex. 3, Roth Rebuttal, p. 2.

those two employees recorded after October 31, 2015 into consideration, the Hillcrest allocation percentage would be closer to 21%.¹⁰⁷

5. When Public Counsel calculated its allocation factor by using Mr. Cox's time sheets, it only used those hours found in the "HC," or Hillcrest, column to determine work associated with Hillcrest and considered all other hours as "non-regulated."¹⁰⁸

6. Mr. Cox testified credibly that on his time sheets, regulated work related to Hillcrest is also included in columns besides the "HC" column used by Public Counsel to calculate an allocation factor.¹⁰⁹

Conclusions of Law and Decision

Of the three methods proposed for calculating the corporate cost allocation factor, the Commission finds that Staff's method is the most reliable and reasonable. Hillcrest did not present sufficient evidence of how it determined its allocation factor based on employee time sheets. Public Counsel's proposed allocation factor is unreasonably low because it completely disregarded the work time of Mr. Chalfant and Ms. Eaves and only included a portion of Mr. Cox's work time related to Hillcrest.

Public Counsel's criticism of Staff's method as being based on estimated, future costs, and not known and measurable, is not applicable in this situation. The allocation factor is not an expense that occurs outside of the test year but rather a method of allocating corporate costs that occur within the test year. The Commission concludes that the appropriate corporate allocation percentage to apply to corporate costs is 14%.

¹⁰⁷ Hillcrest Ex. 2, Cox Rebuttal, p. 14.

¹⁰⁸ OPC Ex. 4, Roth Rebuttal Schedule KNR-1; Hillcrest Ex. 3.

¹⁰⁹ Transcript, Vol. 2, p. 132-136.

Decision Summary

In making this decision as described above, the Commission has considered the positions and arguments of all of the parties. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence but indicates rather that the material was not dispositive of this decision.

Hillcrest provides safe and adequate service, and the Commission concludes, based upon its independent review of the whole record, that the rates approved as a result of this order support the provision of safe and adequate service. The revenue increase approved by the Commission is no more than what is sufficient to keep Hillcrest's utility plants in proper repair for effective public service and provide to Hillcrest's investors an opportunity to earn a reasonable return upon funds invested.

THE COMMISSION ORDERS THAT:

1. The Commission adopts the provisions, other than those issues disputed at the evidentiary hearing, of the *Company/Staff Partial Agreement Regarding Disposition of Small Water Company Revenue Increase Request* and *Company/Staff Partial Agreement Regarding Disposition of Small Sewer Company Revenue Increase Request* filed on March 25, 2016, including attachments. The signatories are ordered to comply with the terms of these partial disposition agreements, which are attached hereto as Attachment A and incorporated herein by reference as if fully set forth.

2. Hillcrest Utility Operating Company, Inc. is authorized to file tariff sheets sufficient to recover revenues approved in compliance with this order. Hillcrest Utility Operating Company, Inc. shall file its compliance tariff sheets no later than July 20, 2016.

3. Hillcrest Utility Operating Company, Inc. shall file the information required by Section 393.275.1, RSMo 2000, and Commission Rule 4 CSR 240-10.060 no later than July 20, 2016.

4. The Staff of the Missouri Public Service Commission shall file its recommendation concerning approval of Hillcrest Utility Operating Company, Inc.'s compliance tariff sheets no later than July 27, 2016.

5. Any other party wishing to respond or comment regarding Hillcrest Utility Operating Company, Inc.'s compliance tariff sheets shall file the response or comment no later than July 27, 2016.

6. This Report and Order shall become effective on August 11, 2016.

BY THE COMMISSION



A handwritten signature in black ink that reads "Morris L. Woodruff".

Morris L. Woodruff
Secretary

Hall, Chm., Kenney, Rupp,
and Coleman, CC., concur,
Stoll, C., dissents, with separate
dissenting opinion attached;
and certify compliance with the
provisions of Section 536.080, RSMo.

Dated at Jefferson City, Missouri,
on this 12th day of July, 2016.

**COMPANY/STAFF PARTIAL AGREEMENT REGARDING DISPOSITION
OF SMALL WATER COMPANY REVENUE INCREASE REQUEST**

**HILLCREST UTILITY OPERATING COMPANY, INC.
WATER OPERATIONS**

MO PSC FILE NO. WR-2016-0064

BACKGROUND

Hillcrest Utility Operating Company, Inc. ("Company") initiated a small company revenue increase request ("Request") for water service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") File Number by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.050, Small Utility Rate Case Procedure ("Small Company Procedure"). In its request letter, which was received at the Commission's offices on October 19, 2015, the Company set forth its request for an increase of \$236,016 in its total annual water service operating revenues. The Company also acknowledged that it understood that the design of its customer rates, service charges, customer service practices, general business practices and general tariff provisions would be reviewed during the Commission Staff's ("Staff") review of the revenue increase request, and could thus be the subject of Staff recommendations. The Company provides service to approximately 218 residential customers, 20 apartment customers, and four commercial customers located in Cape Girardeau County, Missouri.

Pursuant to the provisions of the Small Company Procedure and related internal operating procedures, Staff initiated an audit of the Company's books and records, an inspection of the Company's facilities, as well as a review of the Company's customer service and general business practices, existing tariff, and the operation of the Company's facilities. (These activities are collectively referred to hereinafter as "Staff's investigation of the Company's Request" or "Staff's investigation.")

Upon completion of Staff's investigation of the Company's Request, Staff provided the Company and the Office of the Public Counsel ("Public Counsel") with information regarding Staff's investigation and the results of its investigation, including Staff's initial recommendations for the resolution of the Company's Request.

RESOLUTION OF THE COMPANY'S RATE INCREASE REQUEST

Pursuant to negotiations held subsequent to the Company's and Public Counsel's receipt of the above-referenced information regarding Staff's investigation of the Company's Request, Staff and the Company hereby state the following agreements:

- (1) Absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement, and based upon the Staff's current position regarding those issues, the agreed-upon overall cost of service for the Company is \$177,008. This total is comprised of current annualized revenues of \$32,378 and an increase in operating revenues of \$144,630. The foregoing amounts are shown on the ratemaking income statement found in **Attachment A**, incorporated by reference herein;
- (2) The Staff's Auditing Department conducted a full and complete audit of the Company's books and records using the 7-month period ending October 31, 2015, and that audit is the basis for the overall cost of service noted in paragraph (1) above. The Auditing Department's findings can be found in Staff's Accounting Schedules, **Attachment B**, incorporated by reference herein;
- (3) Absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement, and based upon the Staff's current position regarding those issues, the agreed-upon rate base for the Company is \$538,197. The development of this amount is shown on the rate base worksheet that is found in **Attachment C**, incorporated by reference herein, and was used in calculating the overall cost of service noted in paragraph (1) above ;
- (4) Included in **Attachment B**, is the Staff's proposed hypothetical capital structure that includes: 25% equity and a 12.88% return on equity; 75% debt and an 8.88% cost of debt; and a weighted cost of capital of 9.88% for the Company;
- (5) The schedule of depreciation rates in **Attachment D**, incorporated by reference herein, includes the depreciation rates used by Staff in its revenue requirement analysis and shall be the prescribed schedule of water plant depreciation rates for the Company;
- (6) To allow the Company the opportunity to collect the overall cost of service noted in paragraph (1) above, the rates as shown on **Attachment E**, incorporated by reference herein, are the rates the Company should be allowed to charge its customers (absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement). The impact of these rates will be as shown on **Attachment F**, also incorporated by reference herein;
- (7) For the purposes of implementing the agreements set out in this partial disposition agreement, the Company will file with the Commission proposed tariff revisions containing charges and language as set out in the example tariff attached as

Attachment E; Tariff revisions containing the actual, final rates will be developed and submitted after the Commission issues its report and order subsequent to the evidentiary hearing.

(8) The current PSC MO Number 2 tariff will be cancelled and replaced by PSC MO Number 3 tariff, as is shown in the example tariff described above;

(9) Within thirty (30) days of the effective date of an order approving this partial disposition agreement, the Company shall implement the following recommendation contained in the Consumer and Management Analysis Unit (CMAU) Report attached hereto as **Attachment H**, and incorporated by reference herein, and will provide proof of implementation to the Manager of the Commission's CMAU:

(a) The Company will develop and require a signed customer application prior to providing service as provided in its tariff. The Company's customer application shall include the date and the customer's signature indicating that the customer agrees to abide by the Company's rates, rules and regulations, and applicable state statutes.

(10) Within ninety (90) days of the effective date of an order approving this partial disposition agreement, the Company shall implement the following recommendation contained in the CMAU Report attached hereto as Attachment H and incorporated by reference herein, and will provide proof of implementation to the Manager of the Commission's CMAU:

(a) The Company will develop and utilize time sheets for all employees to record the time associated with Company work activity.

(11) Within 12-18 months of the effective date of an order approving this Company/Staff Disposition Agreement, Staff shall initiate a rate review or the Company shall file a rate case in order to develop a cost of service based on additional actual revenue and expense information beyond the applicable period of time available to Staff in this proceeding.

(12) In accordance with the Auditing Department Report that is attached as **Attachment I**, and incorporated by reference herein, the Company will take the following actions:

(a) The Company will maintain its books and records in accordance with the National Association of Regulated Utility Commissioners (NARUC) Uniform System of Accounts (USOA).

(b) The Company will develop continuing property records (CPRs) for all assets for its water and sewer systems.\

(c) The Company will ensure its employees' time sheets are used to record the time associated with each work assignment for each system and are kept in a way such that the time spent on operation/maintenance activities and construction activities can be captured separately. The Company will also

ensure that time spent by its employees on non-regulated or merger/acquisition related activities are recorded on the time sheets.

(13) The Company shall mail its customers a written notice of the final rates and charges to be included in its tariff prior to or in conjunction with the first billing cycle after the final rates and charges are approved by the Commission. The notice shall include a summary of the impact of the proposed rates on an average residential customer's bill. When the Company mails the notice to its customers, it shall also send a copy to Staff's Case Coordinator who will submit a copy to the case file;

(14) Staff may conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this partial disposition agreement;

(15) Staff may file a formal complaint against the Company, if the Company does not comply with the provisions of this partial disposition agreement;

(16) The undersigned representatives of the Company and Staff acknowledge that: they have read this partial disposition agreement; the facts stated herein are true and accurate to the best of their knowledge and belief; the conditions set out herein accurately reflect the agreements reached between the Company and Staff. The Company's representative further acknowledges that he has freely and voluntarily entered into this partial disposition agreement for the Company; and

(17) The above agreements satisfactorily resolve all issues identified by Staff and the Company regarding the Company's Request, except as otherwise specifically stated herein.

ISSUES FOR EVIDENTIARY HEARING

The Staff and Company could not find a resolution for the following issues, and thus intend to present these issues at an evidentiary hearing for the Commission's determination: payroll; property taxes; auditing and income tax preparation fees; capital structure; cost of capital (equity and debt); and AFUDC.

ADDITIONAL MATTERS

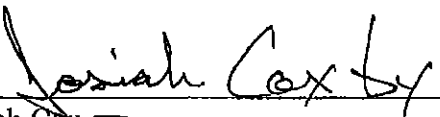
Other than the specific conditions agreed upon and expressly set out herein, the terms of this partial Disposition Agreement reflect compromises between Staff and the Company and neither party has agreed to any particular ratemaking principle.

The Company acknowledges that Staff will be filing this partial Disposition Agreement and the attachments hereto. The Company also acknowledges that Staff may make other filings in this case.

Additionally, the Company agrees that subject to the rules governing practice before the Commission, Staff shall have the right to provide whatever oral explanation the Commission may request regarding this partial Disposition Agreement at any agenda meeting at which this case is scheduled to be considered by the Commission. Subject to the rules governing practice before the Commission, Staff will be available to answer Commission questions regarding this partial Disposition Agreement. To the extent reasonably practicable, Staff shall provide the Company with advance notice of any such agenda meeting so that it may have the opportunity to be present and/or represented at the meeting.

SIGNATURES

Agreement Signed and Dated:



Josiah Cox
President
Hillcrest Utility Operating Company, Inc.

25 MAR 2016
Date



James Busch
Manager
Water & Sewer Department
Missouri Public Service Commission Staff

3/25/16
Date

Dean L. Cooper, Attorney

List of Attachments

- Attachment A – Ratemaking Income Statement
- Attachment B – Staff’s Accounting Schedules
- Attachment C – Rate Base Worksheet
- Attachment D – Schedule of Depreciation Rates
- Attachment E – Example Tariff Sheets
- Attachment F – Billing Comparison Worksheet
- Attachment G – Water & Sewer Department Memorandum
- Attachment H – CMAU Report
- Attachment I – Auditing Department Recommendation Memorandum
- Attachment J – Summary of Events

**COMPANY/STAFF PARTIAL AGREEMENT REGARDING DISPOSITION
OF SMALL SEWER COMPANY REVENUE INCREASE REQUEST**

HILLCREST UTILTY OPERATING COMPANY, INC.

MO PSC FILE NO. SR-2016-0065

BACKGROUND

Hillcrest Utility Operating Company, Inc. ("Company") initiated a small company revenue increase request ("Request") for sewer service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") File Number by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.050, Small Utility Rate Case Procedure ("Small Company Procedure"). In its request letter, which was received at the Commission's offices on October 19, 2015, the Company set forth its request for an increase of \$216,663 in its total annual sewer service operating revenues. The Company also acknowledged that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would be reviewed during the Commission Staff's ("Staff") review of the revenue increase request, and could thus be the subject of Staff recommendations. The Company provides service to approximately 216 residential customers, 20 apartment customers, and four commercial customers, located in Cape Girardeau County, Missouri.

Pursuant to the provisions of the Small Company Procedure and related internal operating procedures, Staff initiated an audit of the Company's books and records, an inspection of the Company's facilities, as well as a review of the Company's customer service and general business practices, the Company's existing tariff, and the Company's operation of its facilities. (These activities are collectively referred to hereinafter as "Staff's investigation of the Company's Request" or "Staff's investigation.")

Upon completion of Staff's investigation of the Company's Request, Staff provided the Company and the Office of the Public Counsel ("Public Counsel") with information regarding Staff's investigation and the results of its investigation, including Staff's initial recommendations for the resolution of the Company's Request.

RESOLUTION OF THE COMPANY'S REVENUE INCREASE REQUEST

Pursuant to negotiations held subsequent to the Company's and Public Counsel's receipt of the above-referenced information regarding Staff's investigation of the Company's Request, Staff and the Company hereby state the following agreements.

- (1) Absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement, and based upon the Staff's current position regarding those issues, the agreed-upon overall cost of service for the Company is \$208,694. This total is comprised of current annualized revenues of \$41,431 and an increase in operating revenues of \$167,263. The foregoing amounts are shown on the ratemaking income statement found in **Attachment A**, incorporated by reference herein.
- (2) The Staff's Auditing Department conducted a full and complete audit of the Company's books and records using the 7-month period ending October 31, 2015, and that audit is the basis for the overall cost of service noted in paragraph (1) above. The Auditing Department findings can be found in Staff's Accounting Schedules, **Attachment B**, incorporated by reference herein.
- (3) Absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement, and based upon the Staff's current position regarding those issues, the agreed-upon rate base for the Company is \$610,466. The development of this amount is shown on the rate base worksheet that is found in **Attachment C**, incorporated by reference herein, and was used in calculating the overall cost of service noted in paragraph (1) above.
- (4) Included in **Attachment B** is the Staff's proposed hypothetical capital structure that includes: 25% equity and a 12.88% return on equity; 75% debt and an 8.88% cost of debt; and a weighted average allowed rate of return of 9.88% for the Company.
- (5) The schedule of depreciation rates in **Attachment D**, incorporated by reference herein, includes the depreciation rates used by Staff in its revenue requirement analysis and shall be the prescribed schedule of sewer plant depreciation rates for the Company.
- (6) To allow the Company the opportunity to collect the overall cost of service noted in paragraph (1) above, the rates as shown on **Attachment E**, incorporated by reference herein, are the rates the Company should be allowed to charge its customers (absent consideration of the ultimate resolution of the issues identified in the Evidentiary Hearing paragraph of this agreement). The impact of these rates is shown on **Attachment F**, also incorporated by reference herein.
- (7) For the purposes of implementing the agreements set out in this partial disposition agreement, the Company will file with the Commission proposed tariff

revisions containing charges and language as set out in the example tariff attached as **Attachment E**. Tariff revisions containing the actual, final rates will be developed and submitted after the Commission issues its report and order subsequent to the evidentiary hearing.

(8) The current PSC MO Number 2 tariff will be cancelled and replaced by PSC MO Number 4, as is shown in the example tariff described above.

(9) Within thirty (30) days of the effective date of an order approving this partial disposition agreement, the Company shall implement the following recommendation contained in the CMAU Report attached hereto as Attachment H and incorporated by reference herein, and will provide proof of implementation to the Manager of the Commission's CMAU.

(a) The Company will develop and require a signed customer application prior to providing service as provided in its tariff. The Company's customer application shall include the date and the customer's signature indicating that the customer agrees to abide by the Company's rates, rules and regulations, and applicable state statutes.

(10) Within ninety (90) days of the effective date of an order approving this partial disposition agreement, the Company shall implement the following recommendation contained in the CMAU Report, and will provide proof of implementation to the Manager of the Commission's CMAU.

(a) The Company will develop and utilize time sheets for all employees to record the time associated with Company work activity.

(11) Within 12-18 months of the effective date of an order approving this Company/Staff Disposition Agreement, Staff shall initiate a rate review or the Company shall file a rate case in order to develop a cost of service based on additional actual revenue and expense information beyond the applicable period of time available to Staff in this proceeding.

(12) In accordance with the Auditing Department Report that is attached as **Attachment I**, and incorporated by reference herein, the Company will take the following actions.

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(16) The undersigned representatives of the Company and Staff acknowledge that: they have read this partial disposition agreement; the facts stated herein are true and accurate to the best of their knowledge and belief; the conditions set out herein accurately reflect the agreements reached between the Company and Staff. The Company's representative further acknowledges that he has freely and voluntarily entered into this partial disposition agreement for the Company.

(17) The above agreements satisfactorily resolve all issues identified by Staff and the Company regarding the Company's Request, except as otherwise specifically stated herein.

ISSUES FOR EVIDENTIARY HEARING

The Staff and Company could not find a resolution for the following issues, and thus intend to present these issues at an evidentiary hearing for the Commission's determination: payroll; property taxes; auditing and income tax preparation fees; capital structure; cost of capital (equity and debt); and AFUDC

ADDITIONAL MATTERS

Other than the specific conditions agreed upon and expressly set out herein, the terms of this partial Company/Staff Disposition Agreement reflect compromises between Staff and the Company, and neither party has agreed to any particular ratemaking principles.


Staff has completed a Summary of Case Events and has included that summary as Attachment J, to this partial Company/Staff Disposition Agreement.

The Company acknowledges that Staff will be filing this partial Company/Staff Disposition Agreement and the attachments hereto. The Company also acknowledges that Staff may make other filings in this case.

Additionally, the Company agrees that subject to the rules governing practice before the Commission, Staff shall have the right to provide whatever oral explanation the Commission may request regarding this partial Company/Staff Disposition Agreement at any agenda meeting at which this case is scheduled to be considered by the Commission. Subject to the rules governing practice before the Commission, Staff will be available to answer Commission questions regarding this partial Company/Staff Disposition Agreement. To the extent reasonably practicable, Staff shall provide the Company with advance notice of any such agenda meeting so that it may have the opportunity to be present and/or represented at the meeting.

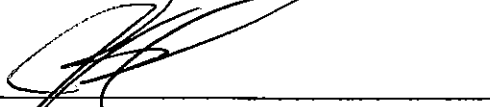
SIGNATURES

Agreement Signed and Dated:



Josiah Cox
President
Hillcrest Utility Operating Company, Inc. *Attorney*

25 MAR 2016
Date



James Busch
Manager
Water & Sewer Department
Missouri Public Service Commission Staff

3/25/16
Date

List of Attachments

- Attachment A – Ratemaking Income Statement
- Attachment B – Staff's Accounting Schedules
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- Attachment J – Summary of Events

WATER & SEWER COMPANY

Rate Making Income Statement-Water

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	32,378
2	Other Operating Revenues *	\$	-
3	Total Operating Revenues	\$	32,378
4	* See "Revenues - Current Rates" for Details		

Cost of Service

	Item		Amount
1	Operators Salary-Maintenance	\$	18,479
2	Operator-Backup	\$	-
3	Electricity-Pumping	\$	6,129
4		\$	-
5	Utility Water Usage	\$	-
6	Water Treatment Expense-Chemicals	\$	982
7	Bank Fees	\$	1,745
8	Outside Services Employed	\$	927
9	System Repairs Maintenance	\$	1,037
10	Billing & Collections	\$	6,253
11	Office Supplies	\$	495
12	Postage	\$	168
13	Administration & General - Salaries	\$	24,153
14	Office Utilities	\$	-
15	Telephone & Internet Expense	\$	361
16	Transportation Expense	\$	1,671
17	Fuel Expense-Vehicles	\$	-
18	Medical Expense		
19	Property & Liability Insurance	\$	11,827
20	Rent Expense-Building	\$	6,121
21	Rate Case Expense	\$	-
22	MO DNR Fees	\$	200
23	Employee Pensions & Benefits	\$	6,971
24	Regulatory Commission Expense	\$	489
25	Miscellaneous General Expenses	\$	-
26	Sub-Total Operating Expenses	\$	88,008
27	Property Taxes	\$	16
28	MO Franchise Taxes	\$	-
29	Employer FICA Taxes	\$	564
30	Federal Unemployment Taxes		
31	State Unemployment Taxes	\$	600
32	State & Federal Income Taxes	\$	4,231
33	Sub-Total Taxes	\$	5,411
34	Depreciation Expense	\$	26,192
35	Interest Expense	\$	35,139
36	Amortization of Utility Plant	\$	-
37	Sub-Total Depreciation/Interest/Amortization	\$	61,331
38	Return on Rate Base	\$	16,989
39	Total Cost of Service	\$	171,739
40	Overall Revenue Increase Needed	\$	139,361

WATER & SEWER COMPANY

Rate Making Income Statement-Sewer

Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	41,431
2	Other Operating Revenues *	\$	-
3	Total Operating Revenues	\$	41,431
4	* See "Revenues - Current Rates" for Details		

Cost of Service

Item	Amount
1 Operators Salary	\$ -
2 Operator-Backup	\$ -
3 Electricity-Pumping	\$ 4,971
4 Electricity-Shop	\$ -
5 Utility Water Usage	\$ -
6 Sewer Treatment -Chemicals	\$ 4,628
7 Sewer Treatment -Testing/Laboratory Fees	\$ 18,740
8 Sludge Removal	\$ -
9 Maintenance Expense-Parts/Equipment	\$ 1,203
10 Maintenance Expense-Outside Labor	\$ 1,017
11 Bank Fees	\$ 1,655
12 Administration & General - Salaries	\$ 24,153
13 Telephone & Internet Expense	\$ 323
14 Transportation Expense	\$ 1,671
15 Property & Liability Insurance	\$ 11,827
16 Rent Expense	\$ 6,121
17 Rate Case Expense	\$ -
18 Office Supplies	\$ 495
19 Postage Expense	\$ 58
20 Bookkeeping	\$ 6,229
21 Employee Pensions & Benefits	\$ 7,535
22 Regulatory Commission Expense	\$ 3,499
23 Miscellaneous General Expenses	\$ 38
24 Sub-Total Operating Expenses	\$ 94,163
25 Property Taxes	\$ 16
26 MO Franchise Taxes	\$ -
27 Employer FICA Taxes	\$ -
28 Federal Unemployment Taxes	\$ -
29 State Unemployment Taxes	\$ 600
30 State & Federal Income Taxes	\$ 4,817
31 Sub-Total Taxes	\$ 5,433
32 Depreciation Expense	\$ 30,974
33 Interest Expense	\$ 40,010
34 Amortization of Utility Plant	\$ -
35 Sub-Total Depreciation/Interest/Amortization	\$ 70,984
36 Return on Rate Base	\$ 19,344
37 Total Cost of Service	\$ 189,924
38 Overall Revenue Increase Needed	\$ 148,493

Exhibit No.: 1
Issue: Accounting Schedules
Witness: MO PSC Auditors
Sponsoring Party: MO PSC Staff
Case No: WR-2016-0064
Date Prepared: February 8, 2016



MISSOURI PUBLIC SERVICE COMMISSION
COMMISSION STAFF DIVISION
STAFF ACCOUNTING SCHEDULES

HILLCREST UTILITY OPERATING COMPANY, INC.

CASE NO. WR-2016-0064

Jefferson City, Missouri

February 2016

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate Design Schedule - Water

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
Rev-1	ANNUALIZED REVENUES					
Rev-2	Annualized Rate Revenues		(1) \$32,378			
Rev-3	Miscellaneous Revenues		(1) \$15			
Rev-4	TOTAL ANNUALIZED REVENUES		<u>\$32,393</u>			
1	OPERATIONS EXPENSES		(2)			
2	Fuel or Power Purchased for Pumping (Pumping Exp)	623.000	\$6,129	\$0	\$6,129	0.00%
3	Chemicals (Water Treatment Expense)	641.000	\$1,797	\$0	\$1,797	0.00%
4	Operation Labor and Expenses (Water Treatmt)	642.000	\$18,479	\$0	\$18,479	0.00%
5	TOTAL OPERATIONS EXPENSE		<u>\$26,405</u>	\$0	\$26,405	
6	MAINTENANCE EXPENSES					
7	Maintenance of Structures and Improvements (Pumping Exp)	631.000	\$1,037	\$0	\$1,037	0.00%
8	TOTAL MAINTENANCE EXPENSE		<u>\$1,037</u>	\$0	\$1,037	
9	CUSTOMER ACCOUNT EXPENSE					
10	Customer Records and Collection Expense (Billing & Collections)	903.100	\$6,253	\$0	\$6,253	0.00%
11	Customer Records and Collection Expense (Office Supplies & Postage)	903.200	\$168	\$0	\$168	0.00%
12	Customer Records & Collections Expense (Bank Fees)	903.280	\$2,331	\$0	\$2,331	0.00%
13	Uncollectible Accounts	904.000	\$467	\$0	\$467	0.00%
14	Customer Service & Information Expense (Web Pages) - CSWR 14%	907.000	\$38	\$0	\$38	0.00%
15	TOTAL CUSTOMER ACCOUNT EXPENSE		<u>\$9,257</u>	\$0	\$9,257	
16	ADMINISTRATIVE & GENERAL EXPENSES					
17	Administrative and General Salaries - CSWR 14%	920.000	\$24,153	\$0	\$24,153	0.00%
18	Office Supplies & Other Expense (Meal, Travel & Indidental Expense) - CSWR 14%	921.110	\$1,598	\$0	\$1,598	0.00%
19	Office Supplies & Other Expense (Communication Services) - CSWR 14%	921.500	\$323	\$0	\$323	0.00%
20	Office Supplies & Other Expense (Office	921.800	\$495	\$0	\$495	0.00%
21	Outside Services Employed (Bank Fees)	923.100	\$90	\$0	\$90	0.00%
22	Outside Services Employed (Attorney/Legal Fees)	923.400	\$132	\$0	\$132	0.00%
23	Outside Services Employed (Attorney/Legal Fees) - CSWR 14%	923.400	\$47	\$0	\$47	0.00%
24	Outside Services Employed (Accountants/Auditors) - CSWR 14%	923.500	\$163	\$0	\$163	0.00%
25	Outside Services Employed (Management Consultants) - CSWR 14%	923.600	\$82	\$0	\$82	0.00%
26	Outside Services Employed (Payroll Fees) - CSWR 14%	923.800	\$288	\$0	\$288	0.00%
27	Outside Services Employed (IT) - CSWR 14%	923.900	\$215	\$0	\$215	0.00%
28	Property Insurance (Environmental)	924.200	\$5,143	\$0	\$5,143	0.00%
29	Property Insurance (Workers' Comp) - CSWR 14%	924.300	\$110	\$0	\$110	0.00%
30	Property Insurance (Commercial)	924.400	\$6,574	\$0	\$6,574	0.00%
31	Employee Pension & Benefits (Keyman) - CSWR 14%	926.100	\$0	\$0	\$0	0.00%
32	Employee Pension & Benefits (United Healthcare) - CSWR 14%	926.200	\$3,898	\$0	\$3,898	0.00%
33	Employee Pension & Benefits (401K) - CSWR 14%	926.300	\$1,070	\$0	\$1,070	0.00%
34	Employee Pension & Benefits (Life/STD/LTD/AD&D) - CSWR 14%	926.400	\$2,003	\$0	\$2,003	0.00%

