

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. WO-2014-0340  
Brandco Investments LLC and Hillcrest Utility Operating Company, Inc.

FROM: Jim Merciel – Water and Sewer Unit; Case Coordinator  
Martin Hummel – Water and Sewer Unit  
Kim Bolin – Accounting Unit  
John Robinett – Engineering and Management Services Unit  
Shana Atkinson – Financial Analysis Unit

<u>/s/ Jim Merciel</u>	<u>August 26, 2014</u>
Case Coordinator	Date

<u>/s/ Kevin Thompson</u>	<u>August 26, 2014</u>
Staff Counsel	Date

SUBJECT: Staff's Recommendation to Conditionally Approve the Transfer of Assets, and Issuance of a Certificate of Convenience and Necessity

DATE: August 26, 2014

### CASE BACKGROUND

On May 13, 2014 Brandco Investments LLC (Brandco) and Hillcrest Utility Operating Company, Inc. (Hillcrest) filed its *Joint Application and if Necessary Motion for Waiver* (Application) with the Commission, in two separate cases WO-2014-0340 for water system assets and SO-2014-0341 for sewer system assets. Brandco and Hillcrest are requesting authorization for Brandco to sell and transfer assets to Hillcrest. Along with the transfer of assets, it will be necessary to grant a Certificate of Convenience and Necessity (CCN) to Hillcrest, and cancel the CCN currently held by Brandco. Additionally, in the Application Hillcrest is requesting Commission Authority to allow it to collateralize the system's assets for purposes of raising up to \$1,000,000 in funds through a loan from Fresh Start Ventures LLC (Fresh Start).

On May 14, 2014 the Commission issued its *Order and Notice* regarding the Company's Application. The *Order and Notice* directed the Commission's Data Center and Public Information Office to send out their public notices regarding the Application, and also established a deadline of June 3, 2014 for interested parties to submit requests to intervene in the case. No requests to intervene in the case were submitted to the Commission. On June 5, 2014 the Commission issued its

Order Directing Filing in which it directed Staff to file a recommendation, or alternatively file a status report, by July 7, 2014. On July 7, 2014 Staff filed its *Status Report and Motion for Consolidation*, wherein it requested consolidation of the two cases for water and sewer, and also stated that it would file either a recommendation or another status report by August 5, 2014. On July 14, 2014 the Commission issued its Order Granting Motion to Consolidate, in which the Commission granted Staff's requests. On August 4, 2014 Staff submitted its *Motion for Extension of Time to File Staff's Report and Request for Local Public Hearing*, in which it requested an extension of its recommendation file date to August 19, 2014, and also requested the Commission set a local public hearing to allow customers an opportunity to voice concerns about the proposed transfer and other issues affecting water and sewer service. On August 19, 2014 Staff requested, and the Commission granted, another extension in which to file its recommendation until August 26, 2014.

## **BACKGROUND OF THE UTILITY SYSTEMS**

Prior to Brandco's acquisition and CCN issuance in Case Nos. WM-2007-0261 and SM-2007-0262, the systems were owned and operated by Hillcrest Utilities Company, which is not related to the current applicant Hillcrest. Hillcrest Utilities Company obtained a CCN to provide water and sewer service in Case Nos. 17,938 (water) and 17,937 (sewer), in 1974. Brandco's water and sewer systems currently serve approximately 234 water and sewer customers, consisting of single-family residential homes, apartments, duplexes and small commercial establishments in the Hillcrest Manor subdivision in Cape Girardeau County.

The water system consists of a single well, a ground storage tank, high-service pumps that pump from the tank to the distribution system, and meters for each customer. The water system has adequate capacity to serve existing customers, although the storage tank does not have capacity to meet a minimum of at least one-day average use, as is recommended by the Missouri Department of Natural Resources' (DNR) *Minimum Design Standards for Missouri Community Water Systems*, referred to as the "Design Guide."

Recently, the water system had been under a boil order as directed by DNR due to contamination that was identified as occurring within the storage tank. The storage tank is in need of significant rehabilitation work to accomplish some permanent repairs. Hillcrest is assisting Brandco with management and financial matters by accomplishing temporary tank repairs, along with weekly inspections and installation of a temporary chlorinator, as interim measures to allow the boil order to be lifted; but either permanent repairs or replacement of the storage facility will be necessary in the very near future. Hillcrest entered into an emergency service agreement with DNR and Brandco, with the provision that permanent repairs will not be accomplished (by Hillcrest) unless and until the transfer of assets is approved and accomplished. Additionally, there were some shortcomings with respect to the wellhouse and the wellhead that are contamination risks, which Hillcrest assisted Brandco in repairing at least on a temporary basis. All of the repairs, as well as some ongoing operations matters, are the subject of the DNR Compliance Agreement dated Jun 13, 2014. In addition to contamination and operations issues, Staff has reason to believe, based on observation of meters and billing records, that not all water meters are registering properly. Thus, there could be a need to replace specific meters, as well as a need to implement an ongoing meter replacement program as required by the Commission's regulations. Notably, meters that are old and do not work properly would under-register, resulting in artificially low water bills, and not resulting in over-

charging customers. This problem also leads to reduced Company revenue, hindering its ability to address needed repairs and maintenance.

The sewer system consists of gravity sewers, one lift station, and a four-cell aerated lagoon treatment facility. The sewer system is also of adequate capacity; however, the collection system has periodic problems with sewage overflows and sewage backups due to stormwater inflow and infiltration (I and I). Brandco recently added a chlorine disinfection system to treat discharge from the lagoon during certain times of the year, as required by the DNR discharge permit. Additionally, Brandco's current discharge permit requires that the sewer system meet new limits for ammonia discharge by July 1, 2016, and this requirement will necessitate that an upgraded or replacement treatment facility be planned, approved, and constructed prior to that date in order to meet the new discharge limits. Such future plant is not a direct factor in the request to acquire the existing systems, but due to Hillcrest Utility Operating Company's request to issue secured debt and give specific recognition to the 14 percent rate for purposes of future rate cases, Staff's analysis included a review of potential rates after such construction is completed.

### **STAFF'S INVESTIGATION**

In its investigation of this case, Staff studied both the current technical, managerial and financial capacities of Brandco, as well as the apparent abilities of Hillcrest. Staff is quite familiar with Brandco, having spent a considerable amount of time assisting the utility with its operations issues and shortcomings, customer billing, and financial reporting. Although the owner of Brandco has been running the utility for a number of years, he no longer has adequate ability to accomplish operations tasks, and also has limited financial resources. Staff takes the position that, without question, the owner of Brandco needs to be able to exit the responsibilities associated with owning and operating a utility company.

Hillcrest is owned by \*\* \_\_\_\_\_  
\_\_\_\_\_ \*\* Although its president has experience with water and sewer systems, Hillcrest and its president both are newcomers with respect to privately-owned regulated utilities. Staff is evaluating Hillcrest by applying principles of Technical, Managerial, and Financial Capacities, similar to methodologies used by the United State Environmental Protection Agency and DNR to evaluate new water systems.

### **Technical Capacity**

Hillcrest's president has experience in the design and operation of water and sewer systems. Hillcrest intends to utilize a contract operator for plant operations, utilizing the services of appropriately qualified and licensed utility system operators (for water and for sewer) ultimately supervised by the president of Hillcrest. The contract operator will undertake routine day-to-day inspections, checks, sampling and reporting for the water and sewer systems, along with meter reading, as well as accomplish most system repairs and extraordinary operations tasks as the need arises, to address proper facility operations and customer service matters. Hillcrest will not have an operations contract executed until after approval of the transfer of assets and the parties are ready to

close on the transfer, and thus Staff will recommend that Hillcrest not close on the assets until an operations contract can be in place immediately after closing.

Hillcrest has plans to address, on a permanent basis, the contamination and storage tank volume issues that exist with the water system, and also is planning for construction of a replacement sewage treatment facility that will be capable of meeting new treated sewage discharge specifications, as mentioned above. There are no specific plans finalized yet, but Hillcrest has estimated the costs of such upgrades to be approximately \$1.2 million for both the water and sewer systems. Actual capital costs will be reviewed in the context of a future case after new plant is placed into service. Staff notes that in order to meet environmental regulations and for safe and adequate service these projects will need to be undertaken by someone, whether by Hillcrest after the proposed acquisition, or by some other future system owner, or by Brandco if no sale takes place.

### **Financial Capacity**

The Auditing Unit conducted a review of plant-in-service records when Brandco acquired these water and sewer systems in WM-2007-0261 and SM-2007-0262. In those cases, the Commission ordered Brandco to utilize Staff's corrected account balances contained in the Staff's recommendation to the cases. In this current case, Staff used the balances previously ordered for Brandco as the starting balances in its investigation, and updated the balances as of July 31, 2014 to include additions and retirements to the balances, depreciation reserve, contributions in aid of construction (CIAC) and CIAC amortization in order to determine the net book value of the assets, and to determine whether an acquisition premium exists as a result of the proposed acquisition by Hillcrest. Attachment A, incorporated herein by reference, shows Brandco's plant-in-service, depreciation reserve, CIAC and CIAC amortization balances as of July 31, 2014, with a current rate base as of that date as \$82,283<sup>1</sup>.

In regard to the matter of whether an acquisition premium exists as a result of the proposed acquisition; the purchase price being paid by Hillcrest is less than the net book value of the water and sewer assets that are being acquired, and less than the rate base amount identified by Staff. Thus, an acquisition a premium does not exist. However, Staff notes that its review of Brandco's rate base has resulted in the conclusion that certain information included in Brandco's recent annual report is incorrect. As a result, Staff recommends that the account balances shown in Attachment A to this Memorandum should be the account balances as of July 31, 2014 to be used by Hillcrest as of that date.

Due to the aforementioned contamination issues and the boil water order, Brandco recently incurred some large expenses and undertook some capital improvements in order to address system needs, so that DNR would allow Brandco to lift the boil water order. Staff has discussed the matter with Hillcrest's president, Josiah Cox, who indicated that Hillcrest, at the time, had expended approximately \$1,000 in these actions. To the extent Hillcrest assists Brandco financially, Staff will

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<sup>1</sup> This rate base number simply reflects Staff's findings in a review, and is presented for information only. There has been no negotiation with other parties who might be interested in a current rate base level and who might believe a different number is appropriate. The Staff is not recommending that the Commission make any finding on rate base level, nor make any rate adjustments, in this case.

study these financial actions in the context of a future rate case, which may allow Hillcrest the opportunity to recover money it expended on Brandco's behalf.