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate Design Schedule - Water

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
35	Rents - CSWR 14%	931.000	\$6,121	\$0	\$6,121	0.00%
36	TOTAL ADMINISTRATIVE AND GENERAL		\$52,505	\$0	\$52,505	
37	OTHER OPERATING EXPENSES					
38	Regulatory Commission Expense (DNR)	928.100	\$200	\$0	\$200	0.00%
39	Regulatory Commission Expense (PSC)	928.200	\$722	\$0	\$722	0.00%
40	Regulatory Commission Expense (Sec of State Bus License) - CSWR 14%	928.400	\$13	\$0	\$13	0.00%
41	Depreciation		\$26,675	\$0	\$26,675	0.00%
42	TOTAL OTHER OPERATING EXPENSES		\$27,610	\$0	\$27,610	
43	TAXES OTHER THAN INCOME					
44	SS& Medicare - CSWR 14%	408.120	\$2,104	\$0	\$2,104	0.00%
45	Unemployment Tax - CSWR 14%	408.140	\$600	\$0	\$600	0.00%
46	Property Taxes	408.160	\$16	\$0	\$16	0.00%
47	TOTAL TAXES OTHER THAN INCOME		\$2,720	\$0	\$2,720	
48	TOTAL OPERATING EXPENSES		\$119,534	\$0	\$119,534	
49	Interest Expense		(3) \$35,844	\$0	\$35,844	0.00%
50	Return on Equity		(3) \$17,330	\$0	\$17,330	0.00%
51	Income Taxes		(3) \$4,315	\$0	\$4,315	0.00%
52	TOTAL INTEREST RETURN & TAXES		\$57,489	\$0	\$57,489	
53	TOTAL COST OF SERVICE		\$177,023	\$0	\$177,023	
54	Less: Miscellaneous Revenues		\$15	\$0	\$15	0.00%
55	COST TO RECOVER IN RATES		\$177,008	\$0	\$177,008	
56	INCREMENTAL INCREASE IN RATE REVENUES		<u>\$144,630</u>			
57	PERCENTAGE OF INCREASE		<u>446.49%</u>			
58	REQUESTED INCREASE IN REVENUES		\$236,016			

- (1) From Revenue Schedule
(2) From Expense Schedule
(3) From PreTax Rate of Return Schedule, Rate Base & Return Schedule

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate Base Required Return on Investment Schedule - Water

Line Number	<u>A</u> Rate Base Description	<u>B</u> Dollar Amount	
1	Plant In Service	\$703,192	From Plant Schedule
2	Less Accumulated Depreciation Reserve	\$141,948	From Depreciation Reserve Schedule
3	Net Plant In Service	<u>\$561,244</u>	
4	Other Rate Base Items:	\$0	
	Contribution in Aid of Construction Amortization (positive or zero)	\$12,259	
	Prepayments (Workers Comp)	\$78	
	Contribution in Aid of Construction (negative or zero)	-\$35,384	
5	Total Rate Base	<u>\$538,197</u>	
6	Total Weighted Rate of Return Including Income Tax	<u>10.68%</u>	From PreTax Return & Taxes Schedule
7	Required Return & Income Tax	<u><u>\$57,489</u></u>	

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate of Return Including Income Tax - Water

	A		B	formulas
1 State Income Tax Rate Statutory / Effective	6.25%	(2)	5.81%	(1 - (B2 x .5)) x A1
2 Federal Income Tax Rate Statutory / Effective	15.00%	(1) & (2)	<u>14.13%</u>	(1 - B1) x A2
3 Composite Effective Income Tax Rate			19.94%	B1 + B2
4 Equity Tax Factor			1.2490	1 / (1-B3)
5 Recommended Weighted Rate of Return on Equity - Common and Preferred			<u>3.22%</u>	From Capital Structure Schedule
6 Weighted Rate of Return on Equity Including Income Tax			4.02%	B4 x B5
7 Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term			<u>6.66%</u>	From Capital Structure Schedule
8 Total Weighted Rate of Return Including Income Tax			<u><u>10.68%</u></u>	B6+B7

To Rate Base Schedule

(1) If Sub-Chapter S Corporation, Enter Y: N

Equity Income Required **\$20,388**
& Preliminary Federal Tax

Tax Rate Table

Net Income Range				
Start	End	Tax Rate	Amount in Range	Tax on Range
\$0	\$50,000	15.00%	\$20,388	\$3,058
\$50,001	\$75,000	25.00%	\$0	\$0
\$75,001	\$100,000	34.00%	\$0	\$0
\$100,001	\$335,000	39.00%	\$0	\$0
\$335,001	\$9,999,999,999	34.00%	\$0	\$0
			<u>\$20,388</u>	<u>\$3,058</u>
			Consolidated Tax Rate:	
			Average Tax Rate:	0.15

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Capital Structure Schedule - Water

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	\$287,165	25.00%	12.88%	3.220%
2	Other Security-Non Tax Deductible	\$0	0.00%	0.00%	0.000%
3	Preferred Stock	\$0	0.00%	0.00%	0.000%
4	Long Term Debt	\$861,498	75.00%	8.88%	6.660%
5	Short Term Debt	\$0	0.00%	0.00%	0.000%
6	Other Security-Tax Deductible	\$0	0.00%	0.00%	0.000%
7	TOTAL CAPITALIZATION	<u>\$1,148,663</u>	<u>100.00%</u>		<u>9.880%</u>

To PreTax Return Rate Schedule

Note: column C: is 6 positions with 4 that are displayed (if not totaled correctly, due to rounding)

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Plant In Service - Water

Line Number	A Account # (Optional)	B Plant Account Description	C Total Plant	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		INTANGIBLE PLANT					
2	301.000	Organization	\$0			100.00%	\$0
3	302.000	Franchises	\$0			100.00%	\$0
4		TOTAL INTANGIBLE PLANT	\$0		\$0		\$0
5		SOURCE OF SUPPLY PLANT					
6	310.000	Land & Land Rights - SSP	\$0			100.00%	\$0
7	311.000	Structures & Improvements - SSP	\$19,228	P-7	\$161,065	100.00%	\$180,293
8	312.000	Collecting & Impoundment Reservoirs	\$0			100.00%	\$0
9	314.000	Wells & Springs	\$9,450			100.00%	\$9,450
10	316.000	Supply Mains	\$1,162			100.00%	\$1,162
11		TOTAL SOURCE OF SUPPLY PLANT	\$29,840		\$161,065		\$190,905
12		PUMPING PLANT					
13	321.000	Structures & Improvements - PP	\$0			100.00%	\$0
14	323.000	Other Power Production Equip.	\$0	P-14	\$161,331	100.00%	\$161,331
15	325.100	Electric Pumping Equipment	\$14,480	P-15	\$25,950	100.00%	\$40,430
16	325.200	High Service or Booster Pumping Equip	\$0			100.00%	\$0
17	325.300	Shaft-Driven Pumping Equipment	\$0			100.00%	\$0
18	326.000	Diesel Pumping Equipment	\$0			100.00%	\$0
19		TOTAL PUMPING PLANT	\$14,480		\$187,281		\$201,761
20		WATER TREATMENT PLANT					
21	330.000	Land & Land Rights-WTP	\$0			100.00%	\$0
22	331.000	Structures & Improvements - WTP	\$0			100.00%	\$0
23	332.000	Water Treatment Equipment	\$0	P-23	\$12,244	100.00%	\$12,244
24		TOTAL WATER TREATMENT PLANT	\$0		\$12,244		\$12,244
25		TRANSMISSION & DISTRIBUTION PLANT					
26	340.000	Land & Land Rights-T&D	\$0			100.00%	\$0
27	341.000	Structures & Improvements - T&D	\$0			100.00%	\$0
28	342.000	Distribution Reservoirs & Standpipes	\$35,958	P-28	\$91,337	100.00%	\$127,295
29	343.000	Transmission & Distribution Mains	\$73,593	P-29	\$15,000	100.00%	\$88,593
30	344.000	Fire Mains	\$0			100.00%	\$0
31	345.000	Services	\$1,335			100.00%	\$1,335
32	346.000	Meters	\$26,260	P-32	\$32,744	100.00%	\$59,004
33	347.000	Meter Installations	\$500			100.00%	\$500
34	348.000	Hydrants	\$13,420			100.00%	\$13,420
35		TOTAL TRANS. & DISTRIBUTION PLANT	\$151,066		\$139,081		\$290,147
36		GENERAL PLANT					
37	390.000	Structures & Improvements (General Plant)	\$0			100.00%	\$0
38	391.000	Office Furniture & Equipment - CSWR 14%	\$0	P-38	\$681	100.00%	\$681
39	391.100	Office Computer Equipment & Software -	\$0	P-39	\$531	100.00%	\$531
40	395.000	Transportation Equipment - GP	\$0			100.00%	\$0
41	397.000	Communication Equipment	\$0	P-41	\$6,923	100.00%	\$6,923
42		TOTAL GENERAL PLANT	\$0		\$8,135		\$8,135
43		TOTAL PLANT IN SERVICE	\$195,386		\$507,806		\$703,192

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Schedule of Adjustments for Plant in Service - Water

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
P-7	Structures & Improvements - SSP	311.000		\$161,065
	1. To include plant improvements since acquisition for structures and improvements. (Sarver/Robinett)		\$157,258	
	2. To capitalize payroll. (Sarver)		\$886	
	3. AFUDC - Carrying Cost. (Sarver)		\$2,921	
P-14	Other Power Production Equip.	323.000		\$161,331
	1. To include plant improvements since acquisition for other power production equipment. (Sarver/Robinett)		\$157,773	
	2. AFUDC- Carrying Cost. (Sarver)		\$3,558	
P-15	Electric Pumping Equipment	325.100		\$25,950
	1. To include plant improvements since acquisition for electric pumping equipment. (Sarver/Robinett)		\$25,109	
	2. AFUDC- Carrying Cost. (Sarver)		\$841	
P-23	Water Treatment Equipment	332.000		\$12,244
	1. To include plant improvements since acquisition for water treatment equipment. (Sarver/Robinett)		\$12,024	
	2. AFUDC - Carrying Cost. (Sarver)		\$220	
P-28	Distribution Reservoirs & Standpipes	342.000		\$91,337
	1. To include plant improvements since acquisition for distribution reservoirs & standpipes. (Sarver/Robinett)		\$118,079	

Hillcrest Utility Operating Company, Inc.
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Schedule of Adjustments for Plant in Service - Water

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
	2. Retired 80% of account for old standpipes. (Robinett)		-\$28,766	
	3. AFUDC - Carrying Cost. (Sarver)		\$2,024	
P-29	Transmission & Distribution Mains	343.000		\$15,000
	1. To include a new connection estimate per Josiah Cox on 12/28/2015. (J. Robinett)		\$15,000	
P-32	Meters	346.000		\$32,744
	1. To include plant improvements since acquisition for meters. (Sarver/Robinett)		\$32,123	
	2. AFUDC - Carrying Cost. (Sarver)		\$621	
P-38	Office Furniture & Equipment - CSWR 14%	391.000		\$681
	1. To include plant improvements since acquisition for office furniture and equipment. (Sarver/Robinett)		\$681	
P-39	Office Computer Equipment & Software - CSWR 14%	391.100		\$531
	1. To include plant improvements since acquisition for office computer equipment. (Sarver/Robinett)		\$531	
P-41	Communication Equipment	397.000		\$6,923
	1. To include plant improvements since acquisition for communication equipment. (Sarver/Robinett)		\$6,779	
	2. AFUDC - Carrying Cost. (Sarver)		\$144	
Total Plant Adjustments				\$507,806

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Depreciation Expense - Water

Line Number	A Account Number	B Plant Account Description	C Adjusted Jurisdictional	D Depreciation Rate	E Depreciation Expense	F Average Life	G Net Salvage
1		INTANGIBLE PLANT					
2	301.000	Organization	\$0	0.00%	\$0	0	0.00%
3	302.000	Franchises	\$0	0.00%	\$0	0	0.00%
4		TOTAL INTANGIBLE PLANT	\$0		\$0		
5		SOURCE OF SUPPLY PLANT					
6	310.000	Land & Land Rights - SSP	\$0	0.00%	\$0	0	0.00%
7	311.000	Structures & Improvements - SSP	\$180,293	2.50%	\$4,507	44	-10.00%
8	312.000	Collecting & Impoundment Reservoirs	\$0	0.00%	\$0	0	0.00%
9	314.000	Wells & Springs	\$9,450	2.00%	\$189	55	-8.00%
10	316.000	Supply Mains	\$1,162	2.00%	\$23	50	0.00%
11		TOTAL SOURCE OF SUPPLY PLANT	\$190,905		\$4,719		
12		PUMPING PLANT					
13	321.000	Structures & Improvements - PP	\$0	0.00%	\$0	0	0.00%
14	323.000	Other Power Production Equip.	\$161,331	4.00%	\$6,453	25	0.00%
15	325.100	Electric Pumping Equipment	\$40,430	10.00%	\$4,043	12	-20.00%
16	325.200	High Service or Booster Pumping Equip	\$0	0.00%	\$0	0	0.00%
17	325.300	Shaft-Driven Pumping Equipment	\$0	0.00%	\$0	0	0.00%
18	326.000	Diesel Pumping Equipment	\$0	0.00%	\$0	0	0.00%
19		TOTAL PUMPING PLANT	\$201,761		\$10,496		
20		WATER TREATMENT PLANT					
21	330.000	Land & Land Rights-WTP	\$0	0.00%	\$0	0	0.00%
22	331.000	Structures & Improvements - WTP	\$0	0.00%	\$0	0	0.00%
23	332.000	Water Treatment Equipment	\$12,244	2.90%	\$355	35	0.00%
24		TOTAL WATER TREATMENT PLANT	\$12,244		\$355		
25		TRANSMISSION & DISTRIBUTION PLANT					
26	340.000	Land & Land Rights-T&D	\$0	0.00%	\$0	0	0.00%
27	341.000	Structures & Improvements - T&D	\$0	0.00%	\$0	0	0.00%
28	342.000	Distribution Reservoirs & Standpipes	\$127,295	2.50%	\$3,182	42	-5.00%
29	343.000	Transmission & Distribution Mains	\$88,593	2.00%	\$1,772	50	0.00%
30	344.000	Fire Mains	\$0	0.00%	\$0	0	0.00%
31	345.000	Services	\$1,335	2.50%	\$33	40	0.00%
32	346.000	Meters	\$59,004	10.00%	\$5,900	10	0.00%
33	347.000	Meter Installations	\$500	2.50%	\$13	40	0.00%
34	348.000	Hydrants	\$13,420	2.00%	\$268	50	0.00%
35		TOTAL TRANS. & DISTRIBUTION PLANT	\$290,147		\$11,168		
36		GENERAL PLANT					
37	390.000	Structures & Improvements (General Plant)	\$0	2.50%	\$0	44	-10.00%
38	391.000	Office Furniture & Equipment - CSWR 14%	\$681	5.00%	\$34	20	0.00%
39	391.100	Office Computer Equipment & Software - CSWR 14%	\$531	14.30%	\$76	7	0.00%
40	395.000	Transportation Equipment - GP	\$0	0.00%	\$0	0	0.00%
41	397.000	Communication Equipment	\$6,923	6.70%	\$464	15	0.00%
42		TOTAL GENERAL PLANT	\$8,135		\$574		
43		Total Depreciation	\$703,192		\$27,312		

Note: Average Life and Net Salvage columns are informational and have no impact on the entered Depreciation Rate.

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Accumulated Depreciation Reserve - Water

Line Number	A Account Number	B Depreciation Reserve Description	C Total Reserve	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		INTANGIBLE PLANT					
2	301.000	Organization	\$0			100.00%	\$0
3	302.000	Franchises	\$0			100.00%	\$0
4		TOTAL INTANGIBLE PLANT	\$0		\$0		\$0
5		SOURCE OF SUPPLY PLANT					
6	310.000	Land & Land Rights - SSP	\$0			100.00%	\$0
7	311.000	Structures & Improvements - SSP	\$14,868	R-7	\$2,279	100.00%	\$17,147
8	312.000	Collecting & Impoundment Reservoirs	\$0			100.00%	\$0
9	314.000	Wells & Springs	\$8,458	R-9	\$236	100.00%	\$8,694
10	316.000	Supply Mains	\$1,082	R-10	\$29	100.00%	\$1,111
11		TOTAL SOURCE OF SUPPLY PLANT	\$24,408		\$2,544		\$26,952
12		PUMPING PLANT					
13	321.000	Structures & Improvements - PP	\$0			100.00%	\$0
14	323.000	Other Power Production Equip.	\$0	R-14	\$3,361	100.00%	\$3,361
15	325.100	Electric Pumping Equipment	\$9,323	R-15	\$2,891	100.00%	\$12,214
16	325.200	High Service or Booster Pumping Equip	\$0			100.00%	\$0
17	325.300	Shaft-Driven Pumping Equipment	\$0			100.00%	\$0
18	326.000	Diesel Pumping Equipment	\$0			100.00%	\$0
19		TOTAL PUMPING PLANT	\$9,323		\$6,252		\$15,575
20		WATER TREATMENT PLANT					
21	330.000	Land & Land Rights-WTP	\$0			100.00%	\$0
22	331.000	Structures & Improvements - WTP	\$0			100.00%	\$0
23	332.000	Water Treatment Equipment	\$0	R-23	\$148	100.00%	\$148
24		TOTAL WATER TREATMENT PLANT	\$0		\$148		\$148
25		TRANSMISSION & DISTRIBUTION PLANT					
26	340.000	Land & Land Rights-T&D	\$0			100.00%	\$0
27	341.000	Structures & Improvements - T&D	\$0			100.00%	\$0
28	342.000	Distribution Reservoirs & Standpipes	\$31,351	R-28	-\$26,691	100.00%	\$4,660
29	343.000	Transmission & Distribution Mains	\$45,339	R-29	\$1,450	100.00%	\$46,789
30	344.000	Fire Mains	\$0			100.00%	\$0
31	345.000	Services	\$1,110	R-31	\$42	100.00%	\$1,152
32	346.000	Meters	\$35,821	R-32	\$4,558	100.00%	\$40,379
33	347.000	Meter Installations	\$388	R-33	\$16	100.00%	\$404
34	348.000	Hydrants	\$5,526	R-34	\$108	100.00%	\$5,634
35		TOTAL TRANS. & DISTRIBUTION PLANT	\$119,535		-\$20,517		\$99,018
36		GENERAL PLANT					
37	390.000	Structures & Improvements (General Plant)	\$0			100.00%	\$0
38	391.000	Office Furniture & Equipment - CSWR 14%	\$0	R-38	\$18	100.00%	\$18
39	391.100	Office Computer Equipment & Software - CSWR 14%	\$0	R-39	\$44	100.00%	\$44
40	395.000	Transportation Equipment - GP	\$0			100.00%	\$0
41	397.000	Communication Equipment	\$0	R-41	\$193	100.00%	\$193
42		TOTAL GENERAL PLANT	\$0		\$255		\$255
43		TOTAL DEPRECIATION RESERVE	\$153,266		-\$11,318		\$141,948

Hillcrest Utility Operating Company, Inc.
 Case No. WR-2016-0064
 Test Year Ending 7-31-2015
 Updated through 10-31-2015
 Schedule of Adjustments for Accumulated Depreciation Reserve - Water

<u>A</u> Reserve Adjustment Number	<u>B</u> Accumulated Depreciation Reserve Adjustments Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment Amount
R-7	Structures & Improvements - SSP	311.000		\$2,279
	1. To update reserves to 10-31-2015. (J. Robinett)		\$2,279	
R-9	Wells & Springs	314.000		\$236
	1. To update reserves to 10-31-2015. (J. Robinett)		\$236	
R-10	Supply Mains	316.000		\$29
	1. To update reserves to 10-31-2015. (J. Robinett)		\$29	
R-14	Other Power Production Equip.	323.000		\$3,361
	1. To update reserves to 10-31-2015. (J. Robinett)		\$3,361	
R-15	Electric Pumping Equipment	325.100		\$2,891
	1. To update reserves to 10-31-2015. (J. Robinett)		\$2,891	
R-23	Water Treatment Equipment	332.000		\$148
	1. To update reserves to 10-31-2015. (J. Robinett)		\$148	
R-28	Distribution Reservoirs & Standpipes	342.000		-\$26,691
	1. Retired 80% of account for old standpipes. (Robinett)		-\$28,766	

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
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Updated through 10-31-2015
Schedule of Adjustments for Accumulated Depreciation Reserve - Water

<u>A</u> Reserve Adjustment Number	<u>B</u> Accumulated Depreciation Reserve Adjustments Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment Amount
	2. To update reserves to 10-31-2015. (J. Robinett)		\$2,075	
R-29	Transmission & Distribution Mains	343.000		\$1,450
	1. To update reserves to 10-31-2015. (J. Robinett)		\$1,450	
R-31	Services	345.000		\$42
	1. To update reserves to 10-31-2015. (J. Robinett)		\$42	
R-32	Meters	346.000		\$4,558
	1. To update reserves to 10-31-2015. (J. Robinett)		\$4,558	
R-33	Meter Installations	347.000		\$16
	1. To update reserves to 10-31-2015. (J. Robinett)		\$16	
R-34	Hydrants	348.000		\$108
	1. To update reserves to 10-31-2015. (J. Robinett)		\$108	
R-38	Office Furniture & Equipment - CSWR 14%	391.000		\$18
	1. To update reserves to 10-31-2015. (J. Robinett)		\$18	
R-39	Office Computer Equipment & Software - CSWR	391.100		\$44

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
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Updated through 10-31-2015
Schedule of Adjustments for Accumulated Depreciation Reserve - Water

<u>A</u> Reserve Adjustment Number	<u>B</u> Accumulated Depreciation Reserve Adjustments Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment Amount
	1. To update reserves to 10-31-2015. (J. Robinett)		\$44	
R-41	Communication Equipment	397.000		\$193
	1. To update reserves to 10-31-2015. (J. Robinett)		\$193	
Total Reserve Adjustments				-\$11,318

Hillcrest Utility Operating Company, Inc.
 Case No. WR-2016-0064
 Test Year Ending 7-31-2015
 Updated through 10-31-2015
 Revenue Schedule - Water

Line Number	A Account Number (Optional)	B Revenue Description	C Company/ Test Year Amount	D Adjustment Number	E Jurisdictional Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
Rev-1		ANNUALIZED REVENUES					
Rev-2		Annualized Rate Revenues	\$13,737	Rev-2	\$18,641	100.00%	\$32,378
Rev-3		Miscellaneous Revenues	\$0	Rev-3	\$15	100.00%	\$15
Rev-4		TOTAL ANNUALIZED REVENUES	\$13,737		\$18,656		\$32,393

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Revenue Adjustment Schedule - Water

<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Revenue Adj Number	Adjustment Description	Account Number	Adjustment Amount	Total Adjustment
Rev-2	Annualized Rate Revenues			\$18,641
	1. To Annualize Rate Revenues		\$18,641	
Rev-3	Miscellaneous Revenues			\$15
	1. To Annualize Miscellaneous Revenues		\$15	
Total Revenue Adjustments				\$18,656

Hillcrest Utility Operating Company, Inc.
 Case No. WR-2016-0064
 Test Year Ending 7-31-2015
 Updated through 10-31-2015
 Rate Revenue Feeder Schedule - Water

Line Number	A Description	Residential 5/8"		Apartment 5/8"	
		B Amount	C Amount	D Amount	E Amount
1	Customer Charge Revenues:				
2	Customer Number	218		20	
3	Bills Per Year	12		12	
4	Customer Bills Per year	2,616		240	
5	Current Customer Charge	<u>\$3.58</u>		<u>\$3.58</u>	
6	Annualized Customer Charge Revenues		\$9,365		\$859
7	Commodity Charge Revenues:				
8	Total Gallons Sold	10,256,810		684,326	
9	Less: Base Gallons Included In Customer Charge	<u>0</u>		<u>0</u>	
10	Commodity Gallons	10,256,810		684,326	
11	Block 1, Commodity Gallons per Block	10,256,810		684,326	
12	Block 1, Number of Commodity Gallons per Unit	<u>1,000</u>		<u>1,000</u>	
13	Block 1, Commodity Billing Units	10,256.81		684.33	
14	Block 1, Existing Commodity Charge	<u>\$1.84</u>		<u>\$1.84</u>	
15	Block 1, Annualized Commodity Charge Rev.		\$18,873		\$1,259
16	Total Annualized Water Rate Revenues		<u>\$28,238</u>		<u>\$2,118</u>

Commodity Billing Units are based on the number of commodity gallons applicable to each block, divided by the tariff usage rate gallons (e.g. for tariff rate of \$2.50 per 1,000 gallons of usage, the commodity gallons for that rate would be divided by 1,000 to arrive at the number of commodity billing units.

Hillcrest Utility Operating Company, Inc.
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 Test Year Ending 7-31-2015
 Updated through 10-31-2015
 Rate Revenue Feeder Schedule - Water

Line Number	A Description	Commercial 5/8"		Total	
		F Amount	G Amount	H Amount	I Amount
1	Customer Charge Revenues:				
2	Customer Number	4		242	
3	Bills Per Year	12			
4	Customer Bills Per year	48		2,904	
5	Current Customer Charge	<u>\$3.58</u>			
6	Annualized Customer Charge Revenues		\$172		\$10,396
7	Commodity Charge Revenues:				
8	Total Gallons Sold	1,005,274		11,946,410	
9	Less: Base Gallons Included In Customer Charge	<u>0</u>		0	
10	Commodity Gallons	1,005,274		11,946,410	
11	Block 1, Commodity Gallons per Block	1,005,274			
12	Block 1, Number of Commodity Gallons per Unit	<u>1,000</u>			
13	Block 1, Commodity Billing Units	1,005.27			
14	Block 1, Existing Commodity Charge	<u>\$1.84</u>			
15	Block 1, Annualized Commodity Charge Rev.		\$1,850		\$21,982
16	Total Annualized Water Rate Revenues		<u>\$2,022</u>		<u>\$32,378</u>

Commodity Billing Units are based on the number of commodity gallons applicable to each block, divided by the tariff usage rate gallons (e.g. for tariff rate of \$2.50 per 1,000 gallons of usage, the commodity gallons for that rate would be divided by 1,000 to arrive at the number of commodity billing units).

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Miscellaneous Revenues Feeder - Water

Line Number	<u>A</u> Description	<u>B</u> Amount
1	1. Primacy Revenue	\$15
2	Description of Miscellaneous Revenue Item2	\$0
3	Total Miscellaneous Revenues	<u>\$15</u>

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Schedule - Water

Line Number	A Account Number (Optional)	B Expense Description	C Company/ Test Year Amount	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		OPERATIONS EXPENSES					
2	623.000	Fuel or Power Purchased for Pumping (Pumping Exp)	\$4,501	W-2	\$1,628	100.00%	\$6,129
3	641.000	Chemicals (Water Treatment Expense)	\$4,453	W-3	-\$2,656	100.00%	\$1,797
4	642.000	Operation Labor and Expenses (Water Treatmt)	\$20,430	W-4	-\$1,951	100.00%	\$18,479
5		TOTAL OPERATIONS EXPENSE	\$29,384		-\$2,979		\$26,405
6		MAINTENANCE EXPENSES					
7	631.000	Maintenance of Structures and Improvements (Pumping Exp)	\$4,453	W-7	-\$3,416	100.00%	\$1,037
8		TOTAL MAINTENANCE EXPENSE	\$4,453		-\$3,416		\$1,037
9		CUSTOMER ACCOUNT EXPENSE					
10	903.100	Customer Records and Collection Expense (Billing & Collections)	\$5,796	W-10	\$457	100.00%	\$6,253
11	903.200	Customer Records and Collection Expense (Office Supplies & Postage)	\$0	W-11	\$168	100.00%	\$168
12	903.280	Customer Records & Collections Expense (Bank Fees)	\$2,949	W-12	-\$618	100.00%	\$2,331
13	904.000	Uncollectible Accounts	\$9,025	W-13	-\$8,558	100.00%	\$467
14	907.000	Customer Service & Information Expense (Web Pages) - CSWR 14%	\$0	W-14	\$38	100.00%	\$38
15		TOTAL CUSTOMER ACCOUNT EXPENSE	\$17,770		-\$8,513		\$9,257
16		ADMINISTRATIVE & GENERAL EXPENSES					
17	920.000	Administrative and General Salaries - CSWR 14%	\$15,640	W-17	\$8,513	100.00%	\$24,153
18	921.110	Office Supplies & Other Expense (Meal, Travel & Indidental Expense) - CSWR 14%	\$3,115	W-18	-\$1,517	100.00%	\$1,598
19	921.500	Office Supplies & Other Expense (Communication Services) - CSWR 14%	\$277	W-19	\$46	100.00%	\$323
20	921.800	Office Supplies & Other Expense (Office Supplies & Expenses) - CSWR 14%	\$737	W-20	-\$242	100.00%	\$495
21	923.100	Outside Services Employed (Bank Fees)	\$420	W-21	-\$330	100.00%	\$90
22	923.400	Outside Services Employed (Attorney/Legal Fees)	\$420	W-22	-\$288	100.00%	\$132
23	923.400	Outside Services Employed (Attorney/Legal Fees) - CSWR 14%	\$420	W-23	-\$373	100.00%	\$47
24	923.500	Outside Services Employed (Accountants/Auditors) - CSWR 14%	\$1,260	W-24	-\$1,097	100.00%	\$163
25	923.600	Outside Services Employed (Management Consultants) - CSWR 14%	\$140	W-25	-\$58	100.00%	\$82
26	923.800	Outside Services Employed (Payroll Fees) - CSWR 14%	\$67	W-26	\$221	100.00%	\$288
27	923.900	Outside Services Employed (IT) - CSWR 14%	\$161	W-27	\$54	100.00%	\$215
28	924.200	Property Insurance (Environmental)	\$8,920	W-28	-\$3,777	100.00%	\$5,143
29	924.300	Property Insurance (Workers' Comp) - CSWR 14%	\$0	W-29	\$110	100.00%	\$110
30	924.400	Property Insurance (Commercial)	\$8,919	W-30	-\$2,345	100.00%	\$6,574
31	926.100	Employee Pension & Benefits (Keyman) - CSWR 14%	\$0			100.00%	\$0
32	926.200	Employee Pension & Benefits (United Healthcare) - CSWR 14%	\$771	W-32	\$3,127	100.00%	\$3,898
33	926.300	Employee Pension & Benefits (401K) - CSWR 14%	\$771	W-33	\$299	100.00%	\$1,070
34	926.400	Employee Pension & Benefits (Life/STD/LTD/AD&D) - CSWR 14%	\$771	W-34	\$1,232	100.00%	\$2,003
35	931.000	Rents - CSWR 14%	\$6,087	W-35	\$34	100.00%	\$6,121

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Schedule - Water

Line Number	A Account Number (Optional)	B Expense Description	C Company/ Test Year Amount	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
36		TOTAL ADMINISTRATIVE AND GENERAL	\$48,896		\$3,609		\$52,505
37		OTHER OPERATING EXPENSES					
38	928.100	Regulatory Commission Expense (DNR)	\$1,188	W-38	-\$988	100.00%	\$200
39	928.200	Regulatory Commission Expense (PSC)	\$1,188	W-39	-\$466	100.00%	\$722
40	928.400	Regulatory Commission Expense (Sec of State Bus License) - CSWR 14%	\$1,188	W-40	-\$1,175	100.00%	\$13
41		Depreciation	\$0	W-41	\$26,675	100.00%	\$26,675
42		TOTAL OTHER OPERATING EXPENSES	<u>\$3,564</u>		<u>\$24,046</u>		<u>\$27,610</u>
43		TAXES OTHER THAN INCOME					
44	408.120	SS& Medicare - CSWR 14%	\$7,255	W-44	-\$5,151	100.00%	\$2,104
45	408.140	Unemployment Tax - CSWR 14%	\$7,255	W-45	-\$6,655	100.00%	\$600
46	408.160	Property Taxes	\$10,098	W-46	-\$10,082	100.00%	\$16
47		TOTAL TAXES OTHER THAN INCOME	<u>\$24,608</u>		<u>-\$21,888</u>		<u>\$2,720</u>
48		TOTAL OPERATING EXPENSES	<u>\$128,675</u>		<u>-\$9,141</u>		<u>\$119,534</u>

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Adjustment Schedule - Water

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
W-2	Fuel or Power Purchased for Pumping (Pumping Exp	623.000		\$1,628
	1. To annualize purchase power. (A. Sarver)		\$1,628	
W-3	Chemicals (Water Treatment Expense)	641.000		-\$2,656
	1. To annualize chemicals. (A. Sarver)		-\$2,656	
W-4	Operation Labor and Expenses (Water Treatmt)	642.000		-\$1,951
	1. To annualize labor and expenses for water treatment. (A. Sarver)		-\$1,951	
W-7	Maintenance of Structures and Improvements (Pump	631.000		-\$3,416
	1. To annualize structures and improvements. (A. Sarver)		-\$3,416	
W-10	Customer Records and Collection Expense (Billing &	903.100		\$457
	1. To annualize customer bills. (A. Sarver)		\$457	
W-11	Customer Records and Collection Expense (Office S	903.200		\$168
	1. To annualize office supplies and postage. (A. Sarver)		\$168	
W-12	Customer Records & Collections Expense (Bank Fee	903.280		-\$618
	1. To annualize bank fees. (A. Sarver)		-\$618	
W-13	Uncollectible Accounts	904.000		-\$8,558
	1. To remove bad debt. (A. Sarver)		-\$8,558	
W-14	Customer Service & Information Expense (Web Page	907.000		\$38
	1. To annualize web page expenses. (A. Sarver)		\$38	

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Adjustment Schedule - Water

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
W-17	Administrative and General Salaries - CSWR 14%	920.000		\$8,513
	1. To adjust test year payroll to reflect Staff's annualized payroll expense. (A. Sarver)		\$8,513	
W-18	Office Supplies & Other Expense (Meal, Travel & Indi	921.110		-\$1,517
	1. Adjustment to annualize travel and meal expenses relating only to Hillcrest water. (A. Sarver)		-\$1,517	
W-19	Office Supplies & Other Expense (Communication Se	921.500		\$46
	1. To annualize communication expense. (A. Sarver)		\$46	
W-20	Office Supplies & Other Expense (Office Supplies & I	921.800		-\$242
	1. Adjustments to office supplies. (A. Sarver)		-\$242	
W-21	Outside Services Employed (Bank Fees)	923.100		-\$330
	1. To annualize bank fees. (A. Sarver)		-\$330	
W-22	Outside Services Employed (Attorney/Legal Fees)	923.400		-\$288
	1. To annualize legal fees. (A. Sarver)		-\$288	
W-23	Outside Services Employed (Attorney/Legal Fees) - C	923.400		-\$373
	1. Adjustment to attorney/legal fees. (A. Sarver)		-\$373	
W-24	Outside Services Employed (Accountants/Auditors) -	923.500		-\$1,097
	1. To annualize accountants/auditors expense. (A. Sarver)		-\$1,097	
W-25	Outside Services Employed (Management Consultan	923.600		-\$58

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Adjustment Schedule - Water

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
	1. Adjustment to management consultant fees. (A. Sarver)		-\$58	
W-26	Outside Services Employed (Payroll Fees) - CSWR 14	923.800		\$221
	1. To annualize payroll fees. (A. Sarver)		\$221	
W-27	Outside Services Employed (IT) - CSWR 14%	923.900		\$54
	1. To annualize IT expenses. (A. Sarver)		\$54	
W-28	Property Insurance (Environmental)	924.200		-\$3,777
	1. To annualize environmental insurance. (A. Sarver)		-\$3,777	
W-29	Property Insurance (Workers' Comp) - CSWR 14%	924.300		\$110
	1. To annualize workerman comp insurance. (A. Sarver)		\$110	
W-30	Property Insurance (Commercial)	924.400		-\$2,345
	1. To annualize property insurance. (A. Sarver)		-\$2,345	
W-32	Employee Pension & Benefits (United Healthcare) - C	926.200		\$3,127
	1. To annualize healthcare benefits. (A. Sarver)		\$3,127	
W-33	Employee Pension & Benefits (401K) - CSWR 14%	926.300		\$299
	1. To annualize 401K benefits. (A. Sarver)		\$299	
W-34	Employee Pension & Benefits (Life/STD/LTD/AD&D) -	926.400		\$1,232
	1. To annualize Life/STD/LTD/AD&D benefits. (A. Sarver)		\$1,232	

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Adjustment Schedule - Water

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
W-35	Rents - CSWR 14%	931.000		\$34
	1. To annualize rent expense. (A. Sarver)		\$34	
W-38	Regulatory Commission Expense (DNR)	928.100		-\$988
	1. Adjustment to include DNR current fees. (A. Sarver)		-\$988	
W-39	Regulatory Commission Expense (PSC)	928.200		-\$466
	1. Adjustment to normalize rate case expense. (A. Sarver)		-\$80	
	2. Adjustment to include PSC Assessment. (A. Sarver)		-\$386	
W-40	Regulatory Commission Expense (Sec of State Bus L	928.400		-\$1,175
	1. To annualize business license for Hillcrest. (A. Sarver)		-\$1,175	
W-41	Depreciation			\$26,675
	1. To Annualize Depreciation		\$27,312	
	2. CIAC depreciation off set. (J. Robinett)		-\$637	
W-44	SS& Medicare - CSWR 14%	408.120		-\$5,151
	1. To adjust for Staff's annualized amount for social security and medicare tax. (A. Sarver)		-\$5,151	
W-45	Unemployment Tax - CSWR 14%	408.140		-\$6,655
	1. To adjust for Staff's annualized amount for unemployment tax. (A. Sarver)		-\$6,655	
W-46	Property Taxes	408.160		-\$10,082
	1. To annualize property tax. (A. Sarver)		-\$10,082	

Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Adjustment Schedule - Water

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
Total Expense Adjustments				<u><u>-\$9,141</u></u>

Exhibit No.: 1
Issue: Accounting Schedules
Witness: MO PSC Auditors
Sponsoring Party: MO PSC Staff
Case No: SR-2016-0065
Date Prepared: February 8, 2016



MISSOURI PUBLIC SERVICE COMMISSION
COMMISSION STAFF DIVISION
STAFF ACCOUNTING SCHEDULES

HILLCREST UTILITY OPERATING COMPANY, INC.
CASE NO. SR-2016-0065

Jefferson City, Missouri

February 2016

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate Design Schedule - Sewer

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
Rev-1	ANNUALIZED REVENUES					
Rev-2	Annualized Rate Revenues		(1) \$41,431			
Rev-3	Miscellaneous Revenues		(1) \$0			
Rev-4	TOTAL ANNUALIZED REVENUES		\$41,431			
1	OPERATIONS EXPENSES		(2)			
2	Chemicals (Treatment and Disposal Exp)	741.000	\$4,179	\$0	\$4,179	0.00%
3	Treatment and Labor	742.000	\$23,088	\$0	\$23,088	0.00%
4	Fuel & Power for Sewage Treatment and Pumping	743.000	\$4,971	\$0	\$4,971	0.00%
5	TOTAL OPERATIONS EXPENSE		\$32,238	\$0	\$32,238	
6	MAINTENANCE EXPENSES					
7	Maintenance of Collection Sewers	712.000	\$10,484	\$0	\$10,484	0.00%
8	Maintenance of Pumping Equipment (Pumping Exp)	732.000	\$803	\$0	\$803	0.00%
9	Maintenance of Treatment & Disposal Plant	752.000	\$400	\$0	\$400	0.00%
10	TOTAL MAINTENANCE EXPENSE		\$11,687	\$0	\$11,687	
11	CUSTOMER ACCOUNT EXPENSE					
12	Customer Records & Collection Expense (Billing & Collections)	903.100	\$6,229	\$0	\$6,229	0.00%
13	Customer Records & Collection Expense (Office Supplies & Postage)	903.200	\$58	\$0	\$58	0.00%
14	Customer Records & Collection Expense (Bank Fees)	903.280	\$2,331	\$0	\$2,331	0.00%
15	Uncollectible Accounts	904.000	\$467	\$0	\$467	0.00%
16	Customer Service & Information Expense (web page) - CSWR 14%	907.000	\$38	\$0	\$38	0.00%
17	TOTAL CUSTOMER ACCOUNT EXPENSE		\$9,123	\$0	\$9,123	
18	ADMINISTRATIVE & GENERAL EXPENSES					
19	Administrative and General Salaries - CSWR 14%	920.000	\$24,153	\$0	\$24,153	0.00%
20	Office Supplies & Other Expenses (Meals, Travel, Indidental Expense) - CSWR 14%	921.110	\$1,598	\$0	\$1,598	0.00%
21	Office Supplies & Other Expenses (Communication Service) - CSWR 14%	921.500	\$323	\$0	\$323	0.00%
22	Office Supplies & Other Expenses (Office	921.800	\$495	\$0	\$495	0.00%
23	Outside Services Employed (Bank Fees)	923.100	\$90	\$0	\$90	0.00%
24	Outside Services Employed (Attorneys/Legal Fees)	923.400	\$132	\$0	\$132	0.00%
25	Outside Services Employed (Attorneys/Legal Fees) - CSWR 14%	923.400	\$47	\$0	\$47	0.00%
26	Outside Services Employed (Accountants/Auditors) - CSWR 14%	923.500	\$163	\$0	\$163	0.00%
27	Outside Services Employed (Management Consultants) - CSWR 14%	923.600	\$82	\$0	\$82	0.00%
28	Outside Services Employed (Payroll Fees) - CSWR 14%	923.800	\$288	\$0	\$288	0.00%
29	Outside Services Employed (IT) - CSWR 14%	923.900	\$215	\$0	\$215	0.00%
30	Property Insurance (Environmental)	924.200	\$5,143	\$0	\$5,143	0.00%
31	Property Insurance (Workers' Comp) - CSWR 14%	924.300	\$110	\$0	\$110	0.00%
32	Property Insurance (Commercial)	924.400	\$6,574	\$0	\$6,574	0.00%
33	Employee Pension & Benefits (Keyman) - CSWR 14%	926.100	\$0	\$0	\$0	0.00%
34	Employee Pension & Benefits (United Healthcare) - CSWR 14%	926.200	\$3,898	\$0	\$3,898	0.00%
35	Employee Pension & Benefits (401k) - CSWR 14%	926.300	\$1,070	\$0	\$1,070	0.00%

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate Design Schedule - Sewer

Line Number	A Description	B Account Number (Optional)	C Staff Annualized	D Customer Charge	E Commodity	F Percentage Rate
36	Employee Pension & Benefits (Life/STD/LTD/AD&D) - CSWR 14%	926.400	\$2,003	\$0	\$2,003	0.00%
37	Rents - CSWR 14%	931.000	\$6,121	\$0	\$6,121	0.00%
38	TOTAL ADMINISTRATIVE AND GENERAL		\$52,505	\$0	\$52,505	
39	OTHER OPERATING EXPENSES					
40	Regulatory Commission Expense (DNR)	928.100	\$3,000	\$0	\$3,000	0.00%
41	Regulatory Commission Expense (PSC)	928.200	\$732	\$0	\$732	0.00%
42	Regulatory Commission Expense (Sec of State Bus License) - CSWR 14%	928.400	\$13	\$0	\$13	0.00%
43	Depreciation		\$31,467	\$0	\$31,467	0.00%
44	TOTAL OTHER OPERATING EXPENSES		\$35,212	\$0	\$35,212	
45	TAXES OTHER THAN INCOME					
46	SS & Medicare - CSWR 14%	408.120	\$2,104	\$0	\$2,104	0.00%
47	Unemployment Tax - CSWR 14%	408.140	\$600	\$0	\$600	0.00%
48	Property Tax	408.160	\$16	\$0	\$16	0.00%
49	TOTAL TAXES OTHER THAN INCOME		\$2,720	\$0	\$2,720	
50	TOTAL OPERATING EXPENSES		\$143,485	\$0	\$143,485	
51	Interest Expense		(3) \$40,657	\$0	\$40,657	0.00%
52	Return on Equity		(3) \$19,657	\$0	\$19,657	0.00%
53	Income Taxes		(3) \$4,895	\$0	\$4,895	0.00%
54	TOTAL INTEREST RETURN & TAXES		\$65,209	\$0	\$65,209	
55	TOTAL COST OF SERVICE		\$208,694	\$0	\$208,694	
56	Less: Miscellaneous Revenues		\$0	\$0	\$0	0.00%
57	COST TO RECOVER IN RATES		\$208,694	\$0	\$208,694	
58	INCREMENTAL INCREASE IN RATE REVENUES		\$167,263			
59	PERCENTAGE OF INCREASE		403.71%			
60	REQUESTED INCREASE IN REVENUES		\$216,663			

- (1) From Revenue Schedule
(2) From Expense Schedule
(3) From PreTax Rate of Return Schedule, Rate Base & Return Schedule

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate Base Required Return on Investment Schedule - Sewer

Line Number	<u>A</u> Rate Base Description	<u>B</u> Dollar Amount
1	Plant In Service	\$831,094 From Plant Schedule
2	Less Accumulated Depreciation Reserve	<u>\$182,197</u> From Depreciation Reserve Schedule
3	Net Plant In Service	\$648,897
4	Other Rate Base Items:	\$0
	Contribution in Aid of Construction Amortization (positive or zero)	\$82,915
	Prepayment (Workers Comp)	\$78
	Contribution in Aid of Construction (negative or zero)	-\$121,424
5	Total Rate Base	<u>\$610,466</u>
6	Total Weighted Rate of Return Including Income Tax	<u>10.68%</u> From PreTax Return & Taxes Schedule
7	Required Return & Income Tax	<u><u>\$65,209</u></u>

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Rate of Return Including Income Tax - Sewer

		A	B	formulas
1	State Income Tax Rate Statutory / Effective	6.25% (2)	5.81%	(1 - (B2 x .5)) x A1
2	Federal Income Tax Rate Statutory / Effective	15.00% (1) & (2)	<u>14.13%</u>	(1 - B1) x A2
3	Composite Effective Income Tax Rate		19.94%	B1 + B2
4	Equity Tax Factor		1.2490	1 / (1-B3)
5	Recommended Weighted Rate of Return on Equity - Common and Preferred		<u>3.22%</u>	From Capital Structure Schedule
6	Weighted Rate of Return on Equity Including Income Tax		4.02%	B4 x B5
7	Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term		<u>6.66%</u>	From Capital Structure Schedule
8	Total Weighted Rate of Return Including Income Tax		<u><u>10.68%</u></u>	B6+B7

To Rate Base Schedule

(1) If Sub-Chapter S Corporation, Enter Y: N

Equity Income Required \$23,126
& Preliminary Federal Tax

Tax Rate Table

Net Income Range				
Start	End	Tax Rate	Amount in Range	Tax on Range
\$0	\$50,000	15.00%	\$23,126	\$3,469
\$50,001	\$75,000	25.00%	\$0	\$0
\$75,001	\$100,000	34.00%	\$0	\$0
\$100,001	\$335,000	39.00%	\$0	\$0
\$335,001	\$9,999,999,999	34.00%	\$0	\$0
			<u>\$23,126</u>	<u>\$3,469</u>
			Consolidated Tax Rate:	
			Average Tax Rate:	0.15

Hillcrest Utility Operating Company, Inc.
 Case No. SR-2016-0065
 Test Year Ending 7-31-2015
 Updated through 10-31-2015
 Capital Structure Schedule - Sewer

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	\$287,165	25.00%	12.88%	3.220%
2	Other Security-Non Tax Deductible	\$0	0.00%	0.00%	0.000%
3	Preferred Stock	\$0	0.00%	0.00%	0.000%
4	Long Term Debt	\$861,498	75.00%	8.88%	6.660%
5	Short Term Debt	\$0	0.00%	0.00%	0.000%
6	Other Security-Tax Deductible	\$0	0.00%	0.00%	0.000%
7	TOTAL CAPITALIZATION	<u>\$1,148,663</u>	<u>100.00%</u>		<u>9.880%</u>

To PreTax Return Rate Schedule

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Plant In Service - Sewer

Line Number	A Account # (Optional)	B Plant Account Description	C Total Plant	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		INTANGIBLE PLANT					
2	301.000	Organization	\$0			100.00%	\$0
3	302.000	Franchises	\$0			100.00%	\$0
4	303.000	Miscellaneous Intangible Plant	\$0			100.00%	\$0
5		TOTAL INTANGIBLE PLANT	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
6		SOURCE OF SUPPLY PLANT					
7	310.000	Land & Land Rights	\$0			100.00%	\$0
8		TOTAL SOURCE OF SUPPLY PLANT	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
9		COLLECTION PLANT					
10	351.000	Structures and Improvements	\$0			100.00%	\$0
11	352.100	Collection Sewers - Force	\$57,096	P-11	\$10,088	100.00%	\$67,184
12	352.200	Collection Sewers - Gravity	\$72,980	P-12	\$15,955	100.00%	\$88,935
13	353.000	Services to Customers	\$7,186			100.00%	\$7,186
14		TOTAL COLLECTION PLANT	<u>\$137,262</u>		<u>\$26,043</u>		<u>\$163,305</u>
15		PUMPING PLANT					
16	363.000	Electric Pumping Equipment	\$0	P-16	\$2,400	100.00%	\$2,400
17		TOTAL PUMPING PLANT	<u>\$0</u>		<u>\$2,400</u>		<u>\$2,400</u>
18		TREATMENT & DISPOSAL PLANT					
19	371.000	Structures and Improvements	\$0	P-19	\$22,189	100.00%	\$22,189
20	372.000	Treatment and Disposal Equipment	\$12,184	P-20	\$431,101	100.00%	\$443,285
21	372.100	Oxidation Lagoon	\$91,204			100.00%	\$91,204
22	373.000	Plant Sewers	\$0	P-22	\$42,757	100.00%	\$42,757
23	374.000	Outfall Sewer Lines	\$0	P-23	\$40,870	100.00%	\$40,870
24		TOTAL TREATMENT & DISPOSAL PLANT	<u>\$103,388</u>		<u>\$536,917</u>		<u>\$640,305</u>
25		GENERAL PLANT					
26	391.000	Office Furniture & Equipment - CSWR 14%	\$0	P-26	\$681	100.00%	\$681
27	391.100	Office Computer Equipment & Software - CSWR 14%	\$0	P-27	\$531	100.00%	\$531
28	393.000	Stores Equipment	\$700			100.00%	\$700
29	397.000	Communication Equipment	\$0	P-29	\$23,172	100.00%	\$23,172
30		TOTAL GENERAL PLANT	<u>\$700</u>		<u>\$24,384</u>		<u>\$25,084</u>
31		TOTAL PLANT IN SERVICE	<u>\$241,350</u>		<u>\$589,744</u>		<u>\$831,094</u>

To Rate Base & Depreciation Schedules

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Schedule of Adjustments for Plant in Service - Sewer

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
P-11	Collection Sewers - Force	352.100		\$10,088
	1. To include plant improvements since acquisition case for collection sewers - force. (Sarver/Robinett)		\$12,259	
	2. To move from Account 352.100 to Account 363.00 (Robinett)		-\$2,400	
	3. AFUDC - Carrying Cost. (Sarver)		\$229	
P-12	Collection Sewers - Gravity	352.200		\$15,955
	1. To include plant improvements since acquisition case for collection sewers - gravity. (Sarver/Robinett)		\$924	
	2. To include a new house connection per estimate from Josiah Cox on 12-28-2015. (J. Robinett)		\$15,000	
	3. AFUDC - Carrying Cost. (Sarver)		\$31	
P-16	Electric Pumping Equipment	363.000		\$2,400
	1. To move from Account 352.10 (Robinett)		\$2,400	
P-19	Structures and Improvements	371.000		\$22,189
	1. To include plant improvements since acquisition case for structures and improvements. (Sarver/Robinett)		\$21,853	
	2. AFUDC - Carrying Cost. (Sarver)		\$336	
P-20	Treatment and Disposal Equipment	372.000		\$431,101
	1. To include plant improvements since acquisition case for treatment and disposal equipment. (Sarver/Robinett)		\$423,362	

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Schedule of Adjustments for Plant in Service - Sewer

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
	2. To capitalize payroll. (Sarver)		\$886	
	3. AFUDC - Carrying Cost. (Sarver)		\$6,853	
P-22	Plant Sewers	373.000		\$42,757
	1. To include plant improvements since acquisition case for plant sewers. (Sarver/Robinett)		\$42,136	
	2. AFUDC - Carrying Cost. (Sarver)		\$621	
P-23	Outfall Sewer Lines	374.000		\$40,870
	1. To include plant improvements since acquisition case for outfall sewer lines. (Sarver/Robinett)		\$40,250	
	3. AFUDC - Carrying Cost. (Sarver)		\$620	
P-26	Office Furniture & Equipment - CSWR 14%	391.000		\$681
	1. To include plant improvements since acquisition case for office furniture and equipment. (Sarver/Robinett)		\$681	
P-27	Office Computer Equipment & Software - CSWR 14%	391.100		\$531
	1. To include plant improvements since acquisition case for office computer equipment. (Sarver/Robinett)		\$531	
P-29	Communication Equipment	397.000		\$23,172
	1. To include plant improvements since acquisition case for communication equipment. (Sarver/Robinett)		\$22,415	
	3. AFUDC - Carrying Cost. (Sarver)		\$757	

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Schedule of Adjustments for Plant in Service - Sewer

<u>A</u> Plant Adjustment Number	<u>B</u> Plant In Service Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
Total Plant Adjustments				<u><u>\$589,744</u></u>

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Depreciation Expense - Sewer

Line Number	A Account Number	B Plant Account Description	C Adjusted Jurisdictional	D Depreciation Rate	E Depreciation Expense	F Average Life	G Net Salvage
1		INTANGIBLE PLANT					
2	301.000	Organization	\$0	0.00%	\$0	0	0.00%
3	302.000	Franchises	\$0	0.00%	\$0	0	0.00%
4	303.000	Miscellaneous Intangible Plant	\$0	0.00%	\$0	0	0.00%
5		TOTAL INTANGIBLE PLANT	\$0		\$0		
6		SOURCE OF SUPPLY PLANT					
7	310.000	Land & Land Rights	\$0	0.00%	\$0	0	0.00%
8		TOTAL SOURCE OF SUPPLY PLANT	\$0		\$0		
9		COLLECTION PLANT					
10	351.000	Structures and Improvements	\$0	0.00%	\$0	28	0.00%
11	352.100	Collection Sewers - Force	\$67,184	2.00%	\$1,344	50	0.00%
12	352.200	Collection Sewers - Gravity	\$88,935	2.00%	\$1,779	50	0.00%
13	353.000	Services to Customers	\$7,186	2.00%	\$144	50	0.00%
14		TOTAL COLLECTION PLANT	\$163,305		\$3,267		
15		PUMPING PLANT					
16	363.000	Electric Pumping Equipment	\$2,400	10.00%	\$240	10	0.00%
17		TOTAL PUMPING PLANT	\$2,400		\$240		
18		TREATMENT & DISPOSAL PLANT					
19	371.000	Structures and Improvements	\$22,189	3.70%	\$821	30	-10.00%
20	372.000	Treatment and Disposal Equipment	\$443,285	5.00%	\$22,164	22	-10.00%
21	372.100	Oxidation Lagoon	\$91,204	4.00%	\$3,648	40	-60.00%
22	373.000	Plant Sewers	\$42,757	2.50%	\$1,069	40	0.00%
23	374.000	Outfall Sewer Lines	\$40,870	2.00%	\$817	50	0.00%
24		TOTAL TREATMENT & DISPOSAL PLANT	\$640,305		\$28,519		
25		GENERAL PLANT					
26	391.000	Office Furniture & Equipment - CSWR 14%	\$681	5.00%	\$34	20	0.00%
27	391.100	Office Computer Equipment & Software - CSWR 14%	\$531	14.30%	\$76	7	0.00%
28	393.000	Stores Equipment	\$700	4.00%	\$28	25	0.00%
29	397.000	Communication Equipment	\$23,172	6.70%	\$1,553	15	0.00%
30		TOTAL GENERAL PLANT	\$25,084		\$1,691		
31		Total Depreciation	\$831,094		\$33,717		

Note: Average Life and Net Salvage columns are informational and have no impact on the entered Depreciation Rate.

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Accumulated Depreciation Reserve - Sewer

Line Number	A Account Number	B Depreciation Reserve Description	C Total Reserve	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		INTANGIBLE PLANT					
2	301.000	Organization	\$0			100.00%	\$0
3	302.000	Franchises	\$0			100.00%	\$0
4	303.000	Miscellaneous Intangible Plant	\$0			100.00%	\$0
5		TOTAL INTANGIBLE PLANT	\$0		\$0		\$0
6		SOURCE OF SUPPLY PLANT					
7	310.000	Land & Land Rights	\$0			100.00%	\$0
8		TOTAL SOURCE OF SUPPLY PLANT	\$0		\$0		\$0
9		COLLECTION PLANT					
10	351.000	Structures and Improvements	\$0			100.00%	\$0
11	352.100	Collection Sewers - Force	\$51,465	R-11	\$435	100.00%	\$51,900
12	352.200	Collection Sewers - Gravity	\$34,239	R-12	\$463	100.00%	\$34,702
13	353.000	Services to Customers	\$5,421	R-13	\$180	100.00%	\$5,601
14		TOTAL COLLECTION PLANT	\$91,125		\$1,078		\$92,203
15		PUMPING PLANT					
16	363.000	Electric Pumping Equipment	\$0	R-16	\$100	100.00%	\$100
17		TOTAL PUMPING PLANT	\$0		\$100		\$100
18		TREATMENT & DISPOSAL PLANT					
19	371.000	Structures and Improvements	\$0	R-19	\$342	100.00%	\$342
20	372.000	Treatment and Disposal Equipment	\$12,241	R-20	\$9,743	100.00%	\$21,984
21	372.100	Oxidation Lagoon	\$61,150	R-21	\$3,880	100.00%	\$65,030
22	373.000	Plant Sewers	\$0	R-22	\$445	100.00%	\$445
23	374.000	Outfall Sewer Lines	\$0	R-23	\$341	100.00%	\$341
24		TOTAL TREATMENT & DISPOSAL PLANT	\$73,391		\$14,751		\$88,142
25		GENERAL PLANT					
26	391.000	Office Furniture & Equipment - CSWR 14%	\$0	R-26	\$18	100.00%	\$18
27	391.100	Office Computer Equipment & Software - CSWR 14%	\$0	R-27	\$44	100.00%	\$44
28	393.000	Stores Equipment	\$955	R-28	\$88	100.00%	\$1,043
29	397.000	Communication Equipment	\$0	R-29	\$647	100.00%	\$647
30		TOTAL GENERAL PLANT	\$955		\$797		\$1,752
31		TOTAL DEPRECIATION RESERVE	\$165,471		\$16,726		\$182,197

To Rate Base Schedule

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Schedule of Adjustments for Accumulated Depreciation Reserve - Sewer

<u>A</u> Reserve Adjustment Number	<u>B</u> Accumulated Depreciation Reserve Adjustments Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment Amount
R-11	Collection Sewers - Force	352.100		\$435
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$435	
R-12	Collection Sewers - Gravity	352.200		\$463
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$463	
R-13	Services to Customers	353.000		\$180
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$180	
R-16	Electric Pumping Equipment	363.000		\$100
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$100	
R-19	Structures and Improvements	371.000		\$342
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$342	
R-20	Treatment and Disposal Equipment	372.000		\$9,743
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$9,743	
R-21	Oxidation Lagoon	372.100		\$3,880
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$3,880	

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Schedule of Adjustments for Accumulated Depreciation Reserve - Sewer

<u>A</u> Reserve Adjustment Number	<u>B</u> Accumulated Depreciation Reserve Adjustments Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment Amount
R-22	Plant Sewers	373.000		\$445
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$445	
R-23	Outfall Sewer Lines	374.000		\$341
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$341	
R-26	Office Furniture & Equipment - CSWR 14%	391.000		\$18
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$18	
R-27	Office Computer Equipment & Software - CSWR	391.100		\$44
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$44	
R-28	Stores Equipment	393.000		\$88
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$88	
R-29	Communication Equipment	397.000		\$647
	1. To update reserves as of 10-31-2015. (J. Robinett)		\$647	
Total Reserve Adjustments				\$16,726

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Revenue Schedule - Sewer

Line Number	A Account Number (Optional)	B Revenue Description	C Company/ Test Year Amount	D Adjustment Number	E Jurisdictional Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
Rev-1		ANNUALIZED REVENUES					
Rev-2		Annualized Rate Revenues	\$13,737	Rev-2	\$27,694	100.00%	\$41,431
Rev-3		Miscellaneous Revenues	\$0	Rev-3	\$0	100.00%	\$0
Rev-4		TOTAL ANNUALIZED REVENUES	\$13,737		\$27,694		\$41,431

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Revenue Adjustment Schedule - Sewer

<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Revenue Adj Number	Adjustment Description	Account Number	Adjustment Amount	Total Adjustment
Rev-2	Annualized Rate Revenues			\$27,694
	1. To Annualize Rate Revenues		\$27,694	
Rev-3	Miscellaneous Revenues			\$0
	1. To Annualize Miscellaneous Revenues		\$0	
Total Revenue Adjustments				\$27,694

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Revenue Summary Schedule - Sewer

Line Number	A Description	Residential 5/8"		Apartments 5/8"	
		B Amount	C Amount	D Amount	E Amount
1	Customer Charge Revenues:				
2	Customer Number	216		20	
3	Bills Per Year	12		12	
4	Customer Bills Per year	2,592		240	
5	Current Customer Charge	<u>\$14.63</u>		<u>\$11.70</u>	
6	Annualized Customer Charge Revenues		\$37,921		\$2,808
7	Commodity Charge Revenues:				
8	Total Gallons Sold	0		0	
9	Less: Base Gallons Included In Customer Charge	<u>0</u>		<u>0</u>	
10	Commodity Gallons	0		0	
11	Block 1, Commodity Gallons per Block	0		0	
12	Block 1, Number of Commodity Gallons per Unit	<u>0</u>		<u>0</u>	
13	Block 1, Commodity Billing Units	0.00		0.00	
14	Block 1, Existing Commodity Charge	<u>\$0.00</u>		<u>\$0.00</u>	
15	Block 1, Annualized Commodity Charge Rev.		\$0		\$0
16	Total Annualized Sewer Rate Revenues		<u>\$37,921</u>		<u>\$2,808</u>

Commodity Billing Units are based on the number of commodity gallons applicable to each block, divided by the tariff usage rate gallons (e.g. for tariff rate of \$2.50 per 1,000 gallons of usage, the commodity gallons for that rate would be divided by 1,000 to arrive at the number of commodity billing units.