Although Hillcrest may be assisting financially with issues regarding compliance with DNR drinking water requirements, and is formulating plans to replace or upgrade certain water and sewer plant components, Hillcrest states in its Application that it intends to initially adopt existing rates and rules that are in place for Brandco. Staff agrees that this action is appropriate. Changes to rates and/or rules would be issues for future rate cases and filings before the Commission, with appropriate review.

By Commission regulations, Hillcrest should keep its financial records for utility plant-in-service and operating expenses in accordance with the National Association of Regulatory Utility Commission (NARUC) Uniform System of Accounts. Staff will recommend the Commission specifically require such recordkeeping. Hillcrest will also be required to file annual reports with the Commission, and pay annual assessments to the Commission.

The Engineering and Management Services Unit (EMSU) had performed a complete review of the water utility assets and sewer utility assets depreciation rates, plant-in-service, and the accumulated depreciation reserves for Brandco when that company acquired utility assets in Case Nos. WM-2007-0261 and SM-2007-0262. The depreciation rates ordered in those cases are still appropriate, and Staff recommends that Hillcrest adopt the current Commission-ordered depreciation rates of Brandco for the water and sewer utility assets acquired in this case. The depreciation accrual rates for water assets are included as Attachment B, and accrual rates for sewer assets are included as Attachment C, and incorporated herein by reference. The Audit Unit used these depreciation rates in calculating the recommended rate base discussed above. Further information regarding financial capacity, specifically Hillcrest's requested approval to enter into secured indebtedness, is discussed in this memorandum, below.

### **Managerial Capacity**

Similar to routine facility operations, Hillcrest intends to utilize a contract billing agent, and utilize an emergency answering service. The billing agent will be responsible for computing, printing, and sending monthly bills to customers, and then collecting payment. The billing agent will also have customer service staff that will be able to take and process customer calls with inquiries pertaining to billing, make bill adjustments and enter into payment plans within company guidelines, interact with Staff in working with customer complaints, and manage new customer accounts and the closing of customer accounts. In conjunction with an answering service that may be a different agent, the contract billing agent will also be available to route service complaints and inquiries. The majority owner of Hillcrest, Josiah Cox, will also be available by telephone at most all times when severe emergencies arise. Also similar to an operations contract as discussed above, Hillcrest will not have any specific billing and answering service contract in place until after the transfer is approved, and Staff will recommend that Hillcrest not close on the assets until such contracts can be in place immediately following closing.

Hillcrest will need to comply with the Commission's regulations with respect to customer billing and customer complaints/inquiries, certain aspects of utility system upkeep including placement of

customer meters along with meter testing/replacement, and recordkeeping to document company operations expenses including vehicle use, equipment use, and telephone use. Staff can assist with setting up appropriate record systems as necessary and desired.

### **CONDITIONAL APPROVAL OF INDEBTEDNESS**

#### **Background**

Hillcrest is \*\* \_\_\_\_\_  
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During Staff's investigation, Staff learned that \*\* \_\_\_\_\_  
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\_\_\_\_\_ \*\* Raccoon Creek Utility Operating Company, Inc. (Raccoon Creek), filed an Application on July 14, 2014, (Case No. SM-2015-0014) seeking authority to acquire and encumber the assets of West 16<sup>th</sup> Street Sewer Company, W.P.C Sewer Company and Village Water and Sewer Company. Raccoon Creek's proposed financing arrangement in Case No. SM-2015-0014 is based on the same terms from the same lender, Fresh Start, as proposed in this case. \*\* \_\_\_\_\_  
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#### **Collateralization/Financing Request**

Pursuant to Section 393.190, RSMo, Hillcrest is requesting Commission Authority to allow it to collateralize the system's assets for purposes of raising up to \$1,000,000 in funds through a loan from Fresh Start. Fresh Start is not a traditional lender regulated by state or federal banking authorities. Fresh Start was formed in 2014 and was initially capitalized with \$1.785 million by a group of 12 equity investors.<sup>2</sup> \*\* \_\_\_\_\_  
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\_\_\_\_\_ \*\* The term of the loan is \*\* \_\_ \*\* years and according to recent communications with Hillcrest, it would be an amortizing loan issued at a \*\* \_\_ \*\* interest rate. Hillcrest would use the funds primarily for the construction of a new activated sludge mechanical wastewater treatment plant and drinking water stand pipe, as required for MDNR regulatory compliance. Hillcrest plans to initiate this construction almost immediately after it acquires the system from Brandco. The loan will result in a lien on substantially all of the properties acquired by Hillcrest and to be built by Hillcrest, including its Certificates of Convenience and Necessity. Therefore, the loan will be secured by a lien or encumbrance on Hillcrest's utility franchises, plant  
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2 United States Securities and Exchange Commission Form D Notice of Exempt Offering of Securities, filed on February 7, 2014

and system that are used to provide service to its customers, and also an encumbrance against any additional plant and assets.

Under the current proposed financing arrangement, \*\* \_\_\_\_ \*\* would only be committing approximately 20% of the required funding as an equity investment. The remaining 80% consists of the funds provided by Fresh Start under a loan contract. This is an extreme amount of leverage in any circumstance, but especially for a business proposal addressing a troubled utility system. The Applicant has made several assumptions about how this new plant would be treated in future ratemaking proceedings after these significant investments are made. Consequently, the ability of Hillcrest to service this debt is highly dependent on the regulatory ratemaking process. Hillcrest's president, Josiah Cox, communicated to Staff that he understood that certain of his ratemaking assumptions would not be considered approved for ratemaking if Staff recommended approval of the acquisition. However, for purposes of the requested permission to issue secured debt at a rate of \*\* \_\_\_\_ \*\*, he did communicate to Staff that if the Commission authorized the debt, he would consider this to be an approval of the cost of this debt for purposes of determining the allowed rate of return in future rate cases. Staff communicated to Josiah Cox that even if it recommended approval of the request to collateralize the assets for up to \$1,000,000, Staff would explicitly condition its recommendation on not endorsing the \*\* \_\_\_\_ \*\* rate for purpose of setting rates. Staff has concerns about whether this is a true market rate considering unique circumstances surrounding the proposed investment structure, as well as apparent affiliations between the proposed debt investor and two of the equity investors.

Consequently, Staff estimated potential rates based on its own ratemaking assumptions, specifically using a hypothetical cost of debt and a return on equity based on a risk premium allowed over that debt. Based on Staff's assumed rates, Staff cannot support a collateralization request and issuance in excess of \$790,000, assuming the terms represented in the term sheet provided in the application of \*\* \_\_\_\_ \*\* interest rate and a \*\* \_\_\_\_ \*\*-year amortization are the best terms Hillcrest can negotiate.

Staff's recommendation to limit the amount of the debt issuance is based on applying a return on equity of 11.26% and a cost of debt of 7.26% to a capital structure consisting of 80 percent debt and 20 percent equity. The cost of debt is based on the most recent 3 month average yield of 10 and 30 year bonds with a B rating. The cost of equity is determined by simply adding a 4 percent risk premium to the assumed cost of debt.

Staff's main concern in regard to the financing is whether or not Hillcrest will have enough cash flow to be able to meet its annual interest and principal payments on the debt. The debt service coverage ratio is a good measure of a company's ability to service its debt and the Debt/Earnings Before Interest, Taxes, Depreciation and Amortization (Debt/EBITDA) ratio is a good measure of the amount of leverage the company's cash flows may be able to support. If the debt service coverage ratio equals 1.00, it would mean the company is generating just enough cash to pay its annual debt payment. Based on Staff's estimate of potential rates after the planned construction, Hillcrest's debt service coverage ratio would only be 1.18 times if they issued the requested \$1,000,000. The financial covenants in the loan documents provided in response to a Staff Data Request explain that Hillcrest shall not permit the \*\* \_\_\_\_\_

\_\_\_\_\_. **\*\***. This **\*\*** \_\_\_\_\_ **\*\*** is the same as the **\*\*** \_\_\_\_\_ **\*\***. Hillcrest would be in violation of the **\*\*** \_\_\_\_\_ **\*\*** even without assuming any downside scenario. Staff does not believe it is prudent to authorize the collateralization of the utility properties by Fresh Start, an unknown entity with unknown intentions, if it appears Hillcrest may not be able to meet its debt service requirements under more conservative ratemaking assumptions. Staff would feel more comfortable if the Company's estimated debt service coverage ratios were at least 1.50, which is more typical of minimums required by more conservative debt investors. Staff's estimates that the Company can borrow \$790,000 at an interest rate of **\*\*** \_\_\_\_ **\*\*** with a **\*\*** \_\_\_\_ **\*\***-year amortization for Hillcrest's debt service coverage ratio to equal at least 1.50 times.

The Debt/EBITDA ratio is used by credit rating agencies, such as Standard & Poor's (S&P), to assess the probability of default. The higher a company's Debt/EBITDA ratio, the greater a company's financial risk is in regards to making its debt payments. S&P's financial benchmarks list a Debt/EBITDA of greater than 5 times as a "Highly Leveraged" financial risk in its matrix for its "Standard" volatility table. "Highly Leveraged" is the highest financial risk category of the financial risk profiles in S&P's Business and Financial Risk Profile Matrix. Based on Hillcrest's current proposed debt amount of \$1,000,000, its Debt/EBITDA would be 5.68 times if Staff's more conservative rate case assumptions are used. If Hillcrest issued \$790,000, its Debt/EBITDA would be approximately 4.49 times.

Not only does Staff propose that Hillcrest only be allowed to collateralize up to \$790,000 of its assets to issue secured debt, but Staff also believes Hillcrest's equity investors should be required to maintain certain minimum financial ratios. If the debt service coverage ratio should fall below 1.50 times or the Debt/EBITDA ratio exceeds 5.00 times, the Company must make equity contributions and/or reduce the debt level to cure the violation of the minimum ratio requirements.

Staff also conditions its recommendation specifically on not endorsing the **\*\*** \_\_\_\_ **\*\*** cost of debt rate as being appropriate for purposes of future ratemaking. Staff will recommend a debt cost it believes is appropriate at the time in which Hillcrest files a rate case. Staff and the Company can argue the appropriate rate of return to allow in context of the rate case.