Hillcrest Utility Operating Company, Inc.
 Case No. SR-2016-0065
 Test Year Ending 7-31-2015
 Updated through 10-31-2015
 Revenue Summary Schedule - Sewer

Line Number	A Description	Commercial 5/8"		Total	
		F Amount	G Amount	H Amount	I Amount
1	Customer Charge Revenues:				
2	Customer Number	4		240	
3	Bills Per Year	12			
4	Customer Bills Per year	48		2,880	
5	Current Customer Charge	<u>\$14.63</u>			
6	Annualized Customer Charge Revenues		\$702		\$41,431
7	Commodity Charge Revenues:				
8	Total Gallons Sold	0		0	
9	Less: Base Gallons Included In Customer Charge	<u>0</u>		0	
10	Commodity Gallons	0		0	
11	Block 1, Commodity Gallons per Block	0			
12	Block 1, Number of Commodity Gallons per Unit	<u>0</u>			
13	Block 1, Commodity Billing Units	0.00			
14	Block 1, Existing Commodity Charge	<u>\$0.00</u>			
15	Block 1, Annualized Commodity Charge Rev.		\$0		\$0
16	Total Annualized Sewer Rate Revenues		<u>\$702</u>		<u>\$41,431</u>

Commodity Billing Units are based on the number of commodity gallons applicable to each block, divided by the tariff usage rate gallons (e.g. for tariff rate of \$2.50 per 1,000 gallons of usage, the commodity gallons for that rate would be divided by 1,000 to arrive at the number of commodity billing units).

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Miscellaneous Revenues Feeder - Sewer

Line Number	<u>A</u> Description	<u>B</u> Amount
1	Description of Miscellaneous Revenue Item1	\$0
2	Description of Miscellaneous Revenue Item2	\$0
3	Total Miscellaneous Revenues	<u>\$0</u>

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Schedule - Sewer

Line Number	A Account Number (Optional)	B Expense Description	C Company/ Test Year Amount	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
1		OPERATIONS EXPENSES					
2	741.000	Chemicals (Treatment and Disposal Exp)	\$4,453	S-2	-\$274	100.00%	\$4,179
3	742.000	Treatment and Labor	\$20,430	S-3	\$2,658	100.00%	\$23,088
4	743.000	Fuel & Power for Sewage Treatment and Pumping	\$4,501	S-4	\$470	100.00%	\$4,971
5		TOTAL OPERATIONS EXPENSE	\$29,384		\$2,854		\$32,238
6		MAINTENANCE EXPENSES					
7	712.000	Maintenance of Collection Sewers	\$0	S-7	\$10,484	100.00%	\$10,484
8	732.000	Maintenance of Pumping Equipment (Pumping Exp)	\$4,453	S-8	-\$3,650	100.00%	\$803
9	752.000	Maintenance of Treatment & Disposal Plant	\$4,453	S-9	-\$4,053	100.00%	\$400
10		TOTAL MAINTENANCE EXPENSE	\$8,906		\$2,781		\$11,687
11		CUSTOMER ACCOUNT EXPENSE					
12	903.100	Customer Records & Collection Expense (Billing & Collections)	\$5,796	S-12	\$433	100.00%	\$6,229
13	903.200	Customer Records & Collection Expense (Office Supplies & Postage)	\$0	S-13	\$58	100.00%	\$58
14	903.280	Customer Records & Collection Expense (Bank Fees)	\$2,949	S-14	-\$618	100.00%	\$2,331
15	904.000	Uncollectible Accounts	\$9,025	S-15	-\$8,558	100.00%	\$467
16	907.000	Customer Service & Information Expense (web page) - CSWR 14%	\$0	S-16	\$38	100.00%	\$38
17		TOTAL CUSTOMER ACCOUNT EXPENSE	\$17,770		-\$8,647		\$9,123
18		ADMINISTRATIVE & GENERAL EXPENSES					
19	920.000	Administrative and General Salaries - CSWR 14%	\$15,640	S-19	\$8,513	100.00%	\$24,153
20	921.110	Office Supplies & Other Expenses (Meals, Travel, Incidental Expense) - CSWR 14%	\$3,115	S-20	-\$1,517	100.00%	\$1,598
21	921.500	Office Supplies & Other Expenses (Communication Service) - CSWR 14%	\$277	S-21	\$46	100.00%	\$323
22	921.800	Office Supplies & Other Expenses (Office Supplies & Expenses) - CSWR 14%	\$737	S-22	-\$242	100.00%	\$495
23	923.100	Outside Services Employed (Bank Fees)	\$420	S-23	-\$330	100.00%	\$90
24	923.400	Outside Services Employed (Attorneys/Legal Fees)	\$420	S-24	-\$288	100.00%	\$132
25	923.400	Outside Services Employed (Attorneys/Legal Fees) - CSWR 14%	\$420	S-25	-\$373	100.00%	\$47
26	923.500	Outside Services Employed (Accountants/Auditors) - CSWR 14%	\$1,260	S-26	-\$1,097	100.00%	\$163
27	923.600	Outside Services Employed (Management Consultants) - CSWR 14%	\$140	S-27	-\$58	100.00%	\$82
28	923.800	Outside Services Employed (Payroll Fees) - CSWR 14%	\$67	S-28	\$221	100.00%	\$288
29	923.900	Outside Services Employed (IT) - CSWR 14%	\$161	S-29	\$54	100.00%	\$215
30	924.200	Property Insurance (Environmental)	\$8,920	S-30	-\$3,777	100.00%	\$5,143
31	924.300	Property Insurance (Workers' Comp) - CSWR 14%	\$0	S-31	\$110	100.00%	\$110
32	924.400	Property Insurance (Commercial)	\$8,919	S-32	-\$2,345	100.00%	\$6,574
33	926.100	Employee Pension & Benefits (Keyman) - CSWR 14%	\$0			100.00%	\$0
34	926.200	Employee Pension & Benefits (United Healthcare) - CSWR 14%	\$771	S-34	\$3,127	100.00%	\$3,898
35	926.300	Employee Pension & Benefits (401k) - CSWR 14%	\$771	S-35	\$299	100.00%	\$1,070
36	926.400	Employee Pension & Benefits (Life/STD/LTD/AD&D) - CSWR 14%	\$771	S-36	\$1,232	100.00%	\$2,003

Hillcrest Utility Operating Company, Inc.
 Case No. SR-2016-0065
 Test Year Ending 7-31-2015
 Updated through 10-31-2015
 Expense Schedule - Sewer

Line Number	A Account Number (Optional)	B Expense Description	C Company/ Test Year Amount	D Adjustment Number	E Adjustments	F Jurisdictional Allocation	G Adjusted Jurisdictional
37	931.000	Rents - CSWR 14%	\$6,087	S-37	\$34	100.00%	\$6,121
38		TOTAL ADMINISTRATIVE AND GENERAL	<u>\$48,896</u>		<u>\$3,609</u>		<u>\$52,505</u>
39		OTHER OPERATING EXPENSES					
40	928.100	Regulatory Commission Expense (DNR)	\$1,188	S-40	\$1,812	100.00%	\$3,000
41	928.200	Regulatory Commission Expense (PSC)	\$1,188	S-41	-\$456	100.00%	\$732
42	928.400	Regulatory Commission Expense (Sec of State Bus License) - CSWR 14%	\$1,188	S-42	-\$1,175	100.00%	\$13
43		Depreciation	\$0	S-43	\$31,467	100.00%	\$31,467
44		TOTAL OTHER OPERATING EXPENSES	<u>\$3,564</u>		<u>\$31,648</u>		<u>\$35,212</u>
45		TAXES OTHER THAN INCOME					
46	408.120	SS & Medicare - CSWR 14%	\$7,255	S-46	-\$5,151	100.00%	\$2,104
47	408.140	Unemployment Tax - CSWR 14%	\$7,255	S-47	-\$6,655	100.00%	\$600
48	408.160	Property Tax	\$10,098	S-48	-\$10,082	100.00%	\$16
49		TOTAL TAXES OTHER THAN INCOME	<u>\$24,608</u>		<u>-\$21,888</u>		<u>\$2,720</u>
50		TOTAL OPERATING EXPENSES	<u>\$133,128</u>		<u>\$10,357</u>		<u>\$143,485</u>

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Adjustment Schedule - Sewer

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
S-2	Chemicals (Treatment and Disposal Exp)	741.000		-\$274
	1. To annualize chemicals. (A. Sarver)		-\$274	
S-3	Treatment and Labor	742.000		\$2,658
	1. To annualize treatment and labor expense. (A. Sarver)		\$2,658	
S-4	Fuel & Power for Sewage Treatment and Pumping	743.000		\$470
	1. To annualize purchase power. (A. Sarver)		\$470	
S-7	Maintenance of Collection Sewers	712.000		\$10,484
	1. To annualize collection sewer maintenance. (A. Sarver)		\$7,775	
	2. To amortize collection sewer maintenance expense 5 years. (P. Harrison)		\$2,709	
S-8	Maintenance of Pumping Equipment (Pumping Exp)	732.000		-\$3,650
	1. To annualize maintenance of pumping equipment. (A. Sarver)		-\$3,650	
S-9	Maintenance of Treatment & Disposal Plant	752.000		-\$4,053
	1. To annualize maintenance of disposal plant. (A. Sarver)		-\$4,053	
S-12	Customer Records & Collection Expense (Billing & C	903.100		\$433
	1. To annualize customer bills. (A. Sarver)		\$433	
S-13	Customer Records & Collection Expense (Office Sup	903.200		\$58
	1. To annualize office supplies and postage. (A. Sarver)		\$58	

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
Test Year Ending 7-31-2015
Updated through 10-31-2015
Expense Adjustment Schedule - Sewer

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
S-14	Customer Records & Collection Expense (Bank Fees	903.280		-\$618
	1. To annualize bank fees. (A. Sarver)		-\$618	
S-15	Uncollectible Accounts	904.000		-\$8,558
	1. To remove bad debt. (A. Sarver)		-\$8,558	
S-16	Customer Service & Information Expense (web page)	907.000		\$38
	1. To annualize web page expenses. (A. Sarver)		\$38	
S-19	Administrative and General Salaries - CSWR 14%	920.000		\$8,513
	1. To adjust test year payroll to reflect Staff's annualized payroll expense. (A. Sarver)		\$8,513	
S-20	Office Supplies & Other Expenses (Meals, Travel, Ind	921.110		-\$1,517
	1. Adjustments to annualize travel and meal expenses relating only to Hillcrest. (A. Sarver)		-\$1,517	
S-21	Office Supplies & Other Expenses (Communication &	921.500		\$46
	1. To annualize communication expense. (A. Sarver)		\$46	
S-22	Office Supplies & Other Expenses (Office Supplies &	921.800		-\$242
	1. Adjustments to office supplies. (A. Sarver)		-\$242	
S-23	Outside Services Employed (Bank Fees)	923.100		-\$330
	1. To annualize bank fees. (A. Sarver)		-\$330	
S-24	Outside Services Employed (Attorneys/Legal Fees)	923.400		-\$288
	1. To annualize legal fees. (A. Sarver)		-\$288	

Hillcrest Utility Operating Company, Inc.
Case No. SR-2016-0065
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Expense Adjustment Schedule - Sewer

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
S-25	Outside Services Employed (Attorneys/Legal Fees) -	923.400		-\$373
	1. Adjustment to attorney/legal fees. (A. Sarver)		-\$373	
S-26	Outside Services Employed (Accountants/Auditors) -	923.500		-\$1,097
	1. To annualize accountants/auditors expense. (A. Sarver)		-\$1,097	
S-27	Outside Services Employed (Management Consultan	923.600		-\$58
	1. Adjustment to management consultant fees. (A. Sarver)		-\$58	
S-28	Outside Services Employed (Payroll Fees) - CSWR 14	923.800		\$221
	1. To annualize payroll fees. (A. Sarver)		\$221	
S-29	Outside Services Employed (IT) - CSWR 14%	923.900		\$54
	1. To annualize IT expenses. (A. Sarver)		\$54	
S-30	Property Insurance (Environmental)	924.200		-\$3,777
	1. To annualize environmental insurance. (A. Sarver)		-\$3,777	
S-31	Property Insurance (Workers' Comp) - CSWR 14%	924.300		\$110
	1. To annualize workerman comp insurance. (A. Sarver)		\$110	
S-32	Property Insurance (Commercial)	924.400		-\$2,345
	1. To annualize property insurance. (A. Sarver)		-\$2,345	
S-34	Employee Pension & Benefits (United Healthcare) - C	926.200		\$3,127

Hillcrest Utility Operating Company, Inc.
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Expense Adjustment Schedule - Sewer

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
	1. To annualize healthcare benefits. (A. Sarver)		\$3,127	
S-35	Employee Pension & Benefits (401k) - CSWR 14%	926.300		\$299
	1. To annualize 401K benefits. (A. Sarver)		\$299	
S-36	Employee Pension & Benefits (Life/STD/LTD/AD&D) -	926.400		\$1,232
	1. To annualize Life/STD/LTD/AD&D benefits. (A. Sarver)		\$1,232	
S-37	Rents - CSWR 14%	931.000		\$34
	1. To annualize rent expense. (A. Sarver)		\$34	
S-40	Regulatory Commission Expense (DNR)	928.100		\$1,812
	1. Adjustment to include DNR current fees. (A. Sarver)		\$1,812	
S-41	Regulatory Commission Expense (PSC)	928.200		-\$456
	1. Adjustment to normalize rate case expense (A. Sarver)		-\$80	
	2. Adjustment to include PSC Assessment. (A. Sarver)		-\$376	
S-42	Regulatory Commission Expense (Sec of State Bus L	928.400		-\$1,175
	1. To annualize business license. (A. Sarver)		-\$1,175	
S-43	Depreciation			\$31,467
	1. To Annualize Depreciation		\$33,717	
	2. CIAC depreciation off set. (J. Robinett)		-\$2,250	
S-46	SS & Medicare - CSWR 14%	408.120		-\$5,151

Hillcrest Utility Operating Company, Inc.
 Case No. SR-2016-0065
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 Expense Adjustment Schedule - Sewer

<u>A</u> Expense Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
	1. To adjust for Staff's annualized amount for social security and medicare tax. (A. Sarver)		-\$5,151	
S-47	Unemployment Tax - CSWR 14%	408.140		-\$6,655
	1. To adjust for Staff's annualized amount for unemployment tax. (A. Sarver)		-\$6,655	
S-48	Property Tax	408.160		-\$10,082
	1. To annualize property tax. (A. Sarver)		-\$10,082	
Total Expense Adjustments				\$10,357

WR-2016-0064
Hillcrest Utility Operating Company, Inc.
Rate Base Worksheet
Source: WR-2015-0064 EMS-2/8/2016
Source: Prepared by Ashley Sarver

Hillcrest Utility Operating Company, Inc.
Rate Base Schedule - Water

1	Plant in Service	\$703,192
2	Accumulated Depreciation Reserve	<u>(\$141,948)</u>
3	Net Plant in Service	\$561,244
4	Other Rate Base Items:	
	Add to net Plant in Service:	
	CIAC Amortization	\$12,259
	Prepayments	<u>\$78</u>
	Total Add to net Plant in Service	\$12,337
	Subtract from net Plant in Service:	
	Contribution in Aid of Construction	<u>(\$35,384)</u>
	Total Subtract from net Plant in Service	(\$35,384)
	Total Rate Base	<u><u>\$538,197</u></u>

SR-2016-0065
Hillcrest Utility Operating Company, Inc.
Rate Base Worksheet
Source: SR-2016-0065 EMS-2/8/2016
Source: Prepared by Ashley Sarver

Hillcrest Utility Operating Company, Inc.
Rate Base Schedule - Sewer

1	Plant in Service	\$831,094
2	Accumulated Depreciation Reserve	<u>(\$182,197)</u>
3	Net Plant in Service	\$648,897
4	Other Rate Base Items:	
	Add to net Plant in Service:	
	CIAC Amortization	\$82,915
	Prepayments	\$78
	Total Add to net Plant in Service	<u>\$82,993</u>
	Subtract from net Plant in Service:	
	Contribution in Aid of Construction	<u>(\$121,424)</u>
	Total Subtract from net Plant in Service	<u>(\$121,424)</u>
	Total Rate Base	<u><u>\$610,466</u></u>

Hillcrest Utility Operating Company, Inc

SCHEDULE of DEPRECIATION RATES

(WATER Class A & B)

WR-2016-0064 Attachment D

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT DESCRIPTION</u>	<u>DEPRECIATION RATE</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>	<u>NET SALVAGE</u>
	Source of Supply			
311	Structures & Improvements	2.5%	44	-10%
314	Wells & Springs	2.0%	55	-8%
316	Supply Mains	2.0%	50	0%
	Pumping Plant			
323	Other Power Production Equipment	4.0%	25	0%
325.1	Submersible Pumping Equipment	10.0%	12	-20%
	Water Treatment Plant			
332	Water Treatment Equipment	2.9%	35	0%
	Transmission and Distribution			
342	Distribution Reservoirs & Standpipes	2.5%	42	-5%
343	Transmission & Distribution Mains	2.0%	50	0%
345	Customer Services	2.5%	40	0%
346	Customer Meters, Plastic (Throw Aways)	10.0%	10	0%
347	Customer Meter Pits & Installation	2.5%	40	0%
348	Hydrants	2.0%	50	0%
	General Plant			
390	Structures & Improvements	2.5%	44	-10%
391	Office Furniture & Equipment	5.0%	20	0%
391.1	Office Electronic / Computer Equip./ Software	14.3%	7	0%
397	Communication Equipment	6.7%	15	0%

Hillcrest Utility Operating Company, Inc

SCHEDULE of DEPRECIATION RATES (SEWER Class A & B)

SR-2016-0065 Attachment D

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT DESCRIPTION</u>	<u>DEPRECIATION RATE</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>	<u>NET SALVAGE</u>
COLLECTION PLANT				
352.1	Collection Sewers (Force)	2.0%	50	0%
352.2	Collection Sewers (Gravity)	2.0%	50	0%
353	Services (A & B)	2.0%	50	0%
PUMPING PLANT				
363	Electric Pumping Equipment	10.0%	10	0%
TREATMENT & DISPOSAL PLANT				
371	Structures & Improvements	3.7%	30	-10%
372	Treatment & Disposal Facilities	5.0%	22	-10%
372.1	Oxidation Lagoons	4.0%	40	-60%
373	Plant Sewers	2.5%	40	0%
374	Outfall Sewer Lines	2.0%	50	0%
GENERAL PLANT				
391	Office Furniture & Equipment	5.0%	20	0%
391.1	Office Electronic / Computer Equip./ Software	14.3%	7	0%
393	Stores Equipment	4.0%	25	0%
397	Communication Equipment	6.7%	15	0%

Name of Utility: Hillcrest Utility Operating Company, Inc.
 Service Area: Hillcrest Manor Subdivision

Rules and Regulations Governing Rendering of
 Water Service

INDEX

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10	2	General Rules and Regulations
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12	4	Applications for Water Service
13	5	Inside Piping and Water Service Lines
17	6	Improper or Excessive Use
18	7	Discontinuance of Service by Company
23	8	Termination of Water Service at Customer's Request
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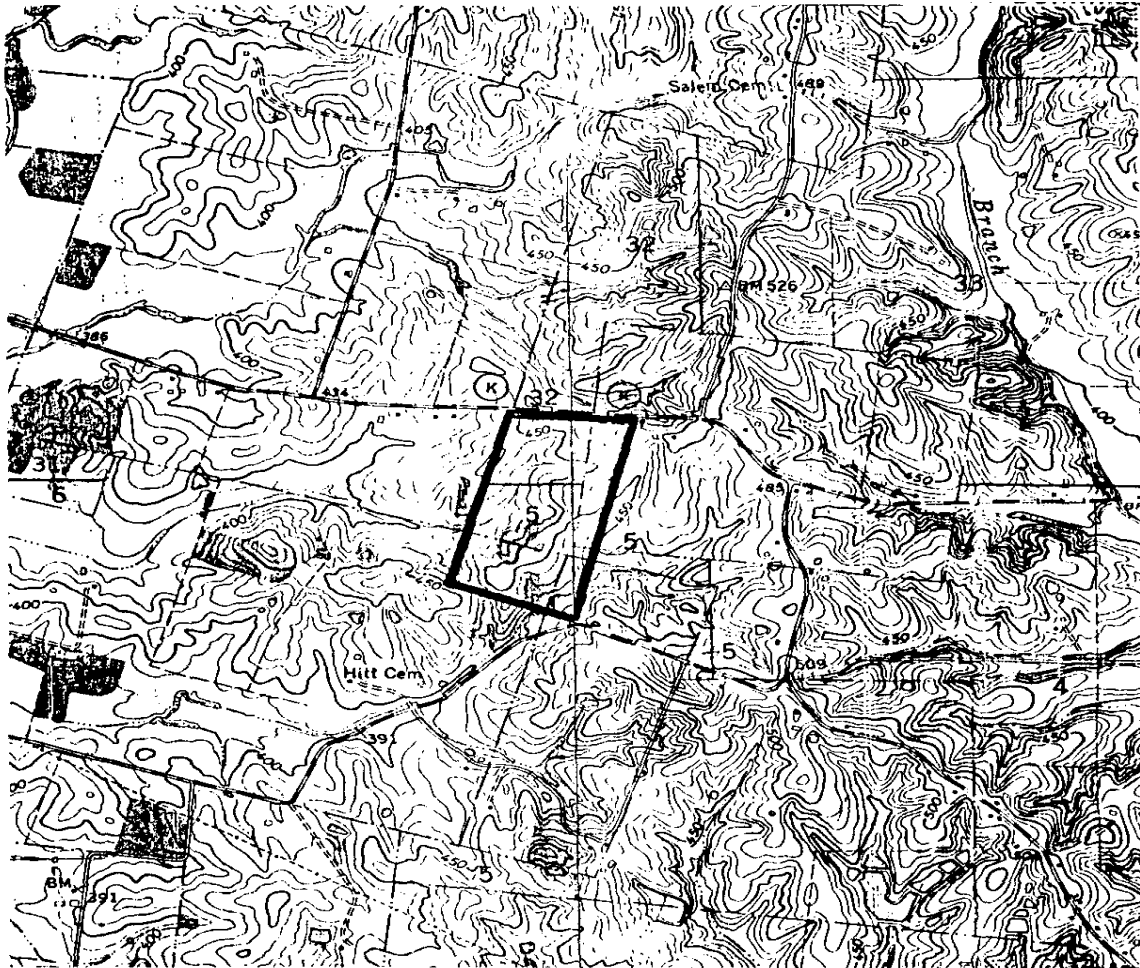
Effective Date: April 4, 2016
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ISSUED BY Josiah Cox, President, 500 Northwest Plaza Drive, Suite 500, St. Ann, MO 63074
 Name and Title of Issuing Officer Mailing Address

Name of Utility: Hillcrest Utility Operating Company, Inc.
Service Area: Hillcrest Manor Subdivision

Rules and Regulations Governing Rendering of
Water Service

Map of Service Area



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Rules and Regulations Governing Rendering of
Water Service

Legal Description of Service Area

Part of the Northwest part of U.S. Private Survey No. 234, part of the northwest fractional quarter of Section 5, part of the northeast part of U.S. Private Survey No. 217; part of the southeast part of U.S. Private Survey No. 211; part of the southwest part of U.S. Private Survey No. 218, all in Township 30 North, Range 13 East; and part of the east part of U.S. Private Survey No. 211, and part of the west part of U.S. Private Survey No. 218, and part of the southeast fractional quarter of Section 32; all in Township 31 North, Range 13 East, County of Cape Girardeau, state of Missouri, described as follows:

Begin at the southwest corner of an 85.00 acre parcel of land conveyed to Clinton M. Wunderlich and Morris C. Montgomery, which point of beginning bears S. 7 degrees 42' W, and along the west line of said parcel, 726.0 feet from the southeast corner of said Survey No. 211; thence N. 7 degrees 42' E, along the west line of said parcel of land, 2330.39 feet to the south line of Missouri State Route "K"; thence with the following courses and distances with said south line; S. 87 degrees 12' E, 782.58 feet to the point of curve of a 2 degree 02' curve to the right; thence in an easterly direction with said 2 degree 02' curve to the right, 361.55 feet to the point of tangent of said curve; thence S. 79 degrees 52' E, 4.9 feet to the point of curve of a 1 degree 58' curve to the left; thence in an easterly direction with said 1 degree 58' curve to the left, 325.31 feet to the point of tangent of said curve; thence S. 86 degree 17' E, 4.7 feet to the east line of said 85.00 acre parcel of land; thence leaving said south line of Route "K", S. 7 degree 23' W, with said east line 2717.1 feet to the southeast corner of said parcel of land; thence N. 63 degree 31' W, with the south line of said parcel, 359.5 feet; thence N 72 degree 50' W, with said south line, 1166.2 feet to the point of beginning.

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Rules and Regulations Governing Rendering of
Water Service

Schedule of Service Charges

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Rules and Regulations Governing Rendering of
Water Service

Rule 1 DEFINITIONS

- A. An "APPLICANT" is a person, firm, corporation, governmental body, or other entity that has applied for water service and/or an extension of water mains along with additional plant facilities; two or more such entities may make one application for a water extension, and be considered one APPLICANT. An "ORIGINAL APPLICANT" is an APPLICANT who entered into any contract or agreement with the Company for an extension of water mains and/or additional plant facilities, contributed funds or utility plant assets to the Company under the terms of the contract or agreement, and is eligible for refunds under the terms of the contract or agreement as additional Applicants connect to such extensions or plant facilities.
- B. The "COMPANY" is Hillcrest Utility Operating Company, Inc., acting through its officers, managers, or other duly authorized employees or agents.
- C. The "CURB STOP" is a valve on the Service Connection, located at or near the Customer's property line, and used to shut off water service to the premises. The Curb Stop is owned and maintained by the Company.
- D. A "CUSTOMER" is any person, firm, corporation or governmental body which has contracted with the Company for water service or is receiving service from the Company, or whose facilities are connected for utilizing such service, and except for a guarantor is responsible for payment for service.
- E. The "DATE OF CONNECTION" shall be the date of the permit for installation and connection issued by the Company. In the event no permit is taken and a connection is made, the date of connection shall be based on available information such as construction/occupancy permits, electric service turn-on date, or may be the date of commencement of construction of the unit upon the property.