### **FUTURE RATES – PRO-FORMA INFORMATION**

Since Hillcrest states in the Application that it intends to construct replacement utility plant in the future, and has quantified a capital amount associated with these actions by requesting approval to enter into secured indebtedness, Staff has prepared pro-forma estimates of the rate impacts caused by future plant planned to be undertaken by Hillcrest. This information is only estimated by Staff based on available information on future plant that is needed to address immediate concerns, and is not intended to be anything the Commission should approve at this time. Actual changes to rates in the future will be studied, debated and approved in the context of a future rate case.

Staff's pro-forma estimates for revenue are shown in EMS runs for water and sewer, included as Attachments D and E, respectively, and incorporated herein by reference. Staff's calculations for



rates are shown on water and sewer rate design worksheets, included as Attachments F and G, respectively, and incorporated herein by reference.

Annual revenue for water is expected to increase from \$27,093 to \$67,255. Water rates would be expected to increase as follows: customer charge increase from \$3.58 per month presently to \$8.89 per month; plus the commodity charge increase from \$1.84 per 1,000 gallons to \$4.57 per 1,000 gallons.

Annual revenue for sewer is expected to increase from \$37,883 to \$184,360. Sewer rates for residential customers would be expected to increase from \$14.63 per month to \$71.20 per month.

Similar to Staff's findings presented herein regarding Brandco's current plant-in-service and rate base information, these EMS runs are being provided by Staff at this time for informational purposes only, have not been presented to other parties for review, and are not intended to present current or future recommendations as to Hillcrest's rate levels, if these applications are approved.

### **OTHER ISSUES**

Hillcrest is not currently a regulated utility, and thus it does not yet have any annual report or assessment payment responsibilities. Brandco is current on its annual reports through calendar year 2013. Brandco is past due on annual assessment payments. The Commission can go back 5 years on collection of past due assessments, which would be FY-2015 through FY-2011. The amounts past due for Brandco are:

\$550.40	for FY2015
\$1,148.53	for FY2014
\$2,062.55	for FY2013
<u>\$3,538.44</u>	for FY2012
<b>\$7,299.92</b>	<b>total past due</b>

The Commission did not charge Brandco assessments in FY2011 due to several issues with Brandco. Staff recommends that either Brandco be required to pay the assessment amounts from sale proceeds, or Hillcrest pay the assessments and deduct the amount from the sale amount payable to Brandco.

As noted in the **CONDITIONAL APPROVAL OF INDEBTEDNESS** section of this memorandum, Raccoon Creek Utility Operating Company, Inc. (Raccoon Creek), an affiliate of Hillcrest, filed an Application on July 14, 2014, seeking authority to acquire and encumber the assets of West 16<sup>th</sup> Street Sewer Company, W.P.C Sewer Company and Village Water and Sewer Company, Case No. SM-2015-0014. Approval of this current case pertaining to Hillcrest, and conditions the Commission might apply to Hillcrest, could impact Staff's evaluation and possible recommended conditions for the case filed by Raccoon Creek.

### **LOCAL PUBLIC HEARING**

A local public hearing is currently set for September 24, 2014. Staff may provide further comment and/or supplement this recommendation based on information gathered at the local public hearing.

### **CERTIFICATE OF CONVENIENCE AND NECESSITY**

In the Application, Hillcrest requests the Commission grant it a CCN to operate as a water and sewer utility, and Staff agrees Hillcrest should be granted such a CCN in the context of this case, assuming there is agreement to Staff's proposed conditions. Further, Hillcrest will need to hold a CCN when it closes and acquires the assets, and actually begins providing service to customers. Similarly, Brandco should be relieved of its obligations to provide service upon closing and transferring its assets. However, due to inherent scheduling uncertainties, it is impractical for Staff and the Commission to try to work in advance with any exact date and time of closing of assets with regard to CCNs in effect for Hillcrest and for Brandco. Therefore, Staff recommends that the Commission, if and when the proposed transfer is approved, immediately grant Hillcrest a CCN, the exercise of which Hillcrest may begin upon acquisition of Brandco's assets. Staff recommends that Hillcrest notify the Commission within five (5) business days after closing takes place, after which time the Commission may cancel Brandco's CCN. If such transfer does not take place within thirty (30) days after the effective date of a Commission order authorizing the transfer and granting Hillcrest a CCN, then Hillcrest should submit a status report within five (5) days following that period of time regarding the proposed transfer, as well as further status reports within five (5) days of each thirty (30) day period following that as necessary. In the event that Hillcrest determines that the transfer of assets will not take place at all, then Hillcrest shall notify the Commission of such, at which time the CCN issued to Hillcrest should be either canceled or deemed null and void by the Commission.

Staff recommends that Hillcrest adopt the water and sewer tariffs that are presently approved and on file for Brandco, by submitting adoption notice tariff sheets within thirty (30) days of closing of the assets. Staff also recommends that the Commission authorize Hillcrest to utilize and operate under the Brandco tariffs on an interim measure immediately after closing but before the adoption notice tariff sheets take effect.

### **STAFF'S FINDINGS & CONCLUSIONS**

Staff takes the position that the transfer of assets from Brandco to Hillcrest is in the public interest, assuming Staff's recommended conditions are imposed, because Brandco is no longer able to maintain its facilities and safe and adequate customer service is jeopardized; and because Hillcrest has adequate technical, managerial, and financial capacity to operate, maintain, and improve the facilities and service to customers. Staff recommends the Commission conditionally approve the transfer of assets as requested, with the conditions as described herein and as specifically recommended herein below.

### **STAFF'S RECOMMENDATIONS**

Based upon the above, the Staff recommends that the Commission issue an order that:

- a. Approves the sale of water and sewer assets, under conditions as described within this memorandum and following;
- b. Immediately grants Hillcrest a CCN to provide water and sewer service in Brandco's existing service area, to be exercised upon closing of assets;
- c. Prohibits Hillcrest from closing on assets or operating as a water and/or sewer utility unless it has operation, billing, and emergency answering arrangements (contracts) that can be in place and exercised immediately upon closing;
- d. Requires Hillcrest to notify the Commission of closing of the assets within five (5) days after such closing;
- e. Authorize Brandco to cease providing service immediately after closing of the assets, then after closing and notification of such as contemplated in No. 4, above, cancel the CCN currently issued to Brandco for water and sewer service;
- f. If closing does not take place within thirty (30) days following the effective date of the Commission's order, requires Hillcrest to submit a status report within five (5) days after this thirty (30) day period regarding the status of closing, and additional status reports within five (5) days after each additional thirty (30) day period, until closing takes place, or until Hillcrest determines that a sale will not occur;
- g. If Hillcrest determines that a sale will not occur, requires Hillcrest to notify the Commission of such, after which time the Commission may cancel, or deem null and void, the CCN issued to Hillcrest;
- h. Authorizes Hillcrest to operate using Brandco's existing tariffs, on an interim basis, immediately after closing of assets but before the effective date of such tariff adoption notice sheets;
- i. Requires Hillcrest to file tariff adoption notice sheets for Brandco's water and sewer tariffs within thirty (30) days after closing of assets, to adopt existing rules, rates and service charges;
- j. Authorizes Hillcrest to utilize depreciation rates that are currently approved for Brandco, as shown in Attachments B and C;
- k. Requires Hillcrest to keep its financial books and records for plant-in-service and operating expenses in accordance with the NARUC Uniform System of Accounts;

- l. Requires Hillcrest to keep operations records including those for customer complaints/inquiries, meter placement and replacement/testing, vehicle, equipment and telephone use records, and customer account records;
- m. Requires Hillcrest to comply with all Commission Rules including the filing of the annual report and keeping current on the Commission's assessments;
- n. Requires either Brandco or Hillcrest, as the parties may be able to agree upon, to pay the past due assessments in the amount of \$7,299.92;
- o. Makes no finding of the value of this transaction for rate making purposes, specifically as it relates to the \*\* \_\_\_\_ \*\* interest rate assigned to the debt, but also to other elements, including, but not limited to, the capital structure; and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions, and their effect on cost of capital, in any later proceeding;
- p. Authorizes Hillcrest to collateralize only up to \$790,000 of its assets to issue secured debt;
- q. Requires Hillcrest to maintain certain minimum financial covenants. If the debt service coverage ratio should fall below 1.50 times or the Debt/EBITDA ratio exceeds 5.00 times, Hillcrest must cure the violation of these covenants by making additional equity contributions and/or reducing the amount of debt at no cost to the ratepayer;
- r. Requires Hillcrest Utility Operating Company, Inc. \*\* \_\_\_\_\_  
\_\_\_\_\_ \*\* to provide Staff access, upon reasonable written notice during normal working hours, to all books and records related to investments in Missouri regulated utility assets. The access to information shall include, but not be limited to information provided to or received from the proposed debt investor, Fresh Start Ventures, LLC.
- s. In the event of default on the Hillcrest Utility Operating Company, Inc. loan, requires Fresh Start Ventures, LLC to file a written plan with the Commission on how it will ensure continued funding necessary to maintain safe and adequate service for the Hillcrest Utility Operating Company, Inc. system customers; and,
- t. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the subject Certificate, including expenditures related to the certificated service area, in any later proceeding.

Staff will file a further recommendation regarding approval of the tariff adoption notices that the Company will be submitting in accordance with the Commission's order granting the Certificate.

**List of Attachments:**

- Attachment A – Accounting Unit Plant-in-Service Balances
- Attachment B – Depreciation Accrual Rates for Water Plant
- Attachment C – Depreciation Accrual Rates for Sewer Plant
- Attachment D – Auditing EMS Run for Water Plant and Revenue
- Attachment E – Auditing EMS Run for Sewer Plant and Revenue
- Attachment F – Rate Calculations and Bill Comparison for Water Rates
- Attachment G – Rate Calculations and Bill Comparison for Sewer Rates

Affidavits

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

In the Matter of the Joint Application of )  
Brandco Investments, LLC and Hillcrest Utility )  
Operating Company, Inc., for Hillcrest to ) File No. WO-2014-0340  
Acquire Certain Water and Sewer Assets of )  
Brandco and, In Connection Therewith, Issue )  
Indebtedness and Encumber Assets )

AFFIDAVIT OF JAMES A. MERCIEL, JR., P.E.