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Rules and Regulations Governing Rendering of
Water Service

- F. A "DEVELOPER" is any person, firm, corporation, partnership or any entity that, directly or indirectly, holds title to, or sells or leases, or offers to sell or lease, or advertises for sale or lease, any lots in a subdivision.
- G. "DISCONTINUANCE OF SERVICE" is the intentional cessation of service by the Company not requested by the Customer.
- H. The "MAIN" is a pipeline which is owned and maintained by the Company, located on public property or private easements, and used to transport water throughout the Company's service area.
- I. The "METER" is a device, owned by the Company, used to measure and record the quantity of water that flows through the water service line, and is installed in the meter setting.
- J. The "METER SETTING" is a place either in the service connection or unit plumbing for a water meter to be installed. An outdoor meter setting is located at or near the property line, and includes the meter box, meter yoke, lid, and appurtenances, all of which shall be owned and maintained by the Company. Indoor meter settings are located inside the Customer's unit where the water service line enters the foundation wall either installed directly in the piping or in a meter yoke.
- K. A "RETURNED CHECK" is a check that is returned to the Company from any financial institution unpaid for any reason.
- L. The "SERVICE CONNECTION" is the pipeline connecting the main to the Customer's water service line and includes the curb stop, or outdoor meter setting and all necessary appurtenances located at or near the property line, or at the property line if there is no curb stop or outdoor meter setting. If the property line is in a street, and if the curb stop or meter setting is not located near the edge of the street abutting the Customer's property, the service connection shall be deemed to end at the edge of the street abutting the Customer's property. The service connection shall be owned and maintained by the Company.

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Rules and Regulations Governing Rendering of
Water Service

- M. A "SUBDIVISION" is any land in the state of Missouri which is divided or proposed to be divided into two or more lots or other divisions of land, whether contiguous or not, or uniform in size or not, for the purpose of sale or lease, and includes resubdivision thereof.
- N. "TERMINATION OF SERVICE" is cessation of service requested by the Customer.
- O. "TURN-OFF" is the act of turning water service off by physically turning a valve such that water is unavailable to a Customer's premises.
- P. "TURN-ON" is the act of turning water service on by physically turning a valve to allow water to be available to a Customer's premises.
- Q. The word "UNIT" or "LIVING UNIT" shall be used herein to define the premises or property of a single water consumer, whether or not that consumer is the Customer. It shall pertain to any unit whether multi-tenant or single occupancy, residential or commercial, or owned or leased. Each mobile home in a mobile home park and each rental unit of a multi-tenant rental property are considered as separate units for each single-family or firm occupying same as a residence or place of business.
- R. The "WATER SERVICE LINE" is a pipe with appurtenances owned and maintained by the customer, used to conduct water to the Customer's unit from the property line, curb stop or outdoor meter setting, including the connection to the curb stop or meter setting. If the property line is in a street, then the water service line shall be deemed to begin at the edge of the street abutting the Customer's property.

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Rules and Regulations Governing Rendering of
Water Service

Rule 2 GENERAL RULES AND REGULATIONS

- A. Every applicant, upon signing an application for water service rendered by the Company, or any Customer upon taking water service, shall be considered to have expressed consent to be bound by these Rates, Rules and Regulations.
- B. The Company's Rules and Regulations governing rendering of service are set forth in these numbered sheets. The rates applicable to appropriate water service are set forth in Schedule of Rates and constitute a part of these Rules and Regulations.
- C. The Company reserves the right, subject to authority of the Missouri Public Service Commission, to prescribe additional Rates, Rules or Regulations or to alter existing Rates, Rules or Regulations as it may from time to time deem necessary and proper.
- D. After the effective date of these Rules and Regulations, all new facilities, construction contracts, and written agreements shall conform to these Rules and Regulations, and in accordance with the statutes of the state of Missouri and the Rules and Regulations of the Missouri Public Service Commission. Pre-existing facilities that do not comply with applicable Rules and Regulations may remain, provided that their existence does not constitute a service problem or improper use, and reconstruction is not practical.
- E. The point of delivery of water service shall be at the connection of the Customer's water service line to the Company's service connection.
- F. The Company shall have the right to enter the Customer's premises, for the purpose of inspecting for compliance with these Rules and Regulations. Company personnel shall identify themselves and such inspections shall be conducted during reasonable hours.

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Rules and Regulations Governing Rendering of
Water Service

Rule 3 LIMITED AUTHORITY OF COMPANY EMPLOYEES

- A. Employees or agents of the Company are expressly forbidden to demand or accept any compensation for any services rendered to its Customers except as covered in the Company's Rules and Regulations.
- B. No employee or agent of the Company shall have the right or authority to bind it by any promise, agreement or representation contrary to the intent of these Rules and Regulations.
- C. The Company shall not be responsible for damages caused by any failure to maintain water pressure or water quality, or for interruption, if such failure or interruption is without willful default or negligence on its part.
- D. The Company shall not be liable for damages due to, or interruptions caused by, defective piping, fittings, fixtures and appliances on the Customer's premises and not owned by the Company.
- E. The Company shall not be liable for damages due to Acts of God, civil disturbances, war, government actions, or other uncontrollable occurrences.

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Rules and Regulations Governing Rendering of
Water Service

Rule 4 APPLICATIONS FOR WATER SERVICE

- A. 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.
- B. If service is requested at a point not already served by a main of adequate capacity, a main of adequate size shall be extended as may be necessary in accordance with Rule 14 - Extension of Water Mains.
- C. When, in order to provide the service requested a main extension or other construction or equipment expense is required, the Company may require a written contract. Said contract may include, but not be limited to, the obligations upon the Company and the applicant, and shall specify a reasonable period of time necessary to provide such service.

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Rules and Regulations Governing Rendering of
Water Service

Rule 5 INSIDE PIPING AND WATER SERVICE LINES

- A. The Company will provide water service at the outdoor meter, at the curb stop if an indoor meter setting is utilized, or at the property line if neither an outdoor meter nor a curb stop exists at or near the property line, or at the edge of the street if such property line is in the street. Separate units shall be served through separate water service lines if they are not on one lot that cannot be subdivided.
- B. The service connection from the water main to the Customer's property line shall be owned and maintained by the Company. Construction of the service connection, outdoor meter setting and curb stop shall be accomplished in one of the following ways at the Customer's option:
1. The Company will construct the service connection, outdoor meter setting and curb stop, as necessary, and make the connection to the main, within three (3) business days of an application for service, or within the time period specified in an application for service; or,
 2. The Customer may install, or have installed by a professional contractor or plumber, the service connection from the water main to the meter setting, and make the connection to the main, subject to prior approval of the Company; or,
 3. The Customer may install, or have installed by a professional contractor or plumber, the service connection from the water main to the meter setting, and the Company will tap the main and connect the service connection; or,
 4. Whether the service connection is installed by the Company or the Customer, the Customer shall be responsible for payment of a New Service Connection Fee, as specified in the Schedule of Service Charges.

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- C. A service connection installation constructed by the Customer as provided for in paragraphs 5 B. 2. or 5 B. 3., above, is subject to inspection by the Company. The Service Connection Inspection Fee as specified in the Schedule of Service Charges shall apply if the Company must make a trip solely to conduct an inspection of a service connection constructed by the Customer, and shall not apply if the inspection of a service connection is accomplished at the same time as a tap is made for the Customer, or the same time as an inspection of the water service line as provided for in D., below, or if the Company installs the service connection as provided in 5 B. 1., above.
- D. Water service line construction and maintenance from the property line, curb stop or meter setting, including the connection to the curb stop or meter setting, to the unit shall be the responsibility of the Customer, and is subject to inspection by the Company. The Customer shall be responsible for the Water Service Line Inspection Fee and Re-Inspection Fee (if applicable), as listed in the Schedule of Service Charges. Customers shall be responsible for the cost of repairing any damage to the Company's mains, curb stops, valve boxes, meters, and meter installations caused by the Customer, Customer's agent, or tenant.
- E. Existing water service lines and service connections may be used in connecting with new unit only when they are found by examination and testing not to constitute a hazard to the health and safety of any Customer or the Company's facilities.
- F. The water service line shall be brought to the unit at a depth of not less than thirty-six inches (36") and have a minimum inside diameter of three-quarters inch (3/4"). The Customer is responsible for the determination of whether or not a larger size is needed to provide adequate flow to the unit. A valve must be installed in the service line where it enters the unit. This valve must be kept in good repair in order to shut off the water supply and drain the inside plumbing, if necessary.

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- G. Water service lines and inside piping shall be of material conforming to recognized standards for potable water service and shall have a pressure rating of at least one hundred sixty (160) psi working pressure.
- H. The Company will not install a service connection to a vacant lot if such lot is not intended and recognized by the Company to be for intermittent use such as camping or picnic activity in a recreational subdivision, and the Customer installs a frost-free lockable hydrant at any point of use.
- I. Any change in the location of an existing service connection requested by the Customer shall be made by the Company or with the Company's approval, at the Customer's expense.
- J. The Company shall have the right to enter the Customer's premises, after reasonable notice, to read Company water meters and for the purposes of inspection to ensure compliance with these Rules and Regulations. Company personnel shall identify themselves and make these inspections only at reasonable hours.
- K. Neither water service lines nor service connections may be extended along public streets or roadways or through property of others in connecting with the Company's mains. The service connection may, however, extend through the water main easement and roadway easement as necessary in order to be connected to a main located across and adjacent to a street in front of the Customer's living unit. The service connection and service line must be laid in a straight line and at right angles to the main and the face of the structure or as nearly so as possible. Any deviation from this because of physical obstruction, landlocked property, or a clear impossibility to construction a future main extension for further subdivision development or additional future customers, will be at the discretion of the Company.

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- L. Any Customer having a plumbing arrangement, or a water-using device that could allow backsiphonage of any chemical, petroleum, process water, water from a questionable supply, or other substance that could create a health hazard or damage to the water system; or, any Customer's plumbing classified as an actual or potential backflow hazard in the Regulations of the Missouri Department of Natural Resources shall be required to install and maintain a backflow prevention device. This rule may also apply to Customers on whose premises it is impossible or impractical for the Company to perform a cross connection survey. The device, installation, location and maintenance program shall be approved by the Company.

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Rule 6 IMPROPER OR EXCESSIVE USE

- A. No Customer shall be wasteful of the water supplied to the unit by the Customer's willful action or inaction. It shall be the responsibility and duty of each Customer to maintain all piping and fixtures at the unit in a good and efficient state of repair at all times.
- B. No Customer shall make or cause to be made a cross connection between the potable water supply and any source of chemical or bacterial contamination or any other water supply. The Company shall deny or discontinue service where Customer's water service line or inside piping may, in the opinion of the Company, cause a cross-connection with non-potable water or otherwise jeopardize the health and safety of other Customer's or the Company's facilities.
- C. The Customer shall not make or cause to be made a connection to a device that will result in excessive water demand or excessive shock, such as water hammer, to the Company's mains.
- D. The Customer shall not tamper with, remove, or willfully damage a water meter or attempt to operate the curb stop on the service connection or meter yoke, or allow any such action. Licensed plumbers may operate such valves in order to work on the Customer's premises and to test their work, but must leave such valves open or closed as found.
- E. The Customer shall not attempt to take unmetered water from the Company mains either by an unauthorized tap or direct connection to service connection nor by connection to a fire hydrant.
- F. Customers will not be permitted to supply water in any way to premises other than the service address, nor to permit others to use their hose or attachments, nor leave them exposed to use by others without permission from the Company.

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Rule 7 DISCONTINUANCE OF WATER SERVICE BY COMPANY

- A. The Company may discontinue service for any of the following reasons:
1. Non-payment of a delinquent account not in dispute; or
 2. Failure to post a security deposit or guarantee acceptable to the utility; or
 3. Unauthorized interference, diversion or use of the utility service situated or delivered on or about the Customer's premises; or
 4. Misrepresentation of identity in obtaining utility service; or
 5. Enclosing or obstructing any meter so as to make reading or repairs unreasonably difficult, or
 6. Failure to comply with the terms and conditions of a settlement agreement; or
 7. Refusal after reasonable notice to grant access at reasonable times to equipment installed upon the premises of the Customer for the purpose of inspection, meter reading, maintenance or replacement; or
 8. Violation of any of these Rules and Regulations on file with and approved by the Missouri Public Service Commission, or for any condition which adversely affects the safety of the Customer or other persons, or the integrity of the utility's delivery system; or

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9. Non-payment of a sewer bill issued by the Company or by a sewer utility requesting discontinuance of water service by an agreement between the Company and such sewer utility. When water service is discontinued for non-payment of a sewer bill and if the sewer bill is not issued by the Company, any service charges for turn on/off or disconnection/reconnection within these Rules and Regulations shall not apply, and notice to the Customer shall be provided by rules and procedure applicable to the Customer's sewer service in lieu of notification required by these Rules and Regulations.

B. None of the following shall constitute sufficient cause for the Company to discontinue service:

1. The failure of the Customer to pay for merchandise, appliances, or service not subject to Commission jurisdiction as an integral part of the utility service provided by the Company; or
2. The failure of the Customer to pay for service received at a separate metering point, residence, or location. In the event of discontinuance or termination of service at a separate residential metering point, residence, or location in accordance with these Rules and Regulations, the Company may transfer and bill any unpaid balance to any other residential service account of the Customer and may discontinue service after twenty-one (21) days after rendition of the combined bill, for nonpayment, in accordance with this rule; or
3. The failure of the customer to pay for a different class of service received at the same or different location. The placing of more than one (1) meter at the same location for the purpose of billing the usage of specific devices under operational rate schedules or provisions is not construed as a different class of service for the purpose of this rule; or

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4. The failure to pay the bill of another customer, unless the customer whose service is sought to be discontinued received substantial benefit and use of the service billed to the other customer; or
 5. The failure of a previous owner or occupant of the premises to pay an unpaid or delinquent bill except where the previous occupant remains an occupant of the living unit; or
 6. The failure to pay a bill correcting a previous underbilling, whenever the customer claims an inability to pay the corrected amount, unless a utility has offered the customer a payment arrangement equal to the period of underbilling.
- C. The Company may discontinue service after notice by first class mail is sent to the Customer at least ten (10) days prior to the date of the proposed discontinuance. Service of notice by mail is complete upon mailing. If written notice is hand delivered to the Customer, it shall be done at least ninety-six (96) hours prior to discontinuance. If the Company intends to discontinue service to a multi-tenant unit with occupants who are not customers, a notice shall also be conspicuously posted in the unit ten (10) days prior to the proposed discontinuance, along with information pertaining to how one or more of the tenants may apply to become customers. Discontinuance shall occur within thirty (30) calendar days after the date given as the discontinuance date, shall occur between the hours of 8:00 a.m. and 4:00 p.m., and shall not occur on a day when the Company will not be available to reconnect service or on a day immediately preceding such a day.
- D. A discontinuance notice provided to a customer shall include:
1. The name and address of the Customer, the service address if different than the Customer's address; and
 2. A statement of the reason for the proposed discontinuance of service and the cost for reconnection; and

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3. How the customer may avoid the discontinuance; and
 4. The possibility of a payment agreement if the claim is for a charge not in dispute and the Customer is unable to pay the charge in full at one time; and
 5. A telephone number the Customer may call from the service location without incurring toll charges and the address and any available electronic contact information of the utility prominently displayed where the customer may make an inquiry.
- E. The Company shall make reasonable efforts to contact the Customer, at least twenty-four (24) hours prior to any discontinuance, regarding the reason(s) for discontinuance of service, and the resolution. If discontinuance of service would affect an occupant who is not the Company's Customer, or is not responsible for payment of the bill, then the Company shall make reasonable efforts to inform such occupant(s).
- F. The Company shall postpone the discontinuance if personnel will not be available to restore service the same day, or if personnel will not be available to restore service the following day. The Company also shall postpone discontinuance if a medical emergency exists on the premises, however the postponement may be limited to twenty-one (21) days, and the Company may require proof of a medical emergency.
- G. The Company shall have the right to enter the Customer's premises for purposes of discontinuance of service in compliance with these Rules and Regulations. Discontinuance of service will be made during reasonable hours. Company personnel shall identify themselves and announce the intention to discontinue service, or leave a conspicuous notice of the discontinuance. The Company shall have the right to communicate with the owner of the Customer's Unit for purposes of gaining access to the property for discontinuance of service in accordance with the Missouri Public Service Commission's billing practices, but any extra costs for arranging such access shall not be charged to the Customer's account.

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- H. The provisions of paragraphs E. and G. above may be waived if safety of Company personnel while at the premises is a consideration.
- I. Discontinuance of service to a unit for any reason shall not prevent the Company from pursuing any lawful remedy by action at law or otherwise for the collection of monies due from the Customer.
- J. In case the Company discontinues its service for any violation of these Rules and Regulations, then any monies due the Company shall become immediately due and payable.
- K. The Company has the right to refuse or to discontinue service to any unit to protect itself against fraud or abuse.
- L. The Company shall deal with Customers, handle Customer accounts, and manage discontinuance of service procedures in accordance with the Missouri Public Service Commission's Utility Billing Practices.
- M. Applicable Turn-off and Turn-on charges are specified in the Schedule of Service Charges.

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Rule 8 TERMINATION OF WATER SERVICE AT CUSTOMER'S REQUEST

- A. Service will be terminated at the Customer's request, by giving not less than twenty-four (24) hours notice to the Company during its regular office hours. The Company shall, on the requested day, read the Customer's meter and charges for water service rendered up to and including the time of termination shall be computed and will become due and payable immediately.
- B. A Customer may request temporary turn-off by the Company for the Customer's own convenience; however, the Customer shall still be charged for service at the appropriate rate as specified in the Schedule of Rates during the time the service is turned off.
- C. Turn-off and turn-on charges shall apply, and are specified in the Schedule of Service Charges.

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Rule 9 INTERRUPTIONS IN SERVICE

- A. The Company reserves the right to discontinue water in its mains at any time, without notice, for making emergency repairs to the water system. Whenever service is interrupted for scheduled repairs or maintenance, Customers affected by such interruptions will be notified in advance whenever it is possible to do so. Every effort will be made to minimize interruption of service.
- B. No refunds of charges for water service will be made for interruptions of service unless due to willful misconduct of the Company.
- C. In order to avoid service problems when extraordinary conditions exist, the Company reserves the right, at all times, to determine the limit of and regulate water usage in a reasonable and non-discriminatory manner.

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Rule 10 BILLS FOR SERVICE

- A. The charges for water service shall be at the rates specified in the Schedule of Rates in these Rules and Regulations. Other applicable service charges are set forth in the Schedule of Service Charges in these Rules and Regulations.
- B. A Customer who has made application for, or is receiving the benefit of, water service to a unit shall be responsible for payment for all water service provided to the Customer at said unit from the date of connection until the date requested by the Customer by proper notification to the Company to terminate service.
- C. Each Customer is responsible for furnishing the Company with the correct address. Failure to receive bills will not be considered an excuse for non-payment nor reason to permit an extension of the date when the account would be considered delinquent. Bills and notices relating to the Company or its business will be mailed or delivered to the mailing address entered in the Customer's application unless the Company is notified in writing by the Customer of a change of address.
- D. Payments shall be made at the office of the Company or at such other places conveniently located as may be designated by the Company, by ordinary mail, or by electronic methods employed by the Company. Payment must be received by the close of business on the date due, unless the date due falls on a non-business day in which case payment must be received by the next business day.
- E. Neither the Company nor the Customer will be bound by bills rendered under mistake of fact as to the quantity of service rendered or as a result of clerical error. Customers will be held responsible for charges based on service provided.
- F. A separate bill shall be rendered for each Customer with itemization of all water service charges. All bills for service shall state the due date. The Company shall render bills monthly.

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- G. Monthly bills shall be due twenty-one (21) calendar days from the date of rendition, unless such due date falls on a Sunday, a legal holiday, or other day when the office is closed, in which case the due date shall be extended to the next business day. Bills unpaid after the stated due date will be delinquent and the Company shall have the right to discontinue service in accordance with Rule 7 – Discontinuance of Service by Company. Delinquent bills may be subject to a late charge as provided in the Schedule of Service Charges. The Company shall not be required to restore or connect any new service for such delinquent Customers until the unpaid account due the Company under these Rules and Regulations has been paid in full or arrangements satisfactory to the Company have been made to pay said account.
- H. When bills are rendered for a period of less than a complete billing period due to the connection or termination of service, the billing shall be the monthly minimum plus an amount based on the water used at the commodity (water usage) rate.
- I. The Company may require a security deposit or other guarantee as a condition of new service if the Customer:
1. Still has an unpaid account with a utility providing the same type of service accrued within the last five (5) years; or,
 2. Has diverted or interfered with the same type of service in an unauthorized manner within the last five (5) years; or,
 3. Is unable to establish a credit rating with the Company. Adequate credit rating for a residential Customer shall be established if the Customer:
 - a. Owns or is purchasing a home; or,
 - b. Is and has been regularly employed full time for at least one (1) year; or,

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- c. Has an adequate and regular source of income; or
- d. Can provide credit references from a commercial credit source.
- J. The Company may require a security deposit or other acceptable written guarantee of payment as a condition of continued service if:
 - 1. The water service of the Customer has been discontinued for non-payment of a delinquent account not in dispute; or,
 - 2. The utility service to the unit has been diverted or interfered with in an unauthorized manner; or,
 - 3. The Customer has failed to pay undisputed bills before the delinquency date for five (5) billing periods out of twelve (12) consecutive monthly billing periods.
- K. The amount of a security deposit shall not exceed utility charges applicable to one (1) billing period plus thirty (30) days, computed on estimated or actual annual usage.
- L. Interest shall be payable annually on all deposits, but shall not accrue after the utility has made reasonable effort to return the deposit. Interest will be paid at a per annum rate equal to the prime bank lending rate, as published in the *Wall Street Journal* for the last business day of the preceding calendar year, plus one (1) percentage point. Interest may be credited to the Customer's account.
- M. After a Customer has paid proper and undisputed utility bills by the due dates, for a period not to exceed one (1) year, credit shall be established or re-established, and the deposit and any interest due shall be refunded. The utility may withhold full refund of the deposit pending resolution of a disputed matter.
- N. The utility shall give a receipt for deposits received, but shall also keep accurate records of deposits, including Customer name, service address, amounts, interest, attempts to refund and dates of every activity regarding the deposit.

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- O. All billing matters shall be handled in accordance with the Missouri Public Service Commission's Rules and Regulations regarding Utility Billing Practices, 4 CSR 240-13.

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Rule 11 METERS AND METER INSTALLATIONS

- A. The Company shall furnish and install a suitable meter for each Customer, and the Company's installed meter shall be the standard for measuring water used to determine the bill. All meters shall be furnished, installed, maintained and removed by the Company and shall remain its property.
- B. The Company shall have the right to determine, on the basis of the Customer's flow requirements, the type and size of meter to be installed and location of same. No meter size selection will be based solely on the size of the Customer's service line. If flow requirements increase or decrease subsequent to installation and a larger or smaller meter is requested by the Customer, the cost of installing such larger or smaller meter shall be paid by the Customer.
- C. Domestic water service to any one Customer at a single unit shall be furnished through a single service connection. Individual units of a multi-unit building may have separate connections and meter installations only if each unit has separate plumbing, ground-level space, an individual service connection and meter installation location, and frontage to a Company-owned main. For multi-unit buildings with one service connection and meter installation, the inside piping may be rearranged at the Customer's own expense so as to separate the units and meter tenants, then divide the bill accordingly.
- D. The owners of premises wherein meters are located shall be held responsible for the safekeeping of the Company's meters and metering appurtenances, and are required to keep meters located within their property accessible to the Company for reading and for meter changeouts. If a Customer limits accessibility, or fails to protect a meter against damage, the Company may discontinue service and/or refuse to supply water until accessibility is restored and the Company is paid for any such damage. The amount of the charge shall be the cost of the necessary replacement parts and the labor cost necessary to make the repair.

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- E. If the Company determines that no suitable outdoor location is available, then the meter may be installed inside the Customer's premises where the water service line enters the unit and just downstream of the inside shutoff valve. The Company shall install a curb stop within the service connection at or near the property line as practical. When the meter is installed inside the Customer's premises, the Customer will either provide a meter yoke to accept installation of the Company's meter, or provide proper fittings for the house plumbing pipe to allow for direct installation of the Company's meter, along with a proper grounding strap installed around the meter to prevent electric charge build-up on either side of the meter or while a meter is removed. If installation in a special setting is necessary, the excess cost of installation shall be paid by the Customer.
- F. If an existing basement meter location is determined by the Company to be inadequate or inaccessible, then the Customer must provide for the installation of a meter to be located at or near the Customer's property line. The Customer shall furnish or obtain from the Company, as appropriate, the necessary meter installation appurtenances conforming to the Company's specifications, and the cost of said appurtenances and labor shall be paid by the Customer.

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- G. Approved meter installation locations in dry basements, sufficiently heated to keep the meter from freezing, may remain provided the meter is readily accessible, at the Company's and Customer's convenience as determined by the Company, for servicing and reading and the meter space provided is located where the service line enters the unit. The Company may, at its discretion, require the Customer to install a remote reading device at an approved location, for the purpose of reading the meter. It is the responsibility of the Customer and/or the owner of the premises to provide a location for the water meter which, in the event of water discharge as a result of leakage from the meter or couplings, will not result in damage. The Company's liability for damages to any and all property caused by such leakage shall in no event exceed the price of water service to the affected premises for one average billing period in the preceding year. Where damage is caused by the negligence of Company personnel at the premises, this limitation will not apply. If a Customer refuses to provide an accessible location for a meter as determined by the Company, the Company will notify the Staff of the Water and Sewer Department of the Missouri Public Service Commission before ultimately refusing service or proceeding to discontinue service.
- H. The Customer shall promptly notify the Company of any defect in, or damage to, the meter setting.
- I. Any change in the location of any existing meter or meter setting at the request of the Customer shall be made at the expense of the Customer, and with the approval of the Company.

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Rule 12 METER TESTS AND TEST FEES

- A. Any Customer may request the Company to make a special test of the accuracy of the meter through which water is supplied to the Customer. This test will be made in accordance with water industry test procedures, and to check for accuracy as required by Regulations of the Missouri Public Service Commission.
- B. The Company reserves the right to remove and test a meter at any time and to substitute another in its place. In case of a dispute involving a question as to the accuracy of the meter, a test will be made by the Company upon the request of the Customer without charge if the meter has not been tested within twelve (12) months preceding the requested test; otherwise, an approved charge will be made if the test indicates meter accuracy within five percent (5%).
- C. A meter test requested by the Customer may be witnessed by the Customer or the Customer's duly authorized representative, except for tests of meters larger than two inch (2") inlet, which will be conducted by the water manufacturer. A certified copy of the test report will be provided to the Customer.
- D. If a test shows an average error of more than five percent (5%), billings shall be adjusted in accordance with Rule 13 – Bill Adjustments Based on Meter Tests.

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Rule 13 BILL ADJUSTMENTS BASED ON METER TESTS

- A. Whenever any test by the Company of a meter while in service or upon its removal from service shall show such meter to have an average error of more than five percent (5%) on the test streams prescribed by the Missouri Public Service Commission, the Company shall adjust the Customer's bills by the amount of the actual average error of the meter and not the difference between the allowable error and the error as found. The period of adjustment on account of the under-registration or over-registration shall be determined as follows:
1. Where the period of error can be shown, the adjustment shall be made for such period; or
 2. Where the period of error cannot be shown, the error found shall be considered to have existed for three (3) months preceding the test.
- B. If the meter is found on any such test to under-register, the Company may render a bill to the Customer for the estimated consumption not covered by bills previously rendered during the period of inaccuracy as above outlined. Such action shall be taken only when the Company was not at fault for allowing the inaccurate meter to remain in service.
- C. If the meter is found on any such test to over-register, the Company shall refund to the Customer any overcharge caused during the period of inaccuracy as above defined. The refund shall be paid within a reasonable time and may be in the form of a bill credit.

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ISSUED BY Josiah Cox, President, 500 Northwest Plaza Drive, Suite 500, St. Ann, MO 63074
Name and Title of Issuing Officer Mailing Address

Name of Utility: Hillcrest Utility Operating Company, Inc.
Service Area: Hillcrest Manor Subdivision

Rules and Regulations Governing Rendering of
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Rule 14 EXTENSION OF WATER MAINS

- A. This rule shall govern the extension of mains by the Company within its certificated area where there are no water mains.
- B. Upon receipt of a written application for a main extension, the Company will provide the applicant(s) an itemized estimate of the cost of the proposed extension. Said estimate shall include the cost of all labor and materials required, including valves, fire hydrants, booster stations, storage facilities, reconstruction of existing mains (if necessary), and the direct costs associated with supervision, engineering, permits, and bookkeeping. The estimate will state that it does not include unanticipated costs such as rock excavation.
- C. Applicant(s) shall enter into a contract with the Company for the installation of said extension and shall tender to the Company the amount determined in paragraph B. above. Any applicable New Service Connection Fee will become due after the cost incurred by the Company has been ascertained, as per Rule 5 B. 1., or 3., and as specified in the Schedule of Service Charges. The contract may allow the Customer to contract with an independent contractor for the installation and supply of material, except that mains of twelve inches (12") or greater diameter must be installed by the Company, and the reconstruction of existing facilities must be done by the Company.
- D. The cost to single-family residential applicant(s) connecting to a main extension for which other applicant(s) paid an amount determined in paragraph B., above, subject to subsequent adjustments for actual cost, shall be as follows:
 - 1. For single-family residential applicant(s) applying for service in a platted subdivision, the Company shall divide the actual cost of the extension by the number of lots abutting said extension to determine the per lot extension cost. When counting lots, corner lots which abut existing mains shall be excluded.