STATE OF MISSOURI )  
 ) ss  
COUNTY OF COLE )

James A. Merciel, Jr., P.E., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Unit of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Staff's Recommendation to Conditionally Approve the Transfer of Assets, and Issuance of a Certificate of Convenience and Necessity (Staff Recommendation)*, in memorandum form; (3) that certain information in the *Staff Recommendation* was provided by him; (4) that he has knowledge of matters set forth in the *Staff Recommendation*; and (5) that such matters set forth in the *Staff Recommendation* are true and correct to the best of his knowledge, information and belief.

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

Subscribed and sworn to before me this 26<sup>th</sup> day of August 2014.

  
\_\_\_\_\_  
Notary Public

SUSAN L. SUNDERMEYER  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Callaway County  
My Commission Expires: October 03, 2014  
Commission Number: 10942086


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

In the Matter of the Joint Application of )  
Brandco Investments, LLC and Hillcrest Utility )  
Operating Company, Inc., for Hillcrest to ) File No. WO-2014-0340  
Acquire Certain Water and Sewer Assets of )  
Brandco and, In Connection Therewith, Issue )  
Indebtedness and Encumber Assets )

AFFIDAVIT OF MARTIN HUMMEL

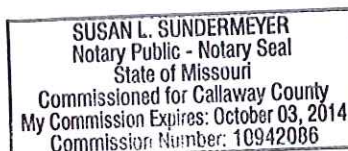
STATE OF MISSOURI )  
 ) ss  
COUNTY OF COLE )

Martin Hummel of lawful age, on his oath states: (1) that he is a Utility Engineering Specialist in the Water and Sewer Unit of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Staff's Recommendation to Conditionally Approve the Transfer of Assets, and Issuance of a Certificate of Convenience and Necessity (Staff Recommendation)*, in memorandum form; (3) that certain information in the *Staff Recommendation* was provided by him; (4) that he has knowledge of matters set forth in the *Staff Recommendation*; and (5) that such matters set forth in the *Staff Recommendation* are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Martin Hummel

Subscribed and sworn to before me this 26<sup>th</sup> day of August 2014.

  
\_\_\_\_\_  
Notary Public





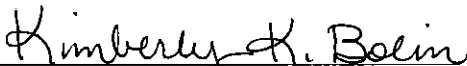
**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of  
Brandco Investments, LLC and Hillcrest     )  
Utility Operating Company, Inc., for     )  
Hillcrest to Acquire Certain Water and Sewer     )     File No. WO-2014-0340  
Assets of Brandco and, In Connection     )  
Therewith, Issue Indebtedness and Encumber     )  
Assets

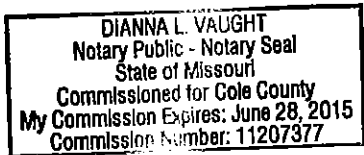
**AFFIDAVIT OF KIMBERLY K. BOLIN**

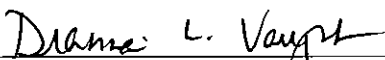
STATE OF MISSOURI     )  
   ) ss  
COUNTY OF COLE     )

Kimberly A. Bolin, of lawful age, on her oath states: (1) that she is a Utility Regulatory Auditor in the Missouri Public Service Commission's Regulatory Review, Utility Services Department, Auditing Unit; (2) that she participated in the preparation of the foregoing *Staff's Recommendation for Approval of Transfer of Assets and Issuance of a Certificate of Convenience and Necessity (Staff Recommendation)*, in memorandum form; (3) that certain information in the *Staff Recommendation* was provided by her; (4) that she has knowledge of matters set forth in the *Staff Recommendation*; and (5) that such matters set forth in the *Staff Recommendation* are true and correct to the best of her knowledge, information and belief.

  
\_\_\_\_\_  
Kimberly K. Bolin

Subscribed and sworn to before me this 26<sup>th</sup> day of August, 2014.



  
\_\_\_\_\_  
Notary Public




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

In the Matter of the Joint Application of  
Brandco Investments, LLC and Hillcrest     )  
Utility Operating Company, Inc., for     )  
Hillcrest to Acquire Certain Water and Sewer     )     File No. WO-2014-0340  
Assets of Brandco and, In Connection     )  
Therewith, Issue Indebtedness and Encumber     )  
Assets

**AFFIDAVIT OF SHANA ATKINSON**

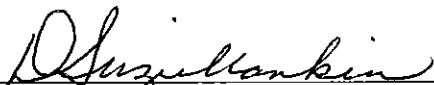
STATE OF MISSOURI     )  
   ) ss  
COUNTY OF COLE     )

Shana Atkinson, of lawful age, on her oath states: (1) that she is a Utility Regulatory Auditor in the Missouri Public Service Commission's Regulatory Review, Utility Services Department, Financial Analysis Unit; (2) that she participated in the preparation of the foregoing *Staff's Recommendation for Approval of Transfer of Assets and Issuance of a Certificate of Convenience and Necessity (Staff Recommendation)*, in memorandum form; (3) that certain information in the *Staff Recommendation* was provided by her; (4) that she has knowledge of matters set forth in the *Staff Recommendation*; and (5) that such matters set forth in the *Staff Recommendation* are true and correct to the best of her knowledge, information and belief.

  
\_\_\_\_\_  
Shana Atkinson

Subscribed and sworn to before me this 25<sup>th</sup> day of August, 2014.

**D. SUZIE MANKIN**  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 12, 2016  
Commission Number: 12412070

  
\_\_\_\_\_  
Notary Public

Attachment A

Accounting Unit Plant-in-Service Balances

**Brandco Investment LLC - Staff's Corrected Account Balances  
as of July 31, 2014**

**Water System**

<u>Account</u>	<u>Total Plant</u>	<u>Accumulated Depreciation Reserve</u>	<u>CIAC</u>	<u>CIAC Amortization</u>
311 Structures & Improvements	\$ 19,228	\$ 14,868	\$ -	\$ -
314 Wells & Springs	\$ 9,450	\$ 8,458	\$ -	\$ -
316 Supply Mains	\$ 1,162	\$ 1,082	\$ -	\$ -
325 Electronic Pumping Equipment	\$ 14,480	\$ 9,323	\$ -	\$ -
342 Distribution Reservoirs & Standpipes	\$ 35,958	\$ 31,351	\$ -	\$ -
343 Transmission & Distribution Mains	\$ 73,593	\$ 45,339	\$ 10,575	\$ 5,725
345 Services	\$ 1,335	\$ 1,110	\$ -	\$ -
346 Meters	\$ 26,260	\$ 35,821	\$ 709	\$ 777
347 Meter Installations	\$ 500	\$ 388	\$ -	\$ -
348 Hydrants	\$ 13,420	\$ 5,526	\$ 9,100	\$ 4,926
<b>TOTALS</b>	<b>\$ 195,386</b>	<b>\$ 153,266</b>	<b>\$ 20,384</b>	<b>\$ 11,428</b>

**Sewer System**

<u>Account</u>	<u>Total Plant</u>	<u>Accumulated Depreciation Reserve</u>	<u>CIAC</u>	<u>CIAC Amortization</u>
352.1 Collection Sewers - Force	\$ 57,096	\$ 51,465	\$ 43,060	\$ 31,350
352.2 Collection Sewers - Gravity	\$ 72,980	\$ 34,239	\$ 49,759	\$ 36,227
354 Services to Customers	\$ 7,186	\$ 5,421	\$ -	\$ -
372 Oxidation Lagoon	\$ 91,204	\$ 61,150	\$ 13,605	\$ 12,087
373 Treatment & Disposal Equipment	\$ 12,184	\$ 12,241	\$ -	\$ -
393 Other General Equipment	\$ 700	\$ 955	\$ -	\$ -
<b>TOTALS</b>	<b>\$ 241,350</b>	<b>\$ 165,470</b>	<b>\$ 106,424</b>	<b>\$ 79,663</b>

Attachment B

Depreciation Accrual Rates for Water Plant

# Hillcrest Utility Operating Company, Inc. - WATER

Brandco

## DEPRECIATION RATES (WATER)

Current ordered Depreciation rates WM-2007-0261 Brandco  
WO-2014-0340

<u>ACCOUNT NUMBER</u>	<u>ACCOUNT DESCRIPTION</u>	<u>DEPRECIATION RATE</u>	<u>AVERAGE SERVICE LIFE (YEARS)</u>	<u>NET SALVAGE</u>
311	Structures & Improvements	2.5%	40	
314	Wells & Springs	2.0%	50	
316	Supply Mains	2.0%	50	
325	Electric Pumping Equipment	10.0%	10	
342	Distribution Reservoirs & Standpipes	2.5%	40	
343	Transmission & Distribution Mains	2.0%	50	
345	Services	2.5%	40	
346	Meters	10.0%	10	
347	Meter Installations	2.5%	40	
348	Hydrants	2.0%	50	

Attachment C

Depreciation Accrual Rates for Sewer Plant



**Hillcrest Utility Operating Company, Inc. - SEWER**  
**DEPRECIATION RATES**  
**(SEWER)**  
**Current ordered Depreciation rates SM-2007-0262 Brandco**  
**SO-2014-0341**

<b>ACCOUNT NUMBER</b>	<b>ACCOUNT DESCRIPTION</b>	<b>DEPRECIATION RATE</b>	<b>AVERAGE SERVICE LIFE (YEARS)</b>	<b>NET SALVAGE</b>
352.1	Collection Sewers (Force)	2.0%	50	
352.2	Collection Sewers (Gravity)	2.0%	50	
354	Services	2.0%	50	
362	Receiving Wells	4.0%	25	
363	Electric Pumping Equipment	10.0%	10	
372	Oxidation Lagon	4.0%	25	
373	Treatment & Disposal Facilities	5.0%	20	
376	Other Treatment and Disposal Plant	5.0%	20	
393	Other General Equipment	10.0%	10	

Attachment D

Auditing EMS Run for Water Plant and Revenue

**Exhibit No.:**  
**Issue:** Accounting Schedules  
**Witness:** MO PSC Auditors  
**Sponsoring Party:** MO PSC Staff  
**Case No:** WO-2014-0340  
**Date Prepared:** 8/25/2014