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2. For single-family residential applicant(s) applying for service in areas that are unplatted in subdivision lots, an applicant(s) cost shall be equal to the total cost of the main extension divided by the total length of the main extension in feet times one hundred (100) feet.
3. For industrial, commercial, or multifamily residential applicants, the cost will be equal to the amount calculated for a single-family residence in paragraphs D. 1., or D. 2., above, multiplied by the flow factors of the applicants' meter. The flow factors of the various sizes of meters are as follows:

<u>Meter Size</u>	<u>Flow Factor</u>
5/8"	1
1"	2.5
1 1/2"	5
2"	8
3"	15
4"	25

- E. Refunds of funds paid by applicant(s) for any estimated costs or actual costs of a main extension shall be made to such applicant(s) as follows:
1. Should the actual cost of the extension be less than the estimated cost, the Company shall refund the difference to the applicant(s) as soon as the actual cost has been ascertained.
 2. During the first ten (10) years after the main extension is completed, the Company will refund to the applicant(s) who paid for the extension the money collected from applicant(s) in accordance with paragraph D., above. The refund shall be paid within a reasonable time after the money is collected.

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3. The sum of all refunds to any applicant shall not exceed the total amount which the applicant(s) has paid.
- F. Extensions made under this rule shall be and remain the property of the Company.
- G. The Company reserves the right to further extend the main and to connect mains on intersecting streets and easements. Connecting new Customers to such further extensions shall not entitle the applicant(s) paying for the original extension to a refund for the connection of such Customers.
- H. Extensions made under this rule shall be of Company-approved pipe sized to meet water service requirements. If the Company chooses to size the extension larger in order to meet the Company's overall system requirements, the additional cost caused by the larger size of pipe shall be borne by the Company.
- I. No interest will be paid by the Company of payments for the extension made by the applicant(s).
- J. If extensions are required on private roads, streets, through private property, or on private property adjacent to public right-of-way, a proper deed of easement must be furnished to the Company without cost to the Company, before the extension will be made.

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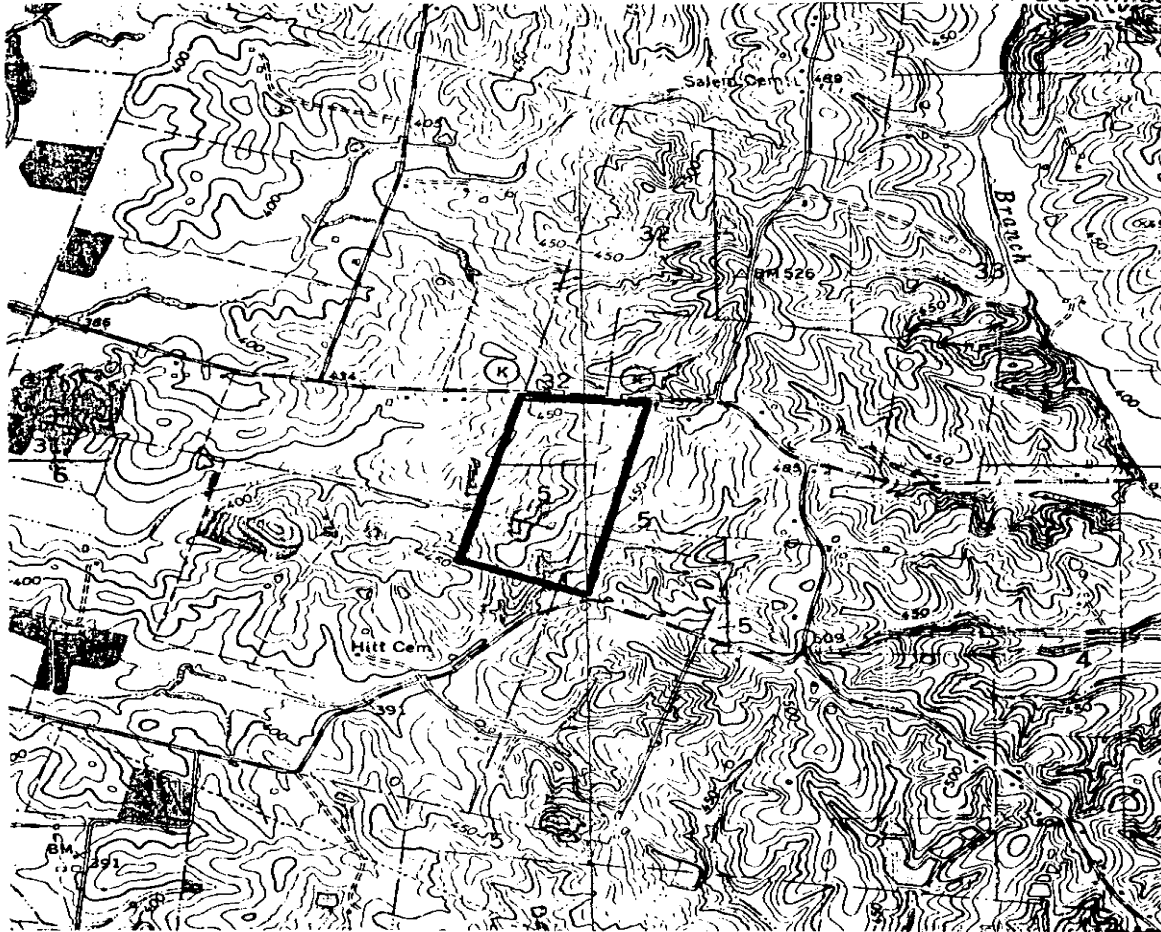
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Map of Service Area



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Legal Description of Service Area

Part of the Northwest part of U.S. Private Survey No. 234, part of the northwest fractional quarter of Section 5, part of the northeast part of U.S. Private Survey No. 217; part of the southeast part of U.S. Private Survey No. 211; part of the southwest part of U.S. Private Survey No. 218, all in Township 30 North, Range 13 East; and part of the east part of U.S. Private Survey No. 211, and part of the west part of U.S. Private Survey No. 218, and part of the southeast fractional quarter of Section 32; all in Township 31 North, Range 13 East, County of Cape Girardeau, state of Missouri, described as follows:

Begin at the southwest corner of an 85.00 acre parcel of land conveyed to Clinton M. Wunderlich and Morris C. Montgomery, which point of beginning bears S. 7 degrees 42' W, and along the west line of said parcel, 726.0 feet from the southeast corner of said Survey No. 211; thence N. 7 degrees 42' E, along the west line of said parcel of land, 2330.39 feet to the south line of Missouri State Route "K"; thence with the following courses and distances with said south line, S. 87 degrees 12' E, 782.58 feet to the point of curve of a 2 degree 02' curve to the right; thence in an easterly direction with said 2 degrees 02' curve to the right, 361.55 feet to the point of tangent of said curve; thence S. 79 degree 52' E, 4.9 feet to the point of curve of a 1 degree 58' curve to the left; thence in an easterly direction with said 1 degree 58' curve to the left, 325.31 feet to the point of tangent of said curve; thence S. 86 degree 17' E, 4.7 feet to the east line of said 85.00 acre parcel of land; thence leaving said south line of Route "K", S. 7 degree 23' W, with said east line 2717.1 feet to the southeast corner of said parcel of land; thence N. 63 degree 31' W, with the south line of said parcel, 359.5 feet; thence N 72 degree 50' W, with said south line, 1166.2 feet to the point of beginning.

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Schedule of Rates

Availability:

These rates are available to any sewer customer connected to the Company's collecting sewers for supplying sewer service requested.

Sewer Service Rates:

Residential Single Family \$67.07 per month

Apartments \$67.07 per month

Taxes:

All Applicable Federal, State or local taxes shall be included in addition to the above charges.

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Schedule of Service Charges

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Rules and Regulations Governing Rendering of
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Rule 1 Definitions

- A. An "APPLICANT" is a person, firm, corporation, governmental body, or other entity that has applied for sewer service and/or an extension of collecting sewers along with additional plant facilities; two or more such entities may make one application for a sewer extension, and be considered one APPLICANT. An "ORIGINAL APPLICANT" is an APPLICANT who entered into any contract or agreement with the Company for an extension of collecting sewers and/or additional plant facilities, contributed funds or utility plant assets to the Company under the terms of the contract or agreement, and is eligible for refunds under the terms of the contract or agreement as additional Applicants connect to such extensions or plant facilities.
- B. "B.O.D." denotes Biochemical Oxygen Demand. It is the quantity of oxygen utilized in the biochemical oxidation of waste matter under standard laboratory conditions expressed in milligrams per liter.
- C. "C.O.D." denotes Chemical Oxygen Demand. It is the quantity of oxygen utilized in the chemical oxidation of waste matter under standard laboratory conditions expressed in milligrams per liter.
- D. A "COLLECTING SEWER" is a pipeline, including force pipelines, gravity sewers, interceptors, laterals, trunk sewers, manholes, lampholes, and necessary appurtenances, including service tees, wyes and saddles, which is owned and maintained by the Company, located on public property or on private easements, and used to transport sewage waste from the Customer's service connection to the point of disposal.
- E. The "COMPANY" is Hillcrest Utility Operating Company, Inc, acting through its officers, managers, or other duly authorized employees or agents.

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- F. A "CUSTOMER" is any person, firm, corporation or governmental body which has contracted with the Company for sewer service, or is receiving service from the Company, or whose facilities are connected for utilizing such service, and except for a guarantor is responsible for payment for service.
- G. The "DATE OF CONNECTION" shall be the date the permit for a service connection is issued by the Company. In the event no permit is taken and a service connection is made, the date of connection shall be determined based on available information, such as construction/occupancy permits, or water or electric service turn-on dates, or may be the date of commencement of construction of the unit upon the property.
- H. A "DEVELOPER" is any person, firm, corporation, partnership or any entity that, directly or indirectly, holds title to, or sells or leases, or offers to sell or lease, or advertises for sale or lease, any lots in a subdivision.
- I. "DISCONTINUANCE OF SERVICE" is the intentional cessation of the use of sewer service by action of the Company not at the request of the Customer.
- J. "DOMESTIC SEWAGE" is sewage, excluding storm and surface water, resulting from normal household activities; and, "NON-DOMESTIC SEWAGE" is all sewage other than DOMESTIC SEWAGE including, but not limited to, commercial or industrial wastes.
- K. A "FOUNDATION DRAIN" is a pipe installed inside or outside the foundation of a structure for the purpose of draining ground or subsurface water away from the foundation.

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- L. "pH" is the relative degree of acidity or alkalinity of water as indicated by the hydrogen ion concentration. pH is indicated on a scale reading from 1-14, with 7.0 being neutral, below 7.0 acid, and above 7.0 alkaline; more technically defined as the logarithm of the reciprocal of the hydrogen ion concentration.
- M. A "RETURNED CHECK" is a check that is returned to the Company from any financial institution unpaid for any reason.
- N. A "SADDLE" is a fitting that connects the Customer's Service Sewer to the collecting sewer whether it be a gravity collecting sewer or a pressure collecting sewer; the saddle clamps around the collecting sewer pipeline into which pipeline a hole is cut, and the Service Sewer is connected to the Saddle thereby connecting it to the collecting sewer.
- O. A "SERVICE CONNECTION" is the connection of a service sewer to the Company's collecting sewer either at the bell of a tee branch or wye branch, or the bell of a saddle placed on the barrel of the collecting sewer.
- P. A "SERVICE SEWER" or "CUSTOMER'S SERVICE SEWER" is a pipe with appurtenances installed, owned and maintained by the Customer, used to conduct sewage from the Customer's premises to the collecting sewer, excluding service tees, wyes or saddles. In addition to other parts and fittings this shall include a stop cock accessible to the Company for turn-off of sewage flow and a check valve to prevent backflow of waste-water under pressure in the pressure collecting sewer. The SERVICE SEWER is constructed, owned and maintained by the Customer.
- Q. A "SUBDIVISION" is any land in the state of Missouri which is divided or proposed to be divided into two or more lots or other divisions of land, whether contiguous or not, or uniform in size or not, for the purpose of sale or lease, and includes resubdivision thereof.

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- R. A "TEE" is a three-way one-piece pipe fitting in the shape of the letter "T" that is a part of the Collecting Sewer pipeline and to which the Customer's Service Sewer is connected.
- S. "TERMINATION OF SERVICE" is the cessation of the use of sewer service requested by the Customer.
- T. The word "UNIT" or "LIVING UNIT" shall be used herein to define the premises or property of a single sewer user, whether or not that sewer user is the Customer. It shall pertain to any unit whether multi-tenant or single occupancy, residential or commercial, owned or leased. Each mobile home in a mobile home park, and each rental unit of a multi-tenant rental property are considered as separate Units for each single family or firm occupying same as a residence or place of business.
- U. A "WYE" or "WYE BRANCH" is a three-way one-piece pipe fitting in the shape of a "y" that is a part of the collecting sewer pipeline, and to which the Customer's service sewer is connected.

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Rule 2 GENERAL RULES AND REGULATIONS

- A. Every applicant, upon signing an application for sewer service or any Customer accepting service rendered by the Company, shall be considered to have expressed consent to be bound by these Rates, Rules and Regulations.
- B. The Company's Rules and Regulations governing rendering of service are set forth in these numbered sheets. The rates applicable to appropriate water service are set forth in Schedule of Rates and constitute a part of these Rules and Regulations.
- C. The Company reserves the right, subject to approval from the Missouri Public Service Commission, to prescribe additional Rates, Rules or Regulations or to alter existing Rates, Rules or Regulations as it may from time-to-time deem necessary or proper.
- D. After the effective date of these rules, all new facilities, construction contracts and written agreements shall conform to these Rules and Regulations, in accordance with the statutes of the State of Missouri, and the Rules and Regulations of the Missouri Public Service Commission. Pre-existing facilities that do not conform with these Rules and Regulations may remain, if said facilities do not cause any service problems or improper use, and reconstruction is impractical.
- E. The point of sewer service provided by the Company shall be at the service connection.
- F. The Company shall have the right to enter to the Customer's property, as well as enter the Customer's unit for the purpose of inspecting for compliance with these Rules and Regulations. Company personnel shall identify themselves and such inspections shall be conducted during reasonable hours.

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Rule 3 LIMITED AUTHORITY OF COMPANY EMPLOYEES

- A. Employees or agents of the Company are expressly forbidden to demand or accept any compensation for any service rendered to its Customers except as covered in the Company's Rules and Regulations.
- B. No employee or agent of the Company shall have the right or authority to bind it by any promise, agreement or representation contrary to the letter or intent of these Rules and Regulations.
- C. The Company shall not be responsible for damages due to any failure to remove waste water from the premises, or for interruption if such failure or interruption is without willful default or negligence on its part.
- D. The Company shall not be liable for damages because of any interruption of sewer service, or for damages caused by defective piping, fittings, fixtures or appliances on the Customer's premises and not owned by the Company.
- E. The Company shall not be liable for damages due to damages from Acts of God, civil disturbances, war, government actions, and other uncontrollable occurrences.

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Rule 4 APPLICATIONS FOR SEWER SERVICE

- A. A written application for service, signed by the Customer, and accompanied by the appropriate fees as provided in the Schedule of Rates, the Schedule of Service Charges, Rule 11 - Extension of Collecting Sewers, and other information required by these Rules, must be received from each Customer. Said application must be filed in writing three (3) business days in advance stating the street, house number, name of the applicant, name of the property owner, and the time, at which connection is to be made.
- B. The Company shall have the right to refuse service for failure to comply with the rules herein, or if the Customer owes a past due bill not in dispute for sewer service at any location within the Company's service area.
- C. In any case where a collecting sewer extension or unusual construction or equipment expense is necessary to furnish the service, the Company may require a contract for service specifying a reasonable period of time for the Company to provide the service.
- D. If the Customer is a tenant, the Company shall notify the owner of the property or owner's property manager or other agent, if known to the Company, that such owner or property manager may be responsible for payment of the sewer service bill associated with the application.

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- E. A prospective Commercial or Industrial Customer shall, upon request of the Company, present in writing to the Company a list of devices that will discharge to the collecting sewers, the amount and specifications of any discharge, and the location of any units. The Company will then advise the Customer of the form and the character of the wastewater collection facilities available. If a sewer extension as provided for in Rule 11 - Extension of Collecting Sewers will be necessary, or if the Customer will be required to own, operate, and maintain a pretreatment facility, the Customer will also be so advised.
- F. The Company will determine or approve the location of the service connection. Service sewers will not be extended along public streets or roadways or through property of others in connecting with collecting sewers. If a service connection is requested at a point not already served by a collecting sewer of adequate capacity, the collecting sewer shall be extended in accordance with Rule 11 - Extension of Collecting Sewers, unless in the Company's judgment such a collecting sewer would serve no other future purpose and a service sewer may be constructed to serve the Customer's premises in a reasonable manner.
- G. A new service connection shall be authorized when all conditions in the above paragraphs, and Rule 5 – Inside Piping and Customer Service Sewer, regarding application, construction and inspection provisions, are met.
- H. No substantial addition to the water using equipment or appliances connected to the sewer system shall be made by Commercial or Industrial Customers except upon written notice to and with the written consent of the Company.

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Rule 5 INSIDE PIPING AND SERVICE SEWERS

- A. The Customer is obligated to construct, repair, and maintain the service sewer from the collecting sewer to the unit, and make the connection to the collecting sewer, with the approval of the Company. The Customer shall notify the Company prior to cleaning or repairing the service sewer.
- B. When a service sewer is to be connected to the collecting sewer, the plumber shall advise the Company twenty-four (24) hours in advance of when the connection is expected to be made so a representative of the Company can inspect the installation and connection for compliance with this Rule. An inspection charge may apply as specified in The Schedule of Service Charges. A re-inspection charge may apply if The Company's inspector finds deficiencies and must return to re-inspect. No backfill shall be placed until the work has been inspected by the Company. In the event the Customer or the Customer's agent shall damage a tee branch, wye branch or saddle, or cause damage to the collecting sewer, then the Customer shall be responsible for the cost to repair any such damage, including replacement of pipe or appurtenances as necessary.
- C. Plumbing specifications of all governmental agencies having jurisdiction, and these Rules and Regulations, in effect at the time of connection, must be met. The Company may deny service or may discontinue service where foundation drains, downspouts, or other sources of surface or storm water are permitted to enter the sewer system through either the inside piping or through the unit's sewer.

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D. A separate and independent service sewer shall generally be required for every unit. Exceptions are:

1. When one unit stands at the rear of another unit on an interior lot where a proper service sewer cannot be constructed through an adjoining easement. In that situation, the service sewer from the front unit may be extended to the rear unit and it will be considered as one service sewer.
2. When two or more units are a part of a complex that cannot be subdivided.

E. The service sewer shall be constructed using ductile iron pipe, polyvinyl chloride pipe (PVC), ASTM specification or equal; or other suitable material approved by the Company. Only those jointing materials and methods that are approved by the Company may be used. Joints shall be tight and waterproof. Any part of the service sewer that is located within ten (10) feet of a water main or water service line shall be constructed of ductile iron or PVC pressure pipe. The pipe shall be bedded according to the manufacturer's specifications and on undisturbed earth or fill compacted to at least ninety-five percent (95%) proctor density. Fill may be non-organic soil or aggregate.

F. The size and slope of the service sewer shall be subject to the approval of the Company, but in no event shall the diameter be less than four (4) inches. The slope of such four (4) inch sewer pipe shall not be less than one-eighth (1/8) inch per foot.

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- G. Whenever possible, the service sewer shall be brought to the unit at an elevation below the basement floor. No service sewer shall be laid parallel to or within three (3) feet of any bearing wall except where the service sewer enters the unit. The depth shall be sufficient to afford protection from frost. The service sewer shall be laid at a uniform grade and in straight alignment insofar as possible. Changes in direction shall be made only with properly curved pipes and fittings.
- H. Existing service sewers may be used in connection with new units only when they are found on examination and test to meet all requirements of the Company.
- I. In any unit in which a unit drain is too low to permit the required slope of the service sewer, sanitary sewage carried by such drain shall be lifted by approved artificial means and discharged to the service sewer. No water operated sewage ejector shall be used.
- J. All excavations required for the installation of a service sewer and connection to the collecting sewer shall be open trench work unless otherwise approved by the Company. Pipe laying and backfill shall be performed in accordance with the latest published engineering specifications of the manufacturer of the materials used, and all applicable local plumbing codes.
- K. The connection of the service sewer to the collecting sewer shall be made at the tee branch or wye branch, if such branch is available at a suitable location. If the collecting sewer is vitrified clay pipe of twelve-inch (12") diameter or less and there is no properly located tee branch or wye branch at a suitable location, such a branch shall be furnished and installed by the Customer at a location specified by the Company and by an installation method approved by the Company. If the

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collecting sewer is greater than twelve inches (12") in diameter, or is PVC of any size, a neat hole may be cut at a location specified by the Company, and a saddle shall be furnished and installed by the Customer to which the service sewer will be connected. The invert of the service sewer at the point of connection shall be at the centerline or higher elevation of the collecting sewer. The connection shall be secure and watertight. The wye branch, tee branch, or saddle shall become a part of the Company's collecting sewer and owned by the Company after installation.

- L. Any change in the location of an existing service connection and/or service sewer requested by the Customer shall be made at the Customer's expense.
- M. Company personnel may not work on piping or facilities not owned by the Company, unless authorized by the Customer.
- N. Customer Service Sewers may not be extended along public streets or roadways or through property of others in connecting with the Company's collecting sewers. The service sewer may, however, extend through the collecting sewer easement and roadway easement as necessary in order to be connected to a collecting sewer located across and adjacent to a street in front of the Customer's living unit. The service sewer must be laid in a straight line and at right angles to the collecting sewer and the face of the structure or as nearly so as possible. Any deviation from this because of physical obstruction will be at the discretion of the Company.

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Rule 6 IMPROPER WASTE OR EXCESSIVE USE

- A. In the event that the Customer to be served proposes to discharge, or actually consistently discharges, an abnormally high volume or strength of waste, the Company may require:
1. The Customer to install a pretreatment facility, grease trap or other device on the premises, to prevent the exceeding of discharge limits, or other adverse impacts upon the Company's system. The installation of any such device as well as its operation and maintenance shall be the responsibility of the Customer, and subject to approval and inspection by the Company.
 2. The Customer enter into a special contract with the Company for treatment of the Customer's discharge, that could require an enlargement of the Company's existing sewage treatment plant or the construction of a temporary sewage treatment plant, and/or the construction or reconstruction of sewer lines or pump facilities, in a form approved by the Missouri Public Service Commission with a rate that is fair and reasonable to both parties and so as not to constitute a burden upon the Company or the existing Customers of the Company.
- B. No Customer shall discharge or cause to be discharged any storm water, surface water, ground water, swimming pool water, roof runoff, sub-surface drainage, or cooling water into the collecting sewers.
- C. The Customer shall not tamper with, by-pass, remove, or willfully damage a water meter that is used for calculation of sewer bills, or allow any such action.
- D. The Customer shall not attempt to discharge sewage either by an unauthorized service connection or direct unauthorized connection to a service sewer.

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- E. Customers will not be permitted to allow discharge in any way from premises other than the service address, nor to permit the use of their drains or connections to the service sewer for waste discharge by others, without permission from the Company.
- F. Except as may be provided in paragraph A.2., above, the Customer shall be required to take any action necessary to meet the following described wastewater limits before the wastewater is discharged into the collection sewer:
1. Maximum temperature of 150 degrees Fahrenheit.
 2. Maximum strength of four-hundred (400) parts per million (B.O.D.).
 3. A maximum of one-hundred (100) parts per million, by weight, any fat, oil or grease.
 4. A maximum of twenty-five (25) parts per million, by weight, any soluble oils.
 5. No gasoline, benzene, naphtha, fuel oil, or other flammable or explosive liquid, solid or gas.
 6. No garbage that has not been properly shredded.
 7. No ashes, cinders, sand, mud, straw, shavings, metal, glass, rags, feathers, tar, plastics, wood or any other solid or viscous substance capable of causing obstruction to the flow in sewers or other interference with the proper operation of the sewer system.

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8. No waste-water having a pH less than 5.0 or greater than 9.0, or having any other corrosive property, capable of causing damage or hazard to structures, equipment or personnel of the Company.
9. No waste-water containing heavy metals, toxic material, or (C.O.D.), in sufficient quantity to disrupt the operation of treatment facilities, or exceeding any limits which may be specified in a service contract for any such substance.

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Rule 7 DISCONTINUANCE OF SERVICE

A. Discontinuance of service may be accomplished by, but not limited to, physical disconnection or turn-off of the Customer's service sewer from the Company's collecting sewer. Discontinuance of sewer service for non-payment of a sewer bill may be accomplished by physical disconnection or turn-off, or discontinuance by turn-off of water service by the Customer's water utility at the request of the Company. In such cases where discontinuance is accomplished by turn-off of water service:

1. If sewer billing is combined with water billing, Customers will be notified by the water utility by the terms of its rules normally practiced for discontinuance of water service; or
2. If sewer billing is not combined with water billing, Customers will be notified by the terms of paragraphs F., G., and H., below, and not by those of any water utility.

B. The Company may discontinue service for any of the following reasons:

1. Non-payment of a delinquent account not in dispute; or
2. Failure to post a security deposit or guarantee acceptable to the utility; or
3. Unauthorized interference, diversion or use of the utility service situated or delivered on or about the Customer's premises; or
4. Misrepresentation of identity in obtaining utility service; or
5. Enclosing or obstructing any meter so as to make reading or repairs unreasonably difficult, or

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6. Failure to comply with the terms and conditions of a settlement agreement.
 7. Refusal after reasonable notice to grant access at reasonable times to equipment installed upon the premises of the Customer for the purpose of inspection, meter reading, maintenance or replacement; or
 8. Violation of any of these Rules and Regulations on file with and approved by the Missouri Public Service Commission, for unauthorized resale of sewer service, or for any condition which adversely affects the safety of the Customer or other persons, or the integrity of the utility's sewer system.
- C. Reconnection of any Customer after discontinuance of service by authority of this rule will be made subject to payment of the cost of reconnection.
- D. Where the owner of rental property is the Customer and has been notified of the intent of disconnection, the tenants shall be given the opportunity in a reasonable and timely manner to pay delinquent bills in lieu of disconnection of service.
- E. None of the following shall constitute sufficient cause for the Company to discontinue service:
1. The failure of the Customer to pay for merchandise, appliances, or service not subject to Commission jurisdiction as an integral part of the utility service provided by the Company; or
 2. The failure of the Customer to pay for service received at a separate point of service, residence, or location. In the event of discontinuance or termination of service at a separate residential point of service, residence, or location in accordance with these rules, the Company may transfer and bill any unpaid balance to any other residential service account of the Customer and may discontinue service after twenty-one (21) days after rendition of the combined bill, for nonpayment, in accordance with this rule; or

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3. The failure of the customer to pay for a different class of service received at the same or different location. The placing of more than one (1) service connection at the same location for the purpose of billing the usage of specific devices under operational rate schedules or provisions is not construed as a different class of service for the purpose of this rule; or
4. The failure to pay the bill of another customer, unless the customer whose service is sought to be discontinued received substantial benefit and use of the service billed to the other customer; or
5. The failure of a previous owner or occupant of the premises to pay an unpaid or delinquent bill except where the previous occupant remains an occupant of the living unit; or
6. The failure to pay a bill correcting a previous underbilling, whenever the customer claims an inability to pay the corrected amount, unless a utility has offered the customer a payment arrangement equal to the period of underbilling.

F. Unless discontinuance is accomplished by turn-off of water service and discontinuance notice is provided by the water utility, then at least thirty (30) days prior to discontinuance of service, the Company will mail a written notice to the Customer by certified mail, return receipt requested, with a copy of the notice sent to the Public Service Commission and a copy to the property owner if different than the Customer and if known by the Company. If the Company intends to discontinue service to a multi-tenant unit with occupants who are not customers, a notice shall also be conspicuously posted in the unit ten (10) days prior to the proposed discontinuance, along with information pertaining to how one or more of the tenants may apply to become customers. Discontinuance shall occur within thirty (30) calendar days after the date given as the discontinuance date, shall occur between the hours of 8:00 a.m. and 4:00 p.m., and shall not occur on a day when the Company will not be available to reconnect service or on a day immediately preceding such a day. The thirty (30) day notice may be waived if there is any waste discharge that might be detrimental to the health and safety of the public, or cause damage to the sewer system. In the event of discontinuance

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of service without the thirty (30) day notice as above provided, the Customer and the Missouri Public Service Commission shall be notified immediately with a statement of the reasons for such discontinuance of service.

G. A discontinuance notice provided to a customer shall include:

1. The name and address of the Customer, the service address if different than the Customer's address; and
2. A statement of the reason for the proposed discontinuance of service and the cost for reconnection; and
3. How the customer may avoid the discontinuance; and
4. The possibility of a payment agreement if the claim is for a charge not in dispute and the Customer is unable to pay the charge in full at one time; and
5. A telephone number the Customer may call from the service location without incurring toll charges and the address and any available electronic contact information of the utility prominently displayed where the customer may make an inquiry.

H. The Company shall make reasonable efforts to contact the Customer, at least twenty-four (24) hours prior to any discontinuance, regarding the reason(s) for discontinuance of service, and the resolution. If discontinuance of service would affect an occupant who is not the Company's Customer, or is not responsible for payment of the bill, then the Company shall make reasonable efforts to inform such occupant(s).