**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**For Informational Purposes Only**

**STAFF ACCOUNTING SCHEDULES**

**HILLCREST UTILITY OPERATING COMPANY, INC.**

**CASE NO. WO-2014-0340**

**Jefferson City, Missouri**

Hillcrest Utility Operating Company, Inc.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
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)	\$27,093			
Rev-3	Miscellaneous Revenues	(1)	\$0			
Rev-4	TOTAL ANNUALIZED REVENUES		<u>\$27,093</u>			
1	OPERATIONS EXPENSES	(2)				
2	Management Salary (1)		\$8,697	\$0	\$8,697	0.00%
3	Operators Salary/Contract Services (1)		\$7,764	\$0	\$7,764	0.00%
4	Electricity-(Pumping)		\$3,068	\$0	\$3,068	0.00%
5	Chemicals-(Chlorine)		\$0	\$0	\$0	0.00%
6	Water Testing		\$1,130	\$0	\$1,130	0.00%
7	TOTAL OPERATIONS EXPENSE		<u>\$20,659</u>	<u>\$0</u>	<u>\$20,659</u>	
8	MAINTENANCE EXPENSES					
9	System Maintenance		\$818	\$0	\$818	0.00%
10	TOTAL MAINTENANCE EXPENSE		<u>\$818</u>	<u>\$0</u>	<u>\$818</u>	
11	CUSTOMER ACCOUNT EXPENSE					
12	Billing & Collections		\$3,067	\$0	\$3,067	0.00%
13	Office Supplies/Postage		\$895	\$0	\$895	0.00%
14	TOTAL CUSTOMER ACCOUNT EXPENSE		<u>\$3,962</u>	<u>\$0</u>	<u>\$3,962</u>	
15	ADMINISTRATIVE & GENERAL EXPENSES					
16	Telephone & Internet		\$862	\$0	\$862	0.00%
17	Transportation Expense		\$1,513	\$0	\$1,513	0.00%
18	Employee Pensions and Benefits		\$0	\$0	\$0	0.00%
19	Property & Liability Insurance		\$2,340	\$0	\$2,340	0.00%
20	Building Rent/Utilities		\$2,400	\$0	\$2,400	0.00%
21	Outside Services Employed		\$1,315	\$0	\$1,315	0.00%
22	Other Expenses		\$1,183	\$0	\$1,183	0.00%
23	Bank Fees		\$12	\$0	\$12	0.00%
24	TOTAL ADMINISTRATIVE AND GENERAL		<u>\$9,625</u>	<u>\$0</u>	<u>\$9,625</u>	
25	OTHER OPERATING EXPENSES					
26	MO DNR Fees		\$0	\$0	\$0	0.00%
27	PSC Assessment		\$269	\$0	\$269	0.00%
28	Corporate Registration		\$0	\$0	\$0	0.00%
29	Depreciation		\$12,988	\$0	\$12,988	0.00%
30	TOTAL OTHER OPERATING EXPENSES		<u>\$13,257</u>	<u>\$0</u>	<u>\$13,257</u>	
31	TAXES OTHER THAN INCOME					
32	Real & Personal Property Taxes		\$324	\$0	\$324	0.00%
33	Payroll Taxes		\$665	\$0	\$665	0.00%
34	TOTAL TAXES OTHER THAN INCOME		<u>\$989</u>	<u>\$0</u>	<u>\$989</u>	
35	TOTAL OPERATING EXPENSES		<u>\$49,310</u>	<u>\$0</u>	<u>\$49,310</u>	
36	Interest Expense	(3)	\$12,090	\$0	\$12,090	0.00%
37	Return on Equity	(3)	\$4,688	\$0	\$4,688	0.00%
38	Income Taxes	(3)	\$1,167	\$0	\$1,167	0.00%
39	TOTAL INTEREST RETURN & TAXES		<u>\$17,945</u>	<u>\$0</u>	<u>\$17,945</u>	
40	TOTAL COST OF SERVICE		<u>\$67,255</u>	<u>\$0</u>	<u>\$67,255</u>	
41	Less: Miscellaneous Revenues		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	0.00%
42	COST TO RECOVER IN RATES		<u>\$67,255</u>	<u>\$0</u>	<u>\$67,255</u>	
43	INCREMENTAL INCREASE IN RATE REVENUES		<u>\$40,162</u>			

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Rate Design Schedule - Water

A	B	C	D	E	F
Line Number	Account Number (Optional)	Staff Annualized	Customer Charge	Commodity	Percentage Rate
44	PERCENTAGE OF INCREASE	<u>148.24%</u>			
45	REQUESTED INCREASE IN REVENUES		\$0		

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

**Hillcrest Utility Operating Company, Inc.**  
**For Informational Purposes Only**  
**Case No. WO-2014-0340**  
**Test Year Ending 12/31/13 updated to 7/31/14**  
**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	\$370,386	From Plant Schedule
2	Less Accumulated Depreciation Reserve	<u>\$153,266</u>	From Depreciation Reserve Schedule
3	Net Plant In Service	\$217,120	
4	Other Rate Base Items:	\$0	
	Contribution in Aid of Construction	-\$20,384	
	CIAC Depreciation	\$11,428	
5	Total Rate Base	<u>\$208,164</u>	
6	Total Weighted Rate of Return Including Income Tax	<u>8.62%</u>	From PreTax Return & Taxes Schedule
7	Required Return & Income Tax	<u><u>\$17,945</u></u>	

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 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>2.25%</u>	From Capital Structure Schedule
6	Weighted Rate of Return on Equity Including Income Tax		2.81%	B4 x B5
7	Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term		<u>5.81%</u>	From Capital Structure Schedule
8	Total Weighted Rate of Return Including Income Tax		<u><u>8.62%</u></u>	B6+B7

To Rate Base Schedule

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

Equity Income Required \$5,515  
 & Preliminary Federal Tax

Tax Rate Table

Net Income Range				
Start	End	Tax Rate	Amount in Range	Tax on Range
\$0	\$50,000	15.00%	\$5,515	\$827
\$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>\$5,515</u>	<u>\$827</u>
			Consolidated Tax Rate:	
			Average Tax Rate:	0.15

**Hillcrest Utility Operating Company, Inc.**  
**For Informational Purposes Only**  
**Case No. WO-2014-0340**  
**Test Year Ending 12/31/13 updated to 7/31/14**  
**Capital Structure Schedule - Water**

Line Number	A Description	B Dollar Amount	C Percentage of Total Capital Structure	D Embedded Cost of Capital	E Weighted Cost of Capital
1	Common Stock	\$20	20.00%	11.26%	2.252%
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	\$80	80.00%	7.26%	5.808%
5	Short Term Debt	\$0	0.00%	0.00%	0.000%
6	Other Security-Tax Deductible	\$0	0.00%	0.00%	0.000%
7	<b>TOTAL CAPITALIZATION</b>	<b><u>\$100</u></b>	<b><u>100.00%</u></b>		<b><u>8.060%</u></b>

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.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
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			100.00%	\$19,228
8	312.000	Collection & Impounding Reservoirs	\$0			100.00%	\$0
9	313.000	Lake, River & Other Intakes	\$0			100.00%	\$0
10	314.000	Well & Springs	\$9,450			100.00%	\$9,450
11	315.000	Infiltration Galleries & Tunnels	\$0			100.00%	\$0
12	316.000	Supply Mains	\$1,162			100.00%	\$1,162
13		TOTAL SOURCE OF SUPPLY PLANT	\$29,840		\$0		\$29,840
14		PUMPING PLANT					
15	321.000	Structures & Improvements - PP	\$0			100.00%	\$0
16	325.000	Electric Pumping Equipment	\$14,480			100.00%	\$14,480
17	326.000	Diesel Pumping Equipment	\$0			100.00%	\$0
18	328.000	Other Pumping Equipment	\$0			100.00%	\$0
19		TOTAL PUMPING PLANT	\$14,480		\$0		\$14,480
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			100.00%	\$0
24		TOTAL WATER TREATMENT PLANT	\$0		\$0		\$0
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	\$100,000	100.00%	\$135,958
29	344.000	Fire Mains	\$0			100.00%	\$0
30	345.000	Services	\$1,335			100.00%	\$1,335
31	343.000	Transmission & Distribution Mains	\$73,593	P-31	\$50,000	100.00%	\$123,593
32	346.000	Meters	\$26,260	P-32	\$25,000	100.00%	\$51,260
33	347.000	Meter Installations	\$500			100.00%	\$500
34	348.000	Other Transmission & Distribution Plant	\$0			100.00%	\$0
35	349.000	Hydrants	\$13,420			100.00%	\$13,420
36		TOTAL TRANS. & DISTRIBUTION PLANT	\$151,066		\$175,000		\$326,066
37		GENERAL PLANT					
38	370.000	Land & Land Rights-GP	\$0			100.00%	\$0
39	371.000	Structures & Improvements - GP	\$0			100.00%	\$0
40	372.000	Office Furniture & Equipment	\$0			100.00%	\$0
41		Office Computer Equipment	\$0			100.00%	\$0
42	373.000	Transportation Equipment - GP	\$0			100.00%	\$0
43	379.000	Other General Equipment	\$0			100.00%	\$0
44		TOTAL GENERAL PLANT	\$0		\$0		\$0
45		TOTAL PLANT IN SERVICE	\$195,386		\$175,000		\$370,386

To Rate Base & Depreciation Schedules

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Schedule of Adjustments for Plant in Service - Water

A Plant Adjustment Number	B Plant In Service Adjustment Description	C Account Number	D Adjustment Amount	E Total Adjustment
P-28	Distribution Reservoirs & Standpipes	342.000		\$100,000
	To include future plant construction estimate.		\$100,000	
P-31	Transmission & Distribution Mains	343.000		\$50,000
	To include future plant construction estimate.		\$50,000	
P-32	Meters	346.000		\$25,000
	To include future plant construction estimate.		\$25,000	
<b>Total Plant Adjustments</b>				<b><u><u>\$175,000</u></u></b>

Hillcrest Utility Operating Company, Inc.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
Depreciation Expense - Water

Line Number	A Account Number	B Plant Account Description	C Adjusted Jurisdictional	D Depreciation Rate	E Depreciation Expense
1		INTANGIBLE PLANT			
2	301.000	Organization	\$0	0.00%	\$0
3	302.000	Franchises	\$0	0.00%	\$0
4		TOTAL INTANGIBLE PLANT	\$0		\$0
5		SOURCE OF SUPPLY PLANT			
6	310.000	Land & Land Rights - SSP	\$0	0.00%	\$0
7	311.000	Structures & Improvements - SSP	\$19,228	2.50%	\$481
8	312.000	Collection & Impounding Reservoirs	\$0	0.00%	\$0
9	313.000	Lake, River & Other Intakes	\$0	0.00%	\$0
10	314.000	Well & Springs	\$9,450	2.00%	\$189
11	315.000	Infiltration Galleries & Tunnels	\$0	0.00%	\$0
12	316.000	Supply Mains	\$1,162	2.00%	\$23
13		TOTAL SOURCE OF SUPPLY PLANT	\$29,840		\$693
14		PUMPING PLANT			
15	321.000	Structures & Improvements - PP	\$0	0.00%	\$0
16	325.000	Electric Pumping Equipment	\$14,480	10.00%	\$1,448
17	326.000	Diesel Pumping Equipment	\$0	0.00%	\$0
18	328.000	Other Pumping Equipment	\$0	0.00%	\$0
19		TOTAL PUMPING PLANT	\$14,480		\$1,448
20		WATER TREATMENT PLANT			
21	330.000	Land & Land Rights-WTP	\$0	0.00%	\$0
22	331.000	Structures & Improvements - WTP	\$0	0.00%	\$0
23	332.000	Water Treatment Equipment	\$0	0.00%	\$0
24		TOTAL WATER TREATMENT PLANT	\$0		\$0
25		TRANSMISSION & DISTRIBUTION PLANT			
26	340.000	Land & Land Rights-T&D	\$0	0.00%	\$0
27	341.000	Structures & Improvements - T&D	\$0	0.00%	\$0
28	342.000	Distribution Reservoirs & Standpipes	\$135,958	2.50%	\$3,399
29	344.000	Fire Mains	\$0	0.00%	\$0
30	345.000	Services	\$1,335	2.50%	\$33
31	343.000	Transmission & Distribution Mains	\$123,593	2.00%	\$2,472
32	346.000	Meters	\$51,260	10.00%	\$5,126
33	347.000	Meter Installations	\$500	2.50%	\$13
34	348.000	Other Transmission & Distribution Plant	\$0	0.00%	\$0
35	349.000	Hydrants	\$13,420	2.00%	\$268
36		TOTAL TRANS. & DISTRIBUTION PLANT	\$326,066		\$11,311
37		GENERAL PLANT			
38	370.000	Land & Land Rights-GP	\$0	0.00%	\$0
39	371.000	Structures & Improvements - GP	\$0	0.00%	\$0

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Depreciation Expense - Water

Line Number	A Account Number	B Plant Account Description	C Adjusted Jurisdictional	D Depreciation Rate	E Depreciation Expense
40	372.000	Office Furniture & Equipment	\$0	0.00%	\$0
41		Office Computer Equipment	\$0	0.00%	\$0
42	373.000	Transportation Equipment - GP	\$0	0.00%	\$0
43	379.000	Other General Equipment	\$0	0.00%	\$0
44		TOTAL GENERAL PLANT	<u>\$0</u>		<u>\$0</u>
45		Total Depreciation	<u>\$370,386</u>		<u>\$13,452</u>

Hillcrest Utility Operating Company, Inc.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
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	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
5		SOURCE OF SUPPLY PLANT					
6	310.000	Land & Land Rights - SSP	\$0			100.00%	\$0
7	311.000	Structures & Improvements - SSP	\$14,868			100.00%	\$14,868
8	312.000	Collection & Impounding Reservoirs	\$0			100.00%	\$0
9	313.000	Lake, River & Other Intakes	\$0			100.00%	\$0
10	314.000	Well & Springs	\$8,458			100.00%	\$8,458
11	315.000	Infiltration Galleries & Tunnels	\$0			100.00%	\$0
12	316.000	Supply Mains	\$1,082			100.00%	\$1,082
13		TOTAL SOURCE OF SUPPLY PLANT	<u>\$24,408</u>		<u>\$0</u>		<u>\$24,408</u>
14		PUMPING PLANT					
15	321.000	Structures & Improvements - PP	\$0			100.00%	\$0
16	325.000	Electric Pumping Equipment	\$9,323			100.00%	\$9,323
17	326.000	Diesel Pumping Equipment	\$0			100.00%	\$0
18	328.000	Other Pumping Equipment	\$0			100.00%	\$0
19		TOTAL PUMPING PLANT	<u>\$9,323</u>		<u>\$0</u>		<u>\$9,323</u>
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			100.00%	\$0
24		TOTAL WATER TREATMENT PLANT	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
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			100.00%	\$31,351
29	344.000	Fire Mains	\$0			100.00%	\$0
30	345.000	Services	\$1,110			100.00%	\$1,110
31	343.000	Transmission & Distribution Mains	\$45,339			100.00%	\$45,339
32	346.000	Meters	\$35,821			100.00%	\$35,821
33	347.000	Meter Installations	\$388			100.00%	\$388
34	348.000	Other Transmission & Distribution Plant	\$0			100.00%	\$0
35	349.000	Hydrants	\$5,526			100.00%	\$5,526
36		TOTAL TRANS. & DISTRIBUTION PLANT	<u>\$119,535</u>		<u>\$0</u>		<u>\$119,535</u>
37		GENERAL PLANT					
38	370.000	Land & Land Rights-GP	\$0			100.00%	\$0
39	371.000	Structures & Improvements - GP	\$0			100.00%	\$0
40	372.000	Office Furniture & Equipment	\$0			100.00%	\$0
41		Office Computer Equipment	\$0			100.00%	\$0
42	373.000	Transportation Equipment - GP	\$0			100.00%	\$0
43	379.000	Other General Equipment	\$0			100.00%	\$0
44		TOTAL GENERAL PLANT	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
45		TOTAL DEPRECIATION RESERVE	<u>\$153,266</u>		<u>\$0</u>		<u>\$153,266</u>

To Rate Base Schedule

**Hillcrest Utility Operating Company, Inc.**  
**For Informational Purposes Only**  
**Case No. WO-2014-0340**  
**Test Year Ending 12/31/13 updated to 7/31/14**  
**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
<b>Total Reserve Adjustments</b>				<b>\$0</b>

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Revenue Schedule - Water

A	B	C	D	E	F	G	
Line Number	Account Number (Optional)	Revenue Description	Company/ Test Year Amount	Adjustment Number	Jurisdictional Adjustments	Jurisdictional Allocation	Adjusted Jurisdictional
Rev-1		<b>ANNUALIZED REVENUES</b>					
Rev-2		Annualized Rate Revenues	\$28,644	Rev-2	-\$1,551	100.00%	\$27,093
Rev-3		Miscellaneous Revenues	\$0	Rev-3	\$0	100.00%	\$0
Rev-4		<b>TOTAL ANNUALIZED REVENUES</b>	<b>\$28,644</b>		<b>-\$1,551</b>		<b>\$27,093</b>

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Revenue Adjustment Schedule - Water

<u>A</u> Revenue Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
Rev-2	Annualized Rate Revenues			-\$1,551
	1. To Annualize Rate Revenues		-\$1,551	
Rev-3	Miscellaneous Revenues			\$0
	1. To Annualize Miscellaneous Revenues		\$0	
<b>Total Revenue Adjustments</b>				<b>-\$1,551</b>



Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Rate Revenue Feeder Schedule - Water

Line Number	A Description	Residential 5/8"		Commercial 2"	
		B Amount	C Amount	D Amount	E Amount
1	<u>Customer Charge Revenues:</u>				
2	Customer Number	225		0	
3	Bills Per Year	12		0	
4	Customer Bills Per year	2,700		0	
5	Current Customer Charge	<u>\$3.58</u>		<u>\$0.00</u>	
6	Annualized Customer Charge Revenues		\$9,666		\$0
7	<u>Commodity Charge Revenues:</u>				
8	Total Gallons Sold	9,471,000		0	
9	Less: Base Gallons Included In Customer Charge	<u>0</u>		<u>0</u>	
10	Commodity Gallons	9,471,000		0	
11	Block 1, Commodity Gallons per Block	9,471,000		0	
12	Block 1, Number of Commodity Gallons per Unit	<u>1,000</u>		<u>0</u>	
13	Block 1, Commodity Billing Units	9,471.00		0.00	
14	Block 1, Existing Commodity Charge	<u>\$1.84</u>		<u>\$0.00</u>	
15	Block 1, Annualized Commodity Charge Rev.		\$17,427		\$0
16	<b>Total Annualized Water Rate Revenues</b>		<u><b>\$27,093</b></u>		<u><b>\$0</b></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.  
 For Informational Purposes Only  
 Case No. WO-2014-0340  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Rate Revenue Feeder Schedule - Water

Line Number	A Description	Total	
		F Amount	G Amount
1	<u>Customer Charge Revenues:</u>		
2	Customer Number	225	
3	Bills Per Year		
4	Customer Bills Per year	2,700	
5	Current Customer Charge		
6	Annualized Customer Charge Revenues		\$9,666
7	<u>Commodity Charge Revenues:</u>		
8	Total Gallons Sold	9,471,000	
9	Less: Base Gallons Included In Customer Charge	0	
10	Commodity Gallons	9,471,000	
11	Block 1, Commodity Gallons per Block		
12	Block 1, Number of Commodity Gallons per Unit		
13	Block 1, Commodity Billing Units		
14	Block 1, Existing Commodity Charge		
15	Block 1, Annualized Commodity Charge Rev.		\$17,427
16	<b>Total Annualized Water Rate Revenues</b>		<b><u>\$27,093</u></b>

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.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
Miscellaneous Revenues Feeder - Water

Line Number	<u>A</u> Description	<u>B</u> Amount
1	Total Miscellaneous Revenues	<u><u>\$0</u></u>

Hillcrest Utility Operating Company, Inc.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
Expense Schedule - Water