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- I. The Company shall postpone the discontinuance if personnel will not be available to restore service the same day, or if personnel will not be available to restore service the following day. The Company also shall postpone discontinuance if a medical emergency exists on the premises, however the postponement may be limited to twenty-one (21) days, and the Company may require proof of a medical emergency.
- J. The Company shall have the right to enter the Customer's premises for purposes of discontinuance of service in compliance with these Rules and Regulations. Discontinuance of service will be made during reasonable hours. Company personnel shall identify themselves and announce the intention to discontinue service, or leave a conspicuous notice of the discontinuance. The Company shall have the right to communicate with the owner of the Customer's Unit for purposes of gaining access to the property for discontinuance of service in accordance with the Missouri Public Service Commission's billing practices, but any extra costs for arranging such access shall not be charged to the Customer's account.
- K. The provisions of paragraphs H., and J., above, may be waived if safety of Company personnel while at the premises is a consideration.
- L. Discontinuance of service to a unit for any reason shall not prevent the Company from pursuing any lawful remedy by action at law or otherwise for the collection of monies due from the Customer.
- M. If the Company discontinues its service for any violation of these Rules and Regulations, then any monies due the Company shall become immediately due and payable.
- N. The Company has the right to refuse or to discontinue service to any unit to protect itself against fraud or abuse.

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O. The Company shall deal with Customers and handle Customer accounts in accordance with the Missouri Public Service Commission's Utility Billing Practices.

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Rule 8 TERMINATION OF SERVICE

- A. Termination of service at the Customer's request may be accomplished at the expense of the Customer. If termination of service must be accomplished by physical disconnection, the Customer shall notify the Company of the date and time of the disconnection in writing at least five (5) days prior to the disconnection. If termination is accomplished by turn-off of water service, such notice shall be on or before the date of the water turn-off. Service may not be terminated for one unit of a multi-unit building if the building is served by one service sewer, unless accomplished by turnoff of water service to that unit. The method used for termination of service shall be determined by the Company.
- B. A Customer may request temporary turn-off of water service or sewer service by the Company for the Customer's own convenience; however, the Customer shall still be charged for service at the appropriate rate as specified in the Schedule of Rates during the time the service is turned off. The method of temporary turnoff shall be approved by the Company, e.g. water turnoff, physical disconnection, etc.

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Rule 9 INTERRUPTIONS IN SERVICE

- A. The Company reserves the right to temporarily interrupt sewer service in its collecting sewers at any time, in a reasonable and non-discriminatory manner, for the purpose of making repairs to the sewer system.
- B. Whenever service is limited for repairs, all Customers affected by such limitation will be notified in advance whenever it is practicable to do so. Every effort will be made to minimize limitation of service.
- C. No refunds of charges for sewer service will be made for limitations of service unless due to willful misconduct of the Company.
- D. In order to avoid service problems when extraordinary conditions exist, the Company reserves the right, at all times, to determine the limit of and regulate sewage discharge in a reasonable non-discriminatory manner.

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Rule 10 BILLS FOR SERVICE

- A. The charges for sewer service shall be at the rates specified in the Schedule of Rates in these Rules and Regulations. Service charges for connection or disconnection are set forth in the Schedule of Service Charges.
- B. A Customer who has made application for, or who is or has been taking sewer service at one or more units connected to the collecting sewer, shall be held liable for payment of any applicable charges for service furnished to such units from the date of connection until the date requested by the Customer in writing for service to be terminated, or until service is discontinued by the Company.
- C. Bills for sewer service will be mailed or delivered to the Customer's last address as shown by the records of the Company, but failure to receive the bill will not relieve the Customer from the obligation to pay the same.
- D. Payments shall be made at the office of the Company or at a convenient location designated by the Company, by ordinary mail, or by electronic methods employed by the Company. Payment must be received by the close of business on the date due, unless the date due falls on a non-business day in which case payment must be received by the next business day.
- E. Neither the Company nor the Customer will be bound by bills rendered under mistake of fact as to the quantity of service rendered or as a result of clerical error. Customers will be held responsible for charges based on service provided.
- F. Separate bills shall be rendered for each location at which sewer service is provided, even though one entity may be the Customer at such separate locations.

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- G. The Company shall have the right to render bills monthly in advance, or on a monthly basis in arrears when the sewer charges are based on water usage. Bills shall have the due date indicated on the bill. Bills will be rendered net, bearing the last date on which payment will then be considered delinquent. The period after which the payment is considered delinquent is a minimum of 21 days after rendition of the bill. Bills unpaid after the stated due date will be delinquent and the Company shall have the right to discontinue service in accordance with Rule 7 – Discontinuance of Service. Delinquent bills may be subject to a late charge as provided in the Schedule of Service Charges. The Company shall not be required to restore or connect any new service for such delinquent Customers until the unpaid account due the Company under these Rules and Regulations has been paid in full or arrangements satisfactory to the Company have been made to pay said account.
- H. When bills are rendered for a period of less than a complete billing period due to the connection or termination of service, the billing shall be for the proportionate part of the monthly charge.
- I. Customers terminating after taking service for less than one month shall pay not less than the monthly minimum. The owner of the property served will be held responsible for ultimate payment of a bill. If the customer is a tenant of rental property, copies of all notices of violations of the rules, or of disconnection of service shall also be sent to the owner of the property if the owner is known to the Company.
- J. Unless sewer charges are billed in advance, the Company may require a security deposit or other guarantee as a condition of new service if the Customer:
1. Has a past-due bill which accrued within the last five (5) years and, at the time of the request for service, remains unpaid and not in dispute with a utility for the provision of the same type of service; or,

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2. Has, in an unauthorized manner, within the last five (5) years prior to applying for service, interfered with or diverted the service of a utility in the provision of the same type of service; or,
 3. Is unable to establish a credit rating with the Company. Adequate credit rating for a residential Customer shall be established if the Customer:
 - a. Owns or is purchasing a home; or,
 - b. Is and has been regularly employed full time for at least one (1) year; or,
 - c. Has an adequate and regular source of income; or
 - d. Can provide credit references from a commercial credit source.
- K. Unless sewer charges are billed in advance, the Company may require a security deposit or other acceptable written guarantee of payment as a condition of continued or re-establishing service if service if:
1. The water service of the Customer has been discontinued for non-payment of a delinquent account not in dispute; or,
 2. The Customer has interfered with, diverted or, in an unauthorized manner, used utility service delivered to the customer's premises; or,
 3. The Customer has failed to pay undisputed bills before the delinquency date for five (5) billing periods out of twelve (12) consecutive monthly billing periods. Prior to requiring a customer to post a deposit under this subsection, the utility shall send the customer a written notice explaining the utility's right to require a deposit or include such explanation with each written discontinuance notice.
- L. The amount of a security deposit shall not exceed utility charges applicable to one (1) billing period plus thirty (30) days, computed on estimated or actual annual usage.

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- M. Interest shall be payable annually on all deposits, but shall not accrue after the utility has made reasonable effort to return the deposit. Interest will be paid at a per annum rate equal to the prime bank lending rate, as published in the *Wall Street Journal* for the last business day of the preceding calendar year, plus one (1) percentage point. Interest may be credited to the Customer's account.
- N. After a Customer has paid proper and undisputed utility bills by the due dates, for a period not to exceed one (1) year, credit shall be established or re-established, and the deposit and any interest due shall be refunded. The utility may withhold full refund of the deposit pending resolution of a disputed matter.
- O. The utility shall give a receipt for deposits received, but shall also keep accurate records of deposits, including Customer name, service address, amounts, interest, attempts to refund and dates of every activity regarding the deposit.
- P. All billing matters shall be handled in accordance with the Missouri Public Service Commission's Rules and Regulations regarding Utility Billing Practices, 4 CSR 240-13.

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Rule 11 EXTENSION OF COLLECTING SEWERS

- A. Collecting sewers will be extended within the Company's certificated service area, at the applicant's cost, if service is requested by the applicant at a location where facilities do not exist (the "applicant" is sometimes referred to in this rule as the "original applicant"). The applicant shall enter into a contract with the Company. The applicant may choose to have the Company perform all work under the terms and conditions of C., following, or have a private contractor perform the work under the terms and conditions of D., following. For purposes of this rule, an extension could include, in addition to a collecting sewer, one or more pump stations or treatment plant facilities, as necessary to provide the service.
- B. The pipe used in making extensions shall be of a type and size which will be reasonably adequate for the area to be served. Such determination as to size and type of pipe shall be left solely to the judgment of the Company. If the Company desires a pipe size, lift station, treatment plant, or any other facility larger than reasonably required to provide service to the applicant, the additional cost due to larger size shall be borne by the Company.
- C. The Company will extend collecting sewers for the applicant under the following terms and conditions:
1. Upon receipt of written application for service as provided in Rule 4 - Applications for Sewer Service, the Company will provide the applicant an itemized estimate of the cost of the proposed extension. Said estimate shall include the cost of all labor and materials required, including reconstruction of existing facilities if necessary, and the direct costs associated with supervision, engineering, permits, and bookkeeping.

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2. The applicant shall enter into a contract with the Company for the installation of said extension and shall tender to the Company a contribution-in-aid-of-construction equal to the amount determined in C. 1., above, plus any appropriate fees as provided in the Schedule of Rates or the Schedule of Service Charges.
 3. If, as a result of reasonably unforeseen circumstances, the actual cost of the extension exceeds the estimated cost of the extension, the applicant shall pay the additional cost.
- D. When the applicant elects to construct an extension, the Company will connect said extension to its existing collecting sewers under the following terms and conditions:
1. Applicant shall enter into a contract with the Company which provides that the applicant construct said collecting sewers and/or other facilities to meet the requirements of all governmental agencies and the Company's rules. Plans for the extension shall be submitted to the Company for approval prior to construction. Applicant's choice of construction contractor is subject to approval by the Company. Applicant shall contribute said facilities to the Company with a detailed accounting of the actual cost of construction, and contribute to the Company the estimated reasonable cost of the Company's inspection.
 2. The Company, or its representative, shall have the right to inspect and test the extension prior to connecting it to the existing collecting sewers and acceptance of ownership.
 3. Connection of the extension to existing Company collecting sewers shall be made by, or under direct supervision of, the Company or its representative.
 4. The Company shall have the right to refuse ownership and responsibility for the sewer extension until applicant has met the contractual obligations as provided in D. 1.

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E. The cost to additional applicants connecting to the sewer contributed by the original applicant shall be as follows:

1. For a single-family residential applicant applying for service in a platted subdivision, the Company shall divide the actual cost of the extension, including income tax impact if any, by the number of lots abutting said extension to determine the per lot extension cost. When counting lots, corner lots which abut existing sewers shall be excluded.
2. For a single-family residential applicant requesting service to areas that are not platted in subdivision lots, the applicant's cost shall be equal to the total cost of the extension times 100 feet divided by the total length of the extension in feet.
3. For an industrial, commercial, or multi-family residential applicant, the cost will be equal to the amount calculated for a single-family residence in E. 1., above or E. 2., above, as appropriate, multiplied by a water usage factor. The water usage factor shall be determined by dividing the average monthly usage in gallons by 7,000 gallons, but shall not be less than 1.

F. Refunds of contributions shall be made to the original applicant as follows:

1. If the actual cost of an extension constructed by the Company under C., or actual costs for inspection by D., above, be less than the estimated cost, the Company shall refund the difference as soon as the actual cost has been ascertained.
2. During the first ten years after the extension is completed, the Company will refund to the original applicant who paid for the extension monies collected from additional applicants in accordance with E., above.
3. The sum of all refunds to the applicant shall not exceed the total contribution, including income tax and inspection costs associated with the extension, which the applicant has paid.

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- 4. If two or more entities are considered an original applicant, the refund shall be distributed to each entity based upon the percentage of the actual extension cost contributed by each entity.
- G. Any extension made under this rule shall be and remain the property of the Company in consideration of its perpetual upkeep and maintenance.
- H. The Company reserves the right to connect additional extensions to a collecting sewer contributed by the applicant. The connection of new customers to such additional extensions shall not entitle the applicant to any refund.

* Indicates new rate or text
+ Indicates change

DATE OF ISSUE February 17, 2016
Month Day Year

DATE EFFECTIVE April 4, 2016
Month Day Year

ISSUED BY Josiah Cox, President, 500 Northwest Plaza Drive, Suite 500, St. Ann, MO 63074
name of officer title address

WATER & SEWER COMPANY

Residential Customer Bill Comparison-Water

Rates for 5/8" Meter

<u>Current Base</u> <u>Customer Charge</u>	<u>Proposed Base</u> <u>Customer Charge</u>	<u>Current</u> <u>Usage Rate</u>	<u>Proposed</u> <u>Usage Rate</u>
\$3.58	\$33.89	\$1.84	\$6.27

current service charge is monthly charge

usage rate is per 1,000 gallons used

MONTHLY BILL COMPARISON

5,300 gallons/month usage

Current Rates

Customer Charge	\$ 3.58
Usage Charge	\$ 9.75
Total Bill	\$ 13.33

Proposed Rates

Customer Charge	\$ 33.89
Usage Charge	\$ 33.26
Total Bill	\$ 67.14

INCREASES

Customer Charge

\$ Increase	\$30.31
% Increase	846.57%

Usage Charge

\$ Increase	\$23.50
% Increase	241.01%

Total Bill

\$ Increase	\$53.81
% Increase	403.62%

WATER & SEWER COMPANY

Residential Customer Bill Comparison-Sewer

Rates for Residential Customer

<u>Current Base</u>	<u>Proposed Base</u>
<u>Customer Charge</u>	<u>Customer Charge</u>
\$14.63	\$67.07

current service charge is monthly charge

MONTHLY BILL COMPARISON

Current Rates

Customer Charge	\$ 14.63
Usage Charge	\$ -
Total Bill	\$ 14.63

Proposed Rates

Customer Charge	\$ 67.07
Usage Charge	\$ -
Total Bill	\$ 67.07

INCREASES

Customer Charge

\$ Increase	\$52.44
% Increase	358.41%

Usage Charge

\$ Increase	\$0.00
% Increase	N/A

Total Bill

\$ Increase	\$52.44
% Increase	358.41%

REPORT OF WATER AND SEWER UNIT
FIELD OPERATIONS AND TARIFF REVIEW

File Nos. WR-2016-0064 and SR-2016-0065

Hillcrest Utility Operating Company, Inc.

Introduction

This Report was prepared jointly by Staff members Jonathan Dallas, Martin Hummel, and Jarrod Robertson.

Hillcrest Utility Operating Company, Inc., holds certificates of public convenience and necessity (CCN) granted by the Missouri Public Service Commission (the Commission), under which the Company provides water and sewer utility services. The Commission granted the CCN for water service and sewer service in the context of approving the sale of assets in Case WO-2014-0340 by an Order that became effective on October 22, 2014.

The water and sewer systems are believed to have been constructed in approximately 1974. A full background of the utility systems is presented in Staff's recommendation, filed in case WO-2014-0340. The current Commission approved rates and charges have not been changed since 1989.

The Company provides service to approximately 241 water and 240 sewer customers, which consist of single-family homes, apartments, duplexes, and small commercial businesses in the Hillcrest Manor subdivision in Cape Girardeau County.

Facilities

Water System

The water system consists of a single well, a newly constructed 58,000 gallon ground storage tank, two high-service pumps that pump from the tank to the distribution system, which is made up of predominately six inch and some eight inch PVC pipe. There are also several flush hydrants located throughout the system. Each customer is individually metered. Previously the system only had a 20,000 gallon storage tank which was inadequate to meet a minimum one-day average use, as recommended by the Missouri Department of Natural Resources' (DNR) *Minimum Design Standards for Missouri Community Water Systems*.

As was documented in Staff's recommendation in Case No. WO-2014-0340, both the drinking water system and the sewer system were in critical need of repairs and upgrade, and were subject to an Abatement Order on Consent agreement with DNR. These upgrades were necessary not

only to meet regulatory requirements, but were also critical to improving the operational efficiency and dependability of both systems.

Drinking water system upgrades made by the Company, include the following:

- Replaced the old 20,000 gallon storage tank with a new 58,000 gallon tank.
- Added permanent chlorination which required a chlorine room to be added to the well house.
- Replaced the roof on the well house.
- Rewired all of the electrical components and electric motor controls in the well house.
- Added a backup generator.
- Resealed the well head.
- Replaced the master meter at the well head.
- Constructed a security fence around the well house and storage tank.
- Added eight valves to the distribution system.
- Replaced some broken meters in the distribution system.
- Installed a supervisory control and data acquisition system (*SCADA*) for more efficient system operation.

These upgrades have made the system much safer and more reliable for the customers. This water system had been modified several times in the past, which was not well documented. As a result, the water system was prone to frequent outages and boil orders, before these new upgrades. One boil order lasted over a month due to contamination of the old storage tank caused by deterioration allowing contaminants to enter through the top of the tank. Due to previous contamination and outages, DNR required disinfection of the water system, which necessitated a separate chlorination room to be added onto the well house. A separate room is necessary for safety of personnel, as well as helping protect the metal plumbing and electrical components in the well house from corrosive chlorine gas. Since the upgrades, there have not been any contamination events or boil orders, and customers have not been out of water.

The new 58,000 gallon storage tank now has enough capacity to provide water to the system for approximately a day in the event the well pump fails, which meets DNR requirements. When the pump fails, it takes about one day to replace. Also a new backup generator will automatically provide power within ten seconds of losing primary power. This insures the pumps will maintain adequate pressure in the system. By installing a few new gate valves in key locations throughout the distribution system, operators now have the ability to isolate main breaks so only a fraction of the system is without water while the break is repaired, instead of the whole system being shut down and without water. The *SCADA* system allows the owner and operator to receive warnings and alarms anytime of the day or night via their cell phones.

Sewer System

The sewer system consists of gravity sewers, one existing lift station within the collection system, and one new lift station that was constructed as a part of the treatment facility in conjunction with a new treatment component, called a bioreactor. The bioreactor is a fairly new technology. It consists of two concrete in-ground tanks filled with small plastic balls called media. The media provides surface area for bacteria to attach and grow on. Bacteria are used to break down and treat the raw sewage, and especially to break down ammonia, which is what the bioreactor is being utilized for by the Company. Utilizing the bioreactor means more sewage can be treated faster in a smaller plant. The treatment facility is a modification of what was a four-cell lagoon. The previous owner, Brandco, was required by DNR to meet new limits for ammonia discharge by July 1, 2016. This drove the Company to upgrade the facility and treatment process. This involved a reconfiguration of the treatment process while still utilizing the original system.

Upgrades include:

- A new moving bed bioreactor to help remove ammonia.
- A new lift station to pump effluent to the bioreactor from an existing lagoon cell.
- Rerouting a portion of the sewer pipe to a new entry point at the treatment system.
- Fence around the lagoons and bioreactor.
- Cleared brush and over growth from around the lagoons and adjacent area.
- Ripped the eroding drainage ditch between the lagoons.
- Installed SCADA on the two lift stations and bioreactor.

With these upgrades the sewer system is expected to meet treatment limits set by DNR necessary to protect the water users of the receiving stream. Prior to Hillcrest making these upgrades the sewer system was not meeting treatment requirements and the lagoons were in danger of failing. The clearing of over grown brush from around the lagoons was a major task. This revealed several places where the berms were starting to fail and untreated sewage was running over the berm into the creek. The SCADA system will alert the operator to any high water levels or pump failures in the system.

In summary: The improvements made to the drinking water and sewer systems were critically needed in order to meet drinking water and water pollution regulations. These improvements allow Hillcrest to provide safe and adequate service to its customers in the Hillcrest Manor subdivision.

Tariff Review

Staff routinely works with the Company to update water and/or sewer tariffs of the individual companies using a generic tariff that is modified for specific operations of the individual companies as they file rate cases with the Commission.

Water Tariff

The Company's current water tariff was approved in 1989. Following a review of the current water tariff, Staff is recommending the Company replace the water tariff with a new water tariff that reflects the current rules and regulations of the Commission, but modified for Hillcrest Utility Operating Company, Inc.

The Schedule of Service Charges has been updated to reflect current water miscellaneous service charges billed by the Company. A New Service Connection Fee has been defined to be equal to the "Actual Cost," as related to parts, material, labor and equipment, but excluding the cost of the meter. The following fees were determined by Staff and the Company to be the actual cost of providing that service. A Meter Test Fee of \$25 has been added to the water tariff. The Turn-on and Turn-off fees were adjusted from \$15 to \$25. A Service Connection Inspection Fee of \$25 and a Water Service Line Inspection Fee of \$25 have been added to the water tariff, and Staff added a late charge of \$5 or 3%, with the greater amount being added to the delinquent bill and changed the reconnect fee from \$15 to \$25. Staff included a service charge for service calls for damages caused by the Customer, equal to the actual cost of providing the service, with a minimum charge of \$40. Staff also included a charge of \$25 for returned checks and updated certain miscellaneous service charges, listed above, to reflect actual costs to the Company, as well as, updating the water tariff to include the recent changes made to Chapter 13.

The new and updated water tariff for Hillcrest Utility Operating Company, Inc., will be filed by the Company as part of this current rate case proceeding. The current PSC MO number 2 water tariff will be canceled and replaced by PSC MO Number 3 water tariff.

Sewer Tariff

The Company's current sewer tariff was approved in 1989. Following a review of the current sewer tariff, Staff is recommending the Company replace the sewer tariff with a new sewer tariff that reflects the current rules and regulations of the Commission, but modified for Hillcrest Utility Operating Company, Inc.

The Schedule of Service Charges has been updated to reflect current sewer miscellaneous service charges billed by the Company. A late charge of \$5 or 3%, with the greater amount being added to the delinquent bill, has been added along with a returned check fee of \$25. Regarding Discontinuance of Service, if disconnection is accomplished in accordance with Rule 8, the charge for reconnection by the Company shall be the total actual cost of disconnection and reconnection. Staff reviewed the existing miscellaneous service charges with the Company to recover the actual costs related to these services. Miscellaneous charges have been calculated by Staff to allow the Company to recover the actual costs, related to these charges from the customers causing the event/cost. A Re-Inspection Fee of a new service sewer of \$20 has been added to the sewer tariff, to be paid if the Company is not at fault. A fee of \$40 has been assigned to service calls that must take place any time other than normal business hours for any

reason except a disconnection for a ruptured Customer's service. The aforementioned changes were made to keep the language of this sewer tariff consistent with other Company sewer tariffs, as well as, updating the sewer tariff to include the recent changes made to Chapter 13.

The new and updated sewer tariff for Hillcrest Utility Operating Company, Inc. will be filed by the Company as part of this current rate case proceeding. The current PSC MO number 2 sewer tariff will be canceled and replaced by PSC MO Number 4 sewer tariff.

Rate Design

Staff also reviewed the Company's current rate design in its investigation. The current rate structure consists of a monthly service and a commodity charge for water service, and a monthly service charge for sewer service. Staff is proposing a new customer class be created for commercial customers in both water and sewer service. In addition, Staff has performed a cost of service study for water service, which allocated current costs to the monthly minimum customer charge and the commodity charge. Staff is not making any recommendations to change the Company's current rate structure for sewer service in this case.

Conclusion and Recommendation

- 1) The current PSC MO number 2 water tariff will be canceled and replaced by PSC MO Number 3 water tariff.
- 2) The current PSC MO number 2 sewer tariff will be canceled and replaced by PSC MO Number 4 sewer tariff.

REPORT OF CUSTOMER SERVICE AND BUSINESS OPERATIONS REVIEW

Consumer and Management Analysis Unit

Small Company Rate Increase Request

Case Nos. WR-2016-0064 & SR-2016-0065

Hillcrest Utility Operating Company, Inc.

Gary Bangert, Mark Kiesling, and Brooke Richter

The Consumer and Management Analysis Unit (CMAU) staff of the Missouri Public Service Commission (“Commission”) initiated an informal review in October 2015 of the customer service and business processes, procedures, and practices of Hillcrest Utility Operating Company, Inc. (“Company”). The review was performed in response to the Company’s request for a rate increase in Case Nos. WR-2016-0064 & SR-2016-0065, which were filed on September 15, 2015. This request is for an increase of \$236,016 in its annual water system operating revenues, and \$216,663 in its annual sewer system operating revenues. File Nos. WR-2016-0064 and SR-2016-0065 have been consolidated into WR-2016-0064. All future case references shall be made using Case No. WR-2016-0064.

The CMAU staff examined the Company’s tariffs, annual reports, Commission complaint and inquiry records, and other documentation related to the Company’s customer service and business operations. In preparation of this report, the CMAU staff submitted data requests to the Company and conducted a conference call with Company personnel. The CMAU staff’s review of the Company resulted in the following two recommendations:

THE CMAU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

- 1. Develop and utilize time sheets for all employees to record the time associated with Company work activity. This recommendation should be completed within ninety (90) days of the effective date of any Commission order issued in Case No. WR-2016-0064.*
- 2. Develop and require a signed customer application prior to providing service as provided in its tariff. The Company’s customer application shall include the date and the customer’s signature indicating that the customer agrees to abide by the Company’s rates, rules and regulations, and applicable state statutes. This recommendation should be completed within thirty (30) days of any Commission order issued in Case No. WR-2016-0064.*

The purpose of the CMAU is to promote and encourage efficient and effective utility management. These objectives contribute to the Commission's overall mission to ensure that customers receive safe and adequate service at reasonable rates while providing utilities the opportunity to earn a fair return on their investment.

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

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

- Meter Reading
- Customer Billing
- Payment Remittance
- Credit and Collections
- Complaints and Inquiries
- Customer Communication

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

History

Hillcrest Utility Operating Company was first authorized by the Commission in 1989 to provide water and sewer service in an area commonly known as Hillcrest Manor Subdivision in Cape Girardeau County, Missouri. In 2005, Brandco Investments, LLC purchased Hillcrest Utility Operating Company. Brandco Investments owned and operated Hillcrest Utility Operating Company until March 2015, when Central States Water Resources purchased the Company. The Company provides water service to approximately 241 customers, and approximately 240 sewer customers. There has been minimal change in the number of customers over the past several years and limited growth is anticipated. No previous customer service review has been performed by the CMAU staff.

Overview

Josiah Cox is the owner/president of Central States Water Resources. An office manager performs all business office operations and the Company contracts with Strickland Engineering to perform all outside operations and maintenance. Outside operations activities include system checks, reading meters, routine maintenance of the water system, taking water samples, and recording master water meter readings. Company personnel represent that time associated with Company work activity is tracked for Mr. Cox on QuickBooks software and may be tracked for other employees in the future.

The Company's business office is located at 500 Northwest Plaza Drive, Suite 500, St. Ann, Missouri 63074. The office hours of operation are 7:00 a.m. to 4:00 p.m. Monday thru Friday. The Company has a contract with Nitor Billing to provide 24/7 customer support. Business office operations include maintaining customer account records, responding to customer complaints and inquiries, and paying bills. The president also responds to emergency customer calls.

Meter Reading

The Company's water meters, active and inactive, are usually read on or around the end of each month by Strickland Engineering. The meter readings are subsequently manually entered into an Excel spreadsheet and uploaded to Nitor's billing software called Munibilling. Upon visual examination, any meter readings that appear unusual result in a reread. Company personnel asserted that meters are only estimated when they are not functional or inaccessible. Company personnel represented that there has been no problem with theft of water service. The Company has no plans to change the way it records meter readings.

Customer Billing

Hillcrest Utility Operating Company contracts with Nitor Billing to generate and mail all customer bills. Company personnel indicate that the monthly bills are mailed on or about the 5th of each month, with customer bills due 21 days from the date the bills are mailed. Hillcrest Utility Operating Company uses QuickBooks software to maintain customer records. Office personnel assert that customer account data is backed up to a cloud database whenever account modifications are made.

Payment Remittance

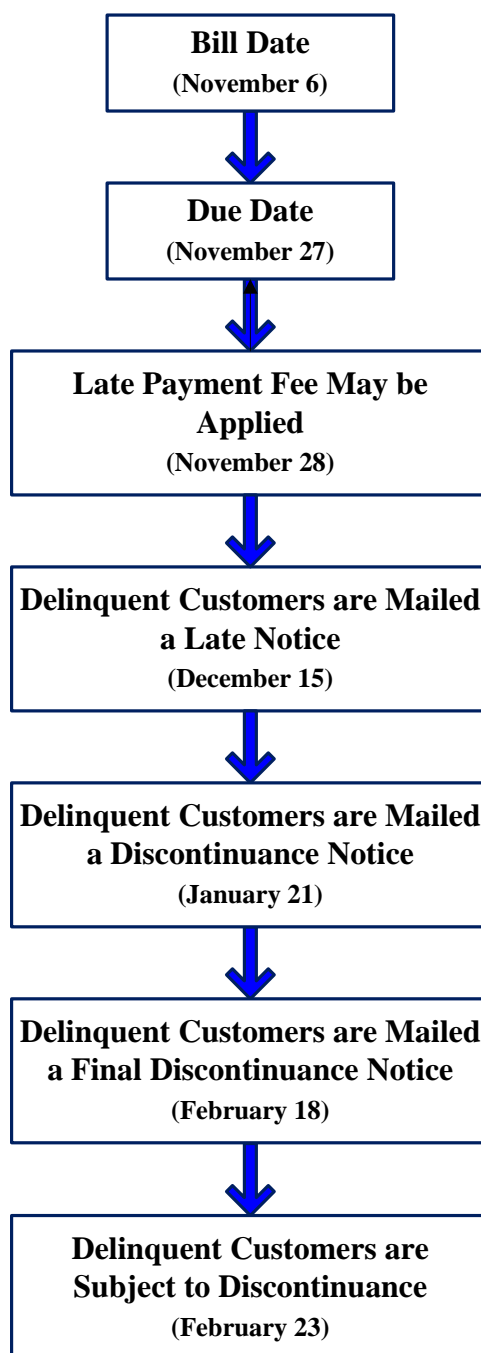
Customer payment options include check, debit card, credit card, or E-check. Customers incur no fees for use of any of the payment options. Nitor Billing processes all payment remittance. Most payments are received in the mail or online thru Nitor's web-based software Munibilling. Company personnel assert that bill payments are processed, recorded, and deposited on the day they are received.

Credit and Collections

Customers requesting water and sewer service are not currently required to complete an application. The Company represented that an online application will be available soon. A security deposit is not required as a condition for providing service. Company personnel assert that returned checks have not been a problem. Four returned checks have been processed in 2015. The Company's current tariff does not have a provision for a returned check fee.

The Company has an established procedure for handling delinquent accounts. The following illustration shows the actions that would be taken on delinquent accounts:

Delinquent Account Actions



As shown in the illustration for bills with a bill date of November 6, Company personnel assert that customers with unpaid accounts may be assessed a late payment fee of 8% of the balance due on the 28th of the month. The Company has informed Staff that it is not applying late fees, as it is trying to get all customers current on bills since the acquisition case; however, it

plans to start charging late fees in the near future. A late notice is mailed by the middle of the month following a delinquent bill, a discontinuance notice is mailed after the middle of the following month, and a final notice is mailed about the middle of the next following month, about four days before the service is subject to discontinuance (February 23rd in the illustration).

Hillcrest Utility Operating Company personnel indicated that only one customer has been disconnected for nonpayment, as the Company is working to get all of their customers current on their bills. The Company's tariff includes a provision for a \$15.00 reconnect fee for any nonpaying customer that would have service discontinued. The Company does not use a collection agency to pursue the collection of amounts owed to Hillcrest Operating Company. No uncollectible water account has been written off since Hillcrest was acquired in March 2015.

Complaints and Inquiries

Customers with questions or concerns may call the telephone number appearing on their bill, which is the Nitor billing answering service. This number is a 24/7 toll-free telephone number that is auto-transferred to Strickland Engineering's emergency number if it is a maintenance emergency. If it is a billing question or concern, the call will be answered by the Nitor billing answering service. Company personnel indicate that customer contacts are recorded on the Customer Complaint Log that includes the date, reason for the contact, and resolution. Separate documents show each individual complaint record also includes the customer name, account number, phone number, and message. A review of the Commission's complaint/inquiry records since it was acquired in March 2015 shows there has been one high water bill complaint, but no other complaints or inquiries.

Customer Communication

The Company has just created an informational brochure, which contains information required by Commission Rule 4 CSR 240-13.040. The Company plans to send the brochure to all of its current customers and any new customers will receive a copy as well. Currently the brochure is available to view online on the Company's website. Some information is also conveyed through a newsletter when there are expected major water disruptions that will take place.

Findings, Conclusions, and Recommendations

The following discussion presents a summary of the findings, conclusions, and recommendations pertaining to the Company's customer service operations. Recommendations resulting from rule or tariff violations are specifically noted and associated with a 30-day implementation requirement. The information presented in this section focuses on the following two issues that require Company management's attention:

- Time Sheets
- Customer Applications

Time Sheets

Time records associated with Company work activity are not kept by all Company employees. Time records are only kept by the president of the Company. The person in charge of business office functions estimates spending approximately 20 hours per week on Company business, but this time is not documented. The CFO of the Company often conducts business associated with directing overall company strategy; however, time related to water company activity is not documented. The lack of actual time records inhibits Company management's ability to support the need for specific resources to operate the water company.

Maintaining accurate time records can serve and support several managerial and regulatory purposes, such as planning, budgeting, verification, and human resources.

- Time records assist in tracking the amount of time employees expend on all projects.
- Time sheets create a record, serving as visual feedback of the work and projects that have been accomplished.
- Data contained in the time records should be linked to accounting records and provide the necessary support for financial reporting and allocation of costs. Employee time records are useful in the regulatory process to support the pay and benefits that regulated utilities will receive in customer rates.

THE CMAU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop and utilize time sheets for all employees to record the time associated with Company work activity. This recommendation should be completed within ninety (90) days of the effective date of any Commission order issued in Case No. WR-2016-0064.

Customer Applications

The Company has not developed and does not collect a signed customer application from its customers. The absence of signed customer applications is a violation of its tariff. The Company's Tariff Sheet No. 11, Rule 2(a) 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.

The customer application should include the customer's signature that states the customer agrees to abide by the Company's rates, rules and regulations and state statutes along with the date the document was signed. The signed and dated customer application would provide Hillcrest Utility Operating Company more leverage to collect monies owed should the need arise.

THE CMAU STAFF RECOMMENDS THAT COMPANY MANAGEMENT:

Develop and require a signed customer application prior to providing service as provided in its tariff. The Company's customer application shall include the date and the customer's signature indicating that the customer agrees to abide by the Company's rates, rules and regulations, and applicable state statutes. This recommendation should be completed within thirty (30) days of any Commission order issued in Case No. WR-2016-0064.

Implementation Review

The CMAU staff will conduct a review of the Company's progress regarding the implementation of the two recommendations made in this report.

AUDITING DEPARTMENT RECOMMENDATION MEMORANDUM

TO: Jarrod Robertson, Water and Sewer Department, Case Coordinator
Whitney Payne, Legal Counsel
Kevin Thompson, Chief Staff Counsel

FROM: Paul R. Harrison, Utility Regulatory
Ashley Sarver, Utility Regulatory
Auditing Department Staff

SUBJECT: Auditing Department's Findings and Recommended Cost of Service
Hillcrest Utility Operating Company, Inc.
Case No. WR-2016-0064
Case No. SR-2016-0065

DATE: March 18, 2016

Hillcrest Utility Operating Company, Inc. ("Hillcrest" or "Company") filed a rate increase request with the Missouri Public Service Commission ("Commission") on September 15, 2015. The proposed increase is in the amount of \$216,663 for the sewer system and \$236,016 for the water system; and, if approved, would result in an increase over current revenues of approximately 514.21% for sewer and \$638.57% for water. Hillcrest currently serves approximately 241 water customers and approximately 240 sewer customers in and around Cape Girardeau, Missouri. After Hillcrest's filing, the Commission's Staff ("Staff") performed an audit of Hillcrest water and sewer operations to determine whether a rate increase was appropriate, and if so, the amount thereof that was reasonable.

Based upon Staff's examination of Hillcrest's books and records, along with discussions with the Company's employees, Staff's recommended revenue requirement calculation for Hillcrest, using a return on equity (ROE) of 12.88%, is \$144,630 for water and \$167,263 for sewer. These revenue requirement amounts require an increase in Hillcrest's current water and sewer rates of approximately 446% for water and 404% for sewer. Attached to this Memorandum are Staff's Accounting Schedules and relevant workpapers related to its review and audit of Hillcrest's financial operations.

Test Year and Update Period

Staff used a test period in this case consisting of the seven months ending July 31, 2015, with an update period through October 31, 2015, in order to develop its revenue requirement recommendation in this case.¹ Since Hillcrest has not been operated by its

¹ Staff normally uses a "test year" (twelve months of actual financial data) as a starting point of its analysis of a utility's request to increase its customer rates. However, twelve months of accurate financial data for the Hillcrest operations was not available to the Staff for this audit. Instead, Staff relied upon financial information put together by Central States Water Resources after its acquisition

current owner for a full twelve month period, Staff annualized revenues and expenses based on the seven or more months of data available from Central States Water Resources (CSWR), the parent company that acquired the Hillcrest assets in March of 2015, during the course of its audit.

Corporate Allocation

CSWR is a corporation which currently has two regulated operation companies (Hillcrest and Raccoon Utility Operation Company, Inc. (Raccoon Utility), both Missouri utilities). Each operating system has specific costs that are directly assigned on its books and records, therefore requiring no allocation. However, there are costs that are incurred by the corporation (i.e.: payroll, payroll taxes, office supplies, outside services, property insurance, employee benefits, rent, etc.) that are allocated to both Hillcrest and Raccoon Utility. CSWR allocated approximately 14% of these corporate costs to Hillcrest. This allocation factor was based by CSWR on the number of customers receiving service from the five different systems (two systems under Hillcrest and three systems under Raccoon Utility). For purposes of this proceeding, Staff agrees with this allocation factor and used it to allocate corporate costs in Staff's accounting schedules.

Rate Base

CSWR acquired Brandco Water and Sewer in March of 2015 and renamed it Hillcrest Utility Operating Company Inc. Since acquiring the Company, CSWR has invested approximately \$589,744 and \$507,806 for sewer and water improvements, respectively, in order to upgrade the systems to Department of Natural Resource standards and to improve quality of service for the Hillcrest ratepayers. Staff has included the cost of these system improvements in Hillcrest's current cost of service. In order to ensure accuracy of the Company's plant in service and accumulated depreciation reserve, Staff examined plant levels, additions and retirements using the general ledger from January 1, 2015 to October 31, 2015, for CSWR and Hillcrest. Staff reviewed all invoices relating to the additions of plant in service for both the water and sewer improvements. In some cases, Staff made adjustments to the test period books to equal invoiced amounts, if the general ledger totals did not match the invoice. Plant in Service, Depreciation Reserve, Contributions in Aid of Construction (CIAC), CIAC Amortization and Prepayments were updated through October 31, 2015. For Prepayments, Staff allocated a 14% average of the balances for the most current six month period ending October 31, 2015.

Depreciation Rates

The depreciation rates used in this case were provided by Mr. John Robinett of the Staff Engineering Analysis Unit.

of the Hillcrest properties, which does not reflect data prior to calendar year 2015, as a starting point for its audit analysis of Hillcrest.

Revenues

For purposes of annualizing water revenues, Staff used the average number of customers over a seven month period ending on October 31, 2015. The average number of customers based on the seven month period ending October 31, 2015, was multiplied by the current monthly tariff rate, and then multiplied by twelve to derive the annualized customer charge for revenues. Staff also used the same seven month time period to develop an average of customer water usage. Staff included miscellaneous revenue from the Primacy Fee. Staff's analysis of revenues for the Company produced an annualized level of \$32,393 for Hillcrest's water customers.

For purposes of annualizing sewer revenues, Staff used the customer numbers ending October 31, 2015 (the same time period as water). The number of customers based on the period ending October 31, 2015, was multiplied by the current monthly tariff rate, and then multiplied by twelve to derive the annualized customer charge for revenues. Staff's analysis of revenues for the Company produced an annualized level of \$41,431 for Hillcrest's sewer customers.

During Staff's review of revenues for Hillcrest, it was discovered that Nitro Services (the Company that CSWR uses for billing and collection) was under-billing the Hillcrest water customers. Instead of charging the customers that used more than the 5,000 gallons per month both a monthly charge and a usage charge, the vendor charged those customers only the usage charge each month. Staff believes that the under-billed amount is approximately \$7,000. Staff's adjusted level of water revenues for Hillcrest reflects the amount that should have been billed to customers, not the amount actually billed by Nitro Services. Staff is working with the Company in order to determine the exact dollar amount of the under collection and how this under collection of revenues might be addressed and recovered from the customers in the future.

Weighted Cost of Capital

The rate of return and capital structure used to develop Staff's recommended revenue requirement in this case were provided by Ms. Shana Griffin of the Staff Financial Analysis Unit. Staff's recommendation is based on a hypothetical capital structure of 75% long term debt and 25% common equity. Staff estimated a return on equity of 12.88% and a total overall rate of return of 9.88%.

Payroll, Payroll Tax, and 401(K)

Currently, CSWR has three employees. The President is Mr. Josiah Cox, along with a Chief Financial Officer (CFO), Mr. Jack Chalfont and an office manager, Ms. Brenda Eaves.

Staff compared each employee's base salary against the annual wage for similar occupations listed on the Missouri Economic Research and Information Center (MERIC) website to determine if CSWR employee's pay scale was comparable to salaries paid within the St. Louis Region. Staff's analysis determined that the base salary for each employee was not comparable to the annual wage for a mean (average) individual in the same occupation according to the MERIC database. Therefore, Staff made adjustment to CSWR's payroll to align each individual's salary with MERIC levels.

The President completes a detailed timesheet allocating his hours, but the office manager and CFO do not keep track of their hours using timesheets. Therefore, the President's hours were calculated by the average number of hours recorded on his timesheet from January 1, 2015 to October 31, 2015, and multiplied by 12 to determine his annualized hours per year, per system. Staff then multiplied the hourly salary based on MERIC by the hours directly assigned to Hillcrest to develop the portion of the President's salary that should be assigned to Hillcrest.

Since the CFO and Office Manager did not have time sheets, Staff calculated their salaries by using the MERIC annualized salary for each of their job descriptions and multiplying that salary by the corporate allocation factor of 14%.

To account for the amount of labor that is associated with construction activities, Staff applied an estimated Operation and Maintenance expense ratio (O&M expense ratio) to the CSWR employee's payroll expense. Staff has requested any available data pertaining to the actual amount of time each employee spends on construction and operations related activity, respectively, from the Company, but has not received adequate information from Hillcrest on this point. Therefore, Staff estimated an 85% O&M expense ratio for the President and a 92% O&M expense ratio for the Office Manager and CFO. These O&M ratios are comparable to other small utilities that Staff has audited and is a conservative number when taking into account all of the plant improvements that have occurred at Hillcrest over the past several months. If the Company provides Staff with a more accurate analysis of the amount of labor that should be capitalized for Hillcrest at a later date, Staff will update the O&M ratio at that time.

Staff calculated payroll taxes based on Staff's annualized base salary and the current tax rates. In addition, CSWR has a 401K plan for its employees. CSWR is matching up to 3% of each employee's pay for the Company 401k plan. Therefore, Staff has included the Company's match (3%) into its cost of service for Hillcrest.

Staff applied the 14% corporate allocation factor for payroll (office manager and CFO), taxes, and 401K for all CSWR employees.

Employee Benefits

CSWR provides medical, dental, vision, and life insurance for their employees. Staff reviewed all of the invoices for the benefits in the test period in order to determine the level of insurance that should be included in the Cost of Service.

CSWR is paying 99% of the premium for health, dental and vision insurance, with 1% to be paid by the employee. All Missouri utilities of which Staff is aware require their employees to assume a greater percentage of responsibility for health benefits. After reviewing other water and sewer companies, Staff determined 90% was a more reasonable level for CSWR to pay. Therefore, Staff annualized the health, dental, and vision insurance by multiplying the monthly premium (90%) in effect as of October 2015, by 12 months to arrive at an annual amount. Staff then allocated the corporate level of medical, dental and vision insurance premiums by 14% for Hillcrest.

CSWR provides its CFO and office manager positions life insurance based on two years of their salary. Staff reviewed other utilities' level of life insurance and determined a two year salary basis was reasonable. However, Mr. Cox is provided a \$2.5 million insurance policy with the premiums being paid by CSWR. Staff believes that this amount of coverage is excessive, so Staff made an adjustment to remove the premiums for the \$2.5 million policy for Mr. Cox and instead included life insurance valued at two years of Staff's annualized salary level for Mr. Cox in the Cost of Service for this case. Staff annualized Accidental Death & Dismemberment, Long Term Disability, and Short Term Disability premium rates as of October 31, 2015, and allocated 14% of the amount of these premiums to Hillcrest.

Workman's Compensation Insurance

Workers' compensation insurance was adjusted by taking the amount of the premiums for the applicable period and adjusting the test year to match the amount of the premiums. Staff applied the corporate allocation of 14% for this expense to Hillcrest.

Maintenance Expense

Staff reviewed all invoices related to repairs and maintenance expense booked to Account 631 for water operations and Accounts 732 and 752 for sewer operations for the seven months ended October 31, 2015. Staff annualized the test year maintenance expense for these accounts as of October 31, 2015.

Operations Expense

1. Purchased Power

Staff has reviewed the electric bills from Ameren UE to determine the annualized amount of electricity expense to include for Hillcrest in the rates

for water and sewer. Staff annualized this expense by averaging the monthly amount over seven months and then multiplying that average by twelve months.

2. Chemicals

Staff reviewed the invoices regarding chemical expense for Account 641 (water) and Account 741(sewer) for Hillcrest from the beginning of March 2015 through October 31, 2015. Based on this analysis, Staff annualized the level of this expense over a twelve month period and included that amount in Staff's cost of service.

3. Testing Expense

Staff reviewed all invoices within the test year related to water and sewer testing. Staff annualized the level of this expense over a twelve month period and included that amount in Staff's cost of service.

Travel Expenses

Staff reviewed all documents pertaining to travel expenses for CSWR during the test year. In addition, Staff reviewed mileage claimed by Mr. Cox and included only the mileage directly charged to Hillcrest. Staff also reviewed meal receipts and only allowed meal amounts that were related to Hillcrest. Mr. Cox and Mr. Chalfant received a flat monthly fee of \$900 for use of their personal vehicles. Mr. Cox also charged mileage for the use of his personal vehicle. Staff removed all expenses relating to the monthly rate for vehicles.

Communication Expense

Staff examined the amounts of AT&T Wireless payments and Spectrum payments made by CSWR during the test year. Since Mrs. Eaves, the office manager, uses her work cell phone for personal communication, Staff disallowed half of the expense. Staff annualized communication expense by developing a monthly level using the data that was available in the general ledger and Company invoices. Staff then applied the corporate allocation factor of 14% to CSWR's communication expense.

Property Insurance

CSWR has Property, Environmental, and Excess Liability over General Liability Insurance in place for Hillcrest and Raccoon Creek.

Property Insurance includes insurance for building, personal property and business income with extra expenses including "rental value" for five systems (two Hillcrest properties and three Raccoon Utility properties). After reviewing the policy and

talking with the Company, Staff determined that the insurance for business income with extra expense including “rental value” is an inappropriate cost for Hillcrest customers to pay. Staff removed the percentage that was allocated to the business income premium from Hillcrest. Staff only included property insurance premiums for the two Hillcrest properties. Staff adjusted the environmental and excess liability for environmental insurance to match the amount of the insurance premiums for the two Hillcrest systems.

Certified Operator

Hillcrest has a contract with Strickland Engineering Inc. regarding operation of water supply and wastewater treatment facilities. The contract dates are January 31, 2015 to January 30, 2018 (3 years). Hillcrest pays Strickland Engineering Inc. an operator fee for basic service annualized at \$32,880 (\$2,740 a month). These fees are split 50/50 between Hillcrest water and sewer. Staff included an annualized level of twelve months of this expense in Hillcrest’s cost of service.

Billing and Collection

Hillcrest also has a contract with Nitro Services, LLC regarding billing, payment collection, customer service, and coordination services as of March 31, 2015. Nitro monthly fee is \$2.00 per customer per month for customers up to 5,000 customers. This fee includes postage and materials for billing each customer. These fees are directly assigned to Hillcrest water and sewer.

Rate Case Expense / Regulatory Commission Expense (PSC and DNR)

Staff included the actual costs incurred by Hillcrest for rate case expense as of October 31, 2015, directly relating to these cases (Case No. WR-2016-0064 and SR-2016-0065). Staff’s rate case expense adjustment is based upon all costs associated with filing and bringing this case before the Commission, such as outside consulting fees and employee travel expenditures. The ultimate amount of rate case expense incurred by the Company in this proceeding will be directly associated with the length of the case up through the settlement conference and hearing process, if applicable. Staff will continue to update these costs throughout the course of the case. Staff is proposing to normalize this cost over a two-year (2-year) period. The normalized amount of rate case expense included in Staff’s revenue requirement for water and sewer is \$514.

In addition to rate case expense, Staff has included an annualized amount for the Company’s PSC assessment expense that was issued for fiscal year 2016. Staff also included an annualized amount for DNR fees.

Property Tax

Property taxes are those taxes assessed by state and local county taxing authorities on a utility’s “real property” as of January 1st of each year. On the first of each year,

utilities are required to file with the taxing authorities a valuation of their utility property owned as of the January 1 assessment date. Property tax bills are issued to the utilities with “due dates” of December 31 of the same year.

Since CSWR has not owned Hillcrest for a full year and has made improvements that have not been assessed on taxes, the taxes for this case are based on the minimum assessed value (96.25% x 33.33%). Staff requested from the Company an updated property tax receipt; however, this information has not been received as of this date from the Company.

Additional Adjustments

Staff has reflected additional adjustments in its cost of service to annualize amounts related to: 1) Customer Account Expense; 2) Outside Services Employed; 3) Rents; and 4) Amortization of a portion of prior Contributions in Aid of Construction (CIAC).

Staff also excluded from the cost of service amounts relating to: 1) invoices that did not match the General Ledger; 2) non-reoccurring expenses; and 9) depreciation expense on CIAC.

Audit Staff Recommendations for Hillcrest Company:

1) The Acquisition case for Hillcrest was completed in March 2015 and the former Brandco Water and Sewer tariff rate was adopted by Hillcrest in April 2015. Therefore, Staff generally had to rely on less than twelve months of actual revenue and expense information to determine the cost of service for Hillcrest water and sewer operations in the current case. Normally, Staff would be able to review a full twelve months of financial data for purposes of developing a cost of service for a utility. Therefore, Staff recommends the Commission approve its disposition agreement with the Company to file another rate case or Staff shall initiate a rate review in 12-18 months in order to develop a more normal cost of service based on additional actual revenue and expense information beyond what was available in this proceeding. At that point in time, the Company will be operating under ownership of CSWR for approximately one and half to two years and Staff will be able to identify any variances between a cost of service based on a full test year and the one developed in this case. **This recommendation should be completed within one year of any Commission order issued in this Case No. WR-2016-0064.**

2) Timesheets must be utilized for all employees to record work assignments and the time associated with each work assignment, function, and for each system. Time records assist in tracking the amount of time employees spend working on each water and sewer system, and aids in the development of corporate allocations. Timesheet information should be maintained in sufficient detail to capture the amount of time each employee spends on regulated utility operation/maintenance activities, as opposed to construction

activities. Timesheets should also be used to track time by employee on non-regulated and merger and acquisition related activities. **This recommendation should be completed within ninety (90) days of any Commission order issued in this Case No. WR-2016-0064.**

3) CSWR needs to continue to update its books and records to conform to the National Association Regulatory Utility Commission (NARUC) Uniform System of Accounts (USOA). **This recommendation should be completed within one hundred and eighty (180) days of any Commission order issued in this Case No. WR-2016-0064.**

4) CSWR needs to develop Continuing Property Records (CPR) for all assets for its water and sewer systems. **This recommendation should be completed within one hundred and eighty (180) days of any Commission order issued in this Case No. WR-2016-0064.**

5) CSWR will develop a list of duties and responsibilities for the certified operator and maintain records of the number of hours worked with a description of the functions performed by the operator. **This recommendation should be completed within one hundred and eighty (180) days of any Commission order issued in this Case No. WR-2016-0064.**

Disposition Agreement Attachment J

Summary of Case Events

Hillcrest Utility Operating Company, Inc.
Case #SR-2016-0065
Summary of Case Events

Date Filed: September 15, 2015

Day 150: February 16, 2016

Extension? Yes (2x)

If yes, why? First Extension: Staff requested extension of 10 days, in order for Staff and Company to meet/discuss each parties' positions prior to filing a partial or complete disposition agreement.

Second Extension: Staff requested an additional Extension in filing of an executed disposition agreement of xx days, in order to accommodate the local public hearing date and to further negotiate with the Company.

Amount Requested: \$216,663

Amount Agreed Upon: \$167,263

Item(s) Driving Rate Increase: Significant increases in utility plant investment; increases in operation and maintenance expenses; increases in the Commission's annual utility assessments; increases in the Department of Natural Resources' annual water primacy permit fees; changes in the number and type of customers served; increases in taxes; and an increase of management associated with running a professional water company.

Number of Customers: 240

Return on Equity: Staff's ROE is 12.88%, but this issue is in disagreement and will be determined by the Commission in a hearing.

Assessment Current: Yes

Annual Reports Filed: Yes

Other Open Cases before Commission: Yes

Status with Secretary of State: Good Standing

DNR Violations: Currently in Compliance

Significant Service/Quality Issues: None

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

In the Matter of the Water Rate)
Increase Request of)
Hillcrest Utility Operating)
Company, Inc.)
)
Consolidated with,) Case No. WR-2016-0064
)
In the Matter of the Sewer Rate)
Increase Request of)
Hillcrest Utility Operating)
Company, Inc.)

**DISSENTING OPINION OF
COMMISSIONER STEPHEN M. STOLL**

This Commissioner dissents from the majority in WR-2016-0064 for the following reasons:

This case involves a small water company acquired by new owners who took possession of the utility for the purpose of making a profit, well-aware of the risks associated with the enterprise and the serious disrepair of the plant of the utility at the time of the acquisition.

The repairs necessary to the plant of the utility, evidenced by repeated citations issued to the company by the Missouri Department of Natural Resources, required an investment of more than \$1.2 million.

The actual capital structure of the company, the ratio of equity-to-debt, is 19 percent equity to 81 percent debt. Ideally, the debt to equity ratio of an investor-owned utility is near a 50-50 balance. This company strays in remarkable degree from that ideal. Such variation is not uncommon in small water companies, but in this case extreme even in the context of the small water company classification.

In business, companies sell stock to raise capital through shares of ownership in the company and take on debt to finance operations. The reason that companies issue debt is because the defined interest cost of debt is cheaper than the diluted share cost of equity. If this were not the case, debt would not be incurred; only stock would be issued. Further, should the company be unable to meet its debt obligations and seek restructuring through bankruptcy, holders of the company's debt would have claim to the company's assets, while the value of the stock equity would become worthless.

It is in reversing this fundamental tenet between the cost of debt and the higher cost of equity that the majority of the Commission, in order in WR-2016-0064, errs and in doing so makes this Commissioner unable to support the order.

In this case, the staff of the Commission filed testimony setting a return-on-equity range of 12.28 percent to 14.3 percent. The owners of the company agreed with this range as an acceptable return on investment, while the Office of Public Counsel offered no testimony on this issue.

The majority of the Commission in this order has agreed to a low-end scale figure of 13 percent ROE – a rate, it should be noted, that will serve not as a guarantee, but a cap on earnings of the equity portion of the company’s capital structure. That structure for ratemaking purposes under the Commission’s order in this case constitutes only the actual 19 percent of the company’s total debt and equity sum.

In testimony before the Commission in this case witnesses for the company indicated financing for the repairs was sought from multiple sources, but was unable to be secured. The loan was continued – by a financial interest in the parent company – at the same rate of 14 percent. Staff raised questions about the transparency and arms-length – competitive – basis on which the loan was sought. At the same time, Office of Public Counsel raised questions about personal financial risks of the company’s owner that might have complicated the attempt to secure a more reasonable rate.

The effect of this Order saddles ratepayers with the entire interest components of the debt carried into the company by the existing loan. While recovery of the prudently incurred debt costs is entirely permissible in normal rate cases, the curious nature of this case involving an unusually high debt ratio – and the fact that an entity within the parent corporate structure is making the loan is problematic on several levels, any of which would preclude this Commissioner from supporting the Report and Order.

First, under the unusually skewed debt-to-equity ratio of 81 percent to 19 percent, the debtors of the company have a claim to assets of the company, should default occur, that minimizes the incentive of the equity holders to manage the company in the most prudent manner possible. This anomaly is compounded by the fact that the debt itself is held by what is, in effect, a holding company of the utility, removing any incentive to ensure management to equity advantage.

Second, and of even greater concern, by allowing the company to fully recover the entire debt interest rate this order shifts virtually all of the risk of the venture – or at least 81 percent of the company’s capital structure constituting debt -- to the customers rather than the investors.

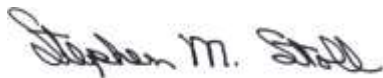
In the traditional regulatory compact, the investor takes risk in a utility venture to make a profit. The customer, able to purchase the utility service from no other provider within the company's designated service territory, is responsible only for compensating the investor for the prudently incurred costs necessary to provide the utility service the customer uses. This Order violates this fundamental tenet of the compact by shifting risk – 81 percent of the risk – from investors where it rightly belongs to customers, where it belongs not at all.

This Commission, in establishing just and reasonable rates, must ensure that a utility has a reasonable opportunity to make a fair profit. That opportunity to make a profit is not a guarantee of profit. Given the curious nature of the debt-to-equity ratio of 81 percent to 19 percent in this case, and the fact that the lender of the debt is of the parent company, this Order risks erring in guaranteeing a profit, rather than providing a just and reasonable opportunity to earn a profit.

In arguendo, the Commission could have avoided these issues simply by selecting an ROE within the range suggested by staff and the company that would have been higher – such as 14 percent, and a debt cost amount lower than the ROE, such as a 95-5 split that is typically used in fuel adjustment clause cases by the Commission, which would have reduced the debt recovery amount to 13.3 percent. This would have better encouraged prudent equity management by properly pricing equity higher than debt, and it would have shifted a portion of the debt risk away from customers and to investors where it rightly belongs. Such, however, is not the directive of this Order.

For the reasons cited above, this Commissioner dissents from the majority in WR-2016-0064 et al.

Respectfully,

A handwritten signature in cursive script that reads "Stephen M. Stoll".

Stephen M. Stoll
Commissioner

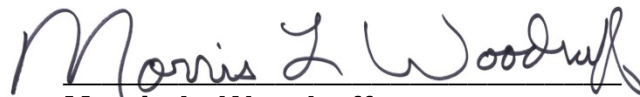
STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission,
at Jefferson City, Missouri, this 12th day of July 2016.




Morris L. Woodruff
Secretary

MISSOURI PUBLIC SERVICE COMMISSION

July 12, 2016

File/Case No. WR-2016-0064

**Missouri Public Service
Commission**

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Enclosed find a certified copy of an Order or Notice issued in the above-referenced matter(s).

Sincerely,



**Morris L. Woodruff
Secretary**

Recipients listed above with a valid e-mail address will receive electronic service. Recipients without a valid e-mail address will receive paper service.