A	B	C	D	E	F	G	
Line Number	Account Number (Optional)	Expense Description	Company/ Test Year Amount	Adjustment Number	Adjustments	Jurisdictional Allocation	Adjusted Jurisdictional
1		<b>OPERATIONS EXPENSES</b>					
2		Management Salary (1)	\$400	W-2	\$8,297	100.00%	\$8,697
3		Operators Salary/Contract Services (1)	\$0	W-3	\$7,764	100.00%	\$7,764
4		Electricity-(Pumping)	\$3,068			100.00%	\$3,068
5		Chemicals-(Chlorine)	\$0			100.00%	\$0
6		Water Testing	\$1,130			100.00%	\$1,130
7		<b>TOTAL OPERATIONS EXPENSE</b>	<u>\$4,598</u>		<u>\$16,061</u>		<u>\$20,659</u>
8		<b>MAINTENANCE EXPENSES</b>					
9		System Maintenance	\$818			100.00%	\$818
10		<b>TOTAL MAINTENANCE EXPENSE</b>	<u>\$818</u>		<u>\$0</u>		<u>\$818</u>
11		<b>CUSTOMER ACCOUNT EXPENSE</b>					
12		Billing & Collections	\$5,734	W-12	-\$2,667	100.00%	\$3,067
13		Office Supplies/Postage	\$54	W-13	\$841	100.00%	\$895
14		<b>TOTAL CUSTOMER ACCOUNT EXPENSE</b>	<u>\$5,788</u>		<u>-\$1,826</u>		<u>\$3,962</u>
15		<b>ADMINISTRATIVE &amp; GENERAL EXPENSES</b>					
16		Telephone & Internet	\$0	W-16	\$862	100.00%	\$862
17		Transportation Expense	\$3,026	W-17	-\$1,513	100.00%	\$1,513
18		Employee Pensions and Benefits	\$0			100.00%	\$0
19		Property & Liability Insurance	\$297	W-19	\$2,043	100.00%	\$2,340
20		Building Rent/Utilities	\$4,800	W-20	-\$2,400	100.00%	\$2,400
21		Outside Services Employed	\$612	W-21	\$703	100.00%	\$1,315
22		Other Expenses	\$2,365	W-22	-\$1,182	100.00%	\$1,183
23		Bank Fees	\$0	W-23	\$12	100.00%	\$12
24		<b>TOTAL ADMINISTRATIVE AND GENERAL</b>	<u>\$11,100</u>		<u>-\$1,475</u>		<u>\$9,625</u>
25		<b>OTHER OPERATING EXPENSES</b>					
26		MO DNR Fees	\$0			100.00%	\$0
27		PSC Assessment	\$582	W-27	-\$313	100.00%	\$269
28		Corporate Registration	\$0			100.00%	\$0
29		Depreciation	\$0	W-29	\$12,988	100.00%	\$12,988
30		<b>TOTAL OTHER OPERATING EXPENSES</b>	<u>\$582</u>		<u>\$12,675</u>		<u>\$13,257</u>
31		<b>TAXES OTHER THAN INCOME</b>					
32		Real & Personal Property Taxes	\$337	W-32	-\$13	100.00%	\$324
33		Payroll Taxes	\$0	W-33	\$665	100.00%	\$665
34		<b>TOTAL TAXES OTHER THAN INCOME</b>	<u>\$337</u>		<u>\$652</u>		<u>\$989</u>
35		<b>TOTAL OPERATING EXPENSES</b>	<u>\$23,223</u>		<u>\$26,087</u>		<u>\$49,310</u>

Hillcrest Utility Operating Company, Inc.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
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	Management Salary (1)			\$8,297
	To adjust management salary.		\$8,297	
W-3	Operators Salary/Contract Services (1)			\$7,764
	To adjust operator's salary/contract services.		\$7,764	
W-12	Billing & Collections			-\$2,667
	To adjust Billings & Collections expense.		-\$2,667	
W-13	Office Supplies/Postage			\$841
	To adjust office supplies/postage expense.		\$841	
W-16	Telephone & Internet			\$862
	To adjust Phone and Internet expense.		\$862	
W-17	Transportation Expense			-\$1,513
	To adjust transportation expense.		-\$1,513	
W-19	Property & Liability Insurance			\$2,043
	To adjust insurance expense.		\$2,043	
W-20	Building Rent/Utilities			-\$2,400
	To adjust rent/utility expense.		-\$2,400	
W-21	Outside Services Employed			\$703
	To adjust outside services.		\$703	
W-22	Other Expenses			-\$1,182

Hillcrest Utility Operating Company, Inc.  
For Informational Purposes Only  
Case No. WO-2014-0340  
Test Year Ending 12/31/13 updated to 7/31/14  
Expense Adjustment Schedule - Water

A	B	C	D	E
Expense Adj Number	Adjustment Description	Account Number	Adjustment Amount	Total Adjustment
	To adjust other expense.		-\$1,182	
W-23	Bank Fees			\$12
	To adjust Bank Fee expense.		\$12	
W-27	PSC Assessment			-\$313
	To adjust PSC Assessment expense.		-\$313	
W-29	Depreciation			\$12,988
	1. To Annualize Depreciation		\$13,452	
	CIAC Amoritzation offset		-\$464	
W-32	Real & Personal Property Taxes			-\$13
	To adjust property taxes for additonal estimated plant.		-\$13	
W-33	Payroll Taxes			\$665
	To adjust payroll taxes for management salary.		\$665	
<b>Total Expense Adjustments</b>				<b><u>\$26,087</u></b>

Attachment E

Auditing EMS Run for Sewer Plant and Revenue

**Exhibit No.:**  
**Issue:** Accounting Schedules  
**Witness:** MO PSC Auditors  
**Sponsoring Party:** MO PSC Staff  
**Case No:** SO-2014-0341  
**Date Prepared:** 8/25/2014



**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**For Informational Purposes Only**

**STAFF ACCOUNTING SCHEDULES**

**HILLCREST UTILITY OPERATING COMPANY, INC.**

**CASE NO. SO-2014-0341**

**Jefferson City, Missouri**



Hillcrest Utility Operating Company, Inc.  
For Informational Purposes Only  
Case No. SO-2014-0341  
Test Year Ending 12/31/13 updated to 7/31/14  
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) \$37,883			
Rev-3	Miscellaneous Revenues		(1) \$0			
Rev-4	TOTAL ANNUALIZED REVENUES		<u>\$37,883</u>			
1	OPERATIONS EXPENSES		(2)			
2	Management Salary		\$8,697	\$0	\$8,697	0.00%
3	Operators Salary / Contractor Services		\$7,764	\$0	\$7,764	0.00%
4	Electricity - Pumping Treatment		\$1,482	\$0	\$1,482	0.00%
5	Chemicals		\$90	\$0	\$90	0.00%
6	Sludge Removal		\$1,440	\$0	\$1,440	0.00%
7	Effluent Testing		\$5,750	\$0	\$5,750	0.00%
8	TOTAL OPERATIONS EXPENSE		<u>\$25,223</u>	\$0	\$25,223	
9	MAINTENANCE EXPENSES					
10	System Repairs and Maintenance		\$325	\$0	\$325	0.00%
11	TOTAL MAINTENANCE EXPENSE		<u>\$325</u>	\$0	\$325	
12	CUSTOMER ACCOUNT EXPENSE					
13	Billing & Collections		\$2,867	\$0	\$2,867	0.00%
14	Office Supplies/Postage		\$395	\$0	\$395	0.00%
15	TOTAL CUSTOMER ACCOUNT EXPENSE		<u>\$3,262</u>	\$0	\$3,262	
16	ADMINISTRATIVE & GENERAL EXPENSES					
17	Telephone & Internet		\$862	\$0	\$862	0.00%
18	Transportation Expense		\$1,513	\$0	\$1,513	0.00%
19	Employee Pensions and Benefits		\$0	\$0	\$0	0.00%
20	Property & Liability Insurance		\$1,119	\$0	\$1,119	0.00%
21	Building Rent/Utilities		\$2,400	\$0	\$2,400	0.00%
22	Outside Services Employed		\$1,315	\$0	\$1,315	0.00%
23	Other Expenses		\$1,183	\$0	\$1,183	0.00%
24	Bank Fees		\$12	\$0	\$12	0.00%
25	TOTAL ADMINISTRATIVE AND GENERAL		<u>\$8,404</u>	\$0	\$8,404	
26	OTHER OPERATING EXPENSES					
27	MO DNR Fees		\$0	\$0	\$0	0.00%
28	PSC Assessment		\$282	\$0	\$282	0.00%
29	Corporate Registration		\$0	\$0	\$0	0.00%
30	Depreciation		\$54,672	\$0	\$54,672	0.00%
31	TOTAL OTHER OPERATING EXPENSES		<u>\$54,954</u>	\$0	\$54,954	
32	TAXES OTHER THAN INCOME					
33	Real & Personal Property Taxes		\$1,085	\$0	\$1,085	0.00%
34	Payroll Taxes		\$665	\$0	\$665	0.00%
35	TOTAL TAXES OTHER THAN INCOME		<u>\$1,750</u>	\$0	\$1,750	
36	TOTAL OPERATING EXPENSES		<u>\$93,918</u>	\$0	\$93,918	
37	Interest Expense		(3) \$60,933	\$0	\$60,933	0.00%
38	Return on Equity		(3) \$23,626	\$0	\$23,626	0.00%
39	Income Taxes		(3) \$5,883	\$0	\$5,883	0.00%
40	TOTAL INTEREST RETURN & TAXES		<u>\$90,442</u>	\$0	\$90,442	
41	TOTAL COST OF SERVICE		\$184,360	\$0	\$184,360	
42	Less: Miscellaneous Revenues		\$0	\$0	\$0	0.00%
43	COST TO RECOVER IN RATES		<u>\$184,360</u>	\$0	\$184,360	

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. SO-2014-0341  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Rate Design Schedule - Sewer

A	B	C	D	E	F
Line Number	Account Number (Optional)	Staff Annualized	Customer Charge	Commodity	Percentage Rate
44	INCREMENTAL INCREASE IN RATE REVENUES	<u>\$146,477</u>			
45	PERCENTAGE OF INCREASE	<u>386.66%</u>			
46	REQUESTED INCREASE IN REVENUES	\$0			

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

**Hillcrest Utility Operating Company, Inc.**  
**For Informational Purposes Only**  
**Case No. SO-2014-0341**  
**Test Year Ending 12/31/13 updated to 7/31/14**  
**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	\$1,241,350 From Plant Schedule
2	Less Accumulated Depreciation Reserve	<u>\$165,471</u> From Depreciation Reserve Schedule
3	Net Plant In Service	\$1,075,879
4	Other Rate Base Items:	\$0
	Contribution of Aid of Construction	-\$106,424
	CIAC Depreciation	\$79,663
5	Total Rate Base	<u>\$1,049,118</u>
6	Total Weighted Rate of Return Including Income Tax	<u>8.62%</u> From PreTax Return & Taxes Schedule
7	Required Return & Income Tax	<u><u>\$90,442</u></u>

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. SO-2014-0341  
 Test Year Ending 12/31/13 updated to 7/31/14  
 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>2.25%</u>	From Capital Structure Schedule
6	Weighted Rate of Return on Equity Including Income Tax		2.81%	B4 x B5
7	Recommended Weighted Rate of Return on Debt - Long-Term and Short-Term		<u>5.81%</u>	From Capital Structure Schedule
8	Total Weighted Rate of Return Including Income Tax		<u><u>8.62%</u></u>	B6+B7

To Rate Base Schedule

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

Equity Income Required **\$27,795**  
 & Preliminary Federal Tax

Tax Rate Table

Net Income Range				
Start	End	Tax Rate	Amount in Range	Tax on Range
\$0	\$50,000	15.00%	\$27,795	\$4,169
\$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>\$27,795</u>	<u>\$4,169</u>
			Consolidated Tax Rate:	
			Average Tax Rate:	0.15

Hillcrest Utility Operating Company, Inc.  
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 Capital Structure Schedule - Sewer

Line Number	A Description	B Dollar Amount	C Percentage of Total Capital Structure	D Embedded Cost of Capital	E Weighted Cost of Capital
1	Common Stock	\$20	20.00%	11.26%	2.252%
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	\$80	80.00%	7.26%	5.808%
5	Short Term Debt	\$0	0.00%	0.00%	0.000%
6	Other Security-Tax Deductible	\$0	0.00%	0.00%	0.000%
7	<b>TOTAL CAPITALIZATION</b>	<b><u>\$100</u></b>	<b><u>100.00%</u></b>		<b><u>8.060%</u></b>

To PreTax Return Rate Schedule

Hillcrest Utility Operating Company, Inc.  
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 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	\$0		\$0		\$0
6		SOURCE OF SUPPLY PLANT					
7	310.000	Land & Land Rights	\$0			100.00%	\$0
8	311.000	Structures & Improvements	\$0			100.00%	\$0
9		TOTAL SOURCE OF SUPPLY PLANT	\$0		\$0		\$0
10		COLLECTION PLANT					
11	352.100	Collection Sewers - Force	\$57,096			100.00%	\$57,096
12	352.200	Collection Sewers - Gravity	\$72,980			100.00%	\$72,980
13	353.000	Other Collection Plant Facilities	\$0			100.00%	\$0
14	354.000	Services to Customers	\$7,186			100.00%	\$7,186
15	355.000	Flow Measuring Devices	\$0			100.00%	\$0
16		TOTAL COLLECTION PLANT	\$137,262		\$0		\$137,262
17		PUMPING PLANT					
18	362.000	Receiving Wells and Pump Pits	\$0			100.00%	\$0
19	363.000	Pumping Equipment (Elec., Diesel, other)	\$0			100.00%	\$0
20		TOTAL PUMPING PLANT	\$0		\$0		\$0
21		TREATMENT & DISPOSAL PLANT					
22	372.000	Oxidation Lagoon	\$91,204			100.00%	\$91,204
23	373.000	Treatment and Disposal Equipment	\$12,184	P-23	\$1,000,000	100.00%	\$1,012,184
24	374.000	Plant Sewers	\$0			100.00%	\$0
25	375.000	Outfall Sewer Lines	\$0			100.00%	\$0
26	376.000	Other Treatment & Disposal Plant Equip.	\$0			100.00%	\$0
27		TOTAL TREATMENT & DISPOSAL PLANT	\$103,388		\$1,000,000		\$1,103,388
28		GENERAL PLANT					
29	391.000	Office Furniture & Equipment	\$0			100.00%	\$0
30		Office Computer Equipment	\$0			100.00%	\$0
31	392.000	Transportation Equipment	\$0			100.00%	\$0
32	393.000	Other General Equipment, includes stores, tools shop & garage, lab, power operated, communication, and other tangible equipment.	\$700			100.00%	\$700
33		TOTAL GENERAL PLANT	\$700		\$0		\$700
34		TOTAL PLANT IN SERVICE	\$241,350		\$1,000,000		\$1,241,350

To Rate Base & Depreciation Schedules

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. SO-2014-0341  
 Test Year Ending 12/31/13 updated to 7/31/14  
 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-23	Treatment and Disposal Equipment	373.000		\$1,000,000
	To include future plant construction estimates.		\$1,000,000	
<b>Total Plant Adjustments</b>				<b><u><u>\$1,000,000</u></u></b>

Hillcrest Utility Operating Company, Inc.  
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Depreciation Expense - Sewer

Line Number	A Account Number	B Plant Account Description	C Adjusted Jurisdictional	D Depreciation Rate	E Depreciation Expense
1		INTANGIBLE PLANT			
2	301.000	Organization	\$0	0.00%	\$0
3	302.000	Franchises	\$0	0.00%	\$0
4	303.000	Miscellaneous Intangible Plant	\$0	0.00%	\$0
5		TOTAL INTANGIBLE PLANT	<u>\$0</u>		<u>\$0</u>
6		SOURCE OF SUPPLY PLANT			
7	310.000	Land & Land Rights	\$0	0.00%	\$0
8	311.000	Structures & Improvements	\$0	0.00%	\$0
9		TOTAL SOURCE OF SUPPLY PLANT	<u>\$0</u>		<u>\$0</u>
10		COLLECTION PLANT			
11	352.100	Collection Sewers - Force	\$57,096	2.00%	\$1,142
12	352.200	Collection Sewers - Gravity	\$72,980	2.00%	\$1,460
13	353.000	Other Collection Plant Facilities	\$0	0.00%	\$0
14	354.000	Services to Customers	\$7,186	2.00%	\$144
15	355.000	Flow Measuring Devices	\$0	0.00%	\$0
16		TOTAL COLLECTION PLANT	<u>\$137,262</u>		<u>\$2,746</u>
17		PUMPING PLANT			
18	362.000	Receiving Wells and Pump Pits	\$0	0.00%	\$0
19	363.000	Pumping Equipment (Elec., Diesel, other)	\$0	0.00%	\$0
20		TOTAL PUMPING PLANT	<u>\$0</u>		<u>\$0</u>
21		TREATMENT & DISPOSAL PLANT			
22	372.000	Oxidation Lagoon	\$91,204	4.00%	\$3,648
23	373.000	Treatment and Disposal Equipment	\$1,012,184	5.00%	\$50,609
24	374.000	Plant Sewers	\$0	0.00%	\$0
25	375.000	Outfall Sewer Lines	\$0	0.00%	\$0
26	376.000	Other Treatment & Disposal Plant Equip.	\$0	0.00%	\$0
27		TOTAL TREATMENT & DISPOSAL PLANT	<u>\$1,103,388</u>		<u>\$54,257</u>
28		GENERAL PLANT			
29	391.000	Office Furniture & Equipment	\$0	0.00%	\$0
30		Office Computer Equipment	\$0	0.00%	\$0
31	392.000	Transportation Equipment	\$0	0.00%	\$0
32	393.000	Other General Equipment, includes stores, tools shop & garage, lab, power operated, communication, and other tangible equipment.	\$700	10.00%	\$70
33		TOTAL GENERAL PLANT	<u>\$700</u>		<u>\$70</u>
34		Total Depreciation	<u>\$1,241,350</u>		<u>\$57,073</u>



Hillcrest Utility Operating Company, Inc.  
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Test Year Ending 12/31/13 updated to 7/31/14  
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	<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	311.000	Structures & Improvements	\$0			100.00%	\$0
9		TOTAL SOURCE OF SUPPLY PLANT	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
10		COLLECTION PLANT					
11	352.100	Collection Sewers - Force	\$51,465			100.00%	\$51,465
12	352.200	Collection Sewers - Gravity	\$34,239			100.00%	\$34,239
13	353.000	Other Collection Plant Facilities	\$0			100.00%	\$0
14	354.000	Services to Customers	\$5,421			100.00%	\$5,421
15	355.000	Flow Measuring Devices	\$0			100.00%	\$0
16		TOTAL COLLECTION PLANT	<u>\$91,125</u>		<u>\$0</u>		<u>\$91,125</u>
17		PUMPING PLANT					
18	362.000	Receiving Wells and Pump Pits	\$0			100.00%	\$0
19	363.000	Pumping Equipment (Elec., Diesel, other)	\$0			100.00%	\$0
20		TOTAL PUMPING PLANT	<u>\$0</u>		<u>\$0</u>		<u>\$0</u>
21		TREATMENT & DISPOSAL PLANT					
22	372.000	Oxidation Lagoon	\$61,150			100.00%	\$61,150
23	373.000	Treatment and Disposal Equipment	\$12,241			100.00%	\$12,241
24	374.000	Plant Sewers	\$0			100.00%	\$0
25	375.000	Outfall Sewer Lines	\$0			100.00%	\$0
26	376.000	Other Treatment & Disposal Plant Equip.	\$0			100.00%	\$0
27		TOTAL TREATMENT & DISPOSAL PLANT	<u>\$73,391</u>		<u>\$0</u>		<u>\$73,391</u>
28		GENERAL PLANT					
29	391.000	Office Furniture & Equipment	\$0			100.00%	\$0
30		Office Computer Equipment	\$0			100.00%	\$0
31	392.000	Transportation Equipment	\$0			100.00%	\$0
32	393.000	Other General Equipment, includes stores, tools shop & garage, lab, power operated, communication, and other tangible equipment.	\$955			100.00%	\$955
33		TOTAL GENERAL PLANT	<u>\$955</u>		<u>\$0</u>		<u>\$955</u>
34		TOTAL DEPRECIATION RESERVE	<u>\$165,471</u>		<u>\$0</u>		<u>\$165,471</u>

To Rate Base Schedule

**Hillcrest Utility Operating Company, Inc.**  
**For Informational Purposes Only**  
**Case No. SO-2014-0341**  
**Test Year Ending 12/31/13 updated to 7/31/14**  
**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
<b>Total Reserve Adjustments</b>				<b>\$0</b>

Hillcrest Utility Operating Company, Inc.  
 For Informational Purposes Only  
 Case No. SO-2014-0341  
 Test Year Ending 12/31/13 updated to 7/31/14  
 Revenue Schedule - Sewer

A	B	C	D	E	F	G	
Line Number	Account Number (Optional)	Revenue Description	Company/ Test Year Amount	Adjustment Number	Jurisdictional Adjustments	Jurisdictional Allocation	Adjusted Jurisdictional
Rev-1		ANNUALIZED REVENUES					
Rev-2		Annualized Rate Revenues	\$0	Rev-2	\$37,883	100.00%	\$37,883
Rev-3		Miscellaneous Revenues	\$0	Rev-3	\$0	100.00%	\$0
Rev-4		TOTAL ANNUALIZED REVENUES	\$0		\$37,883		\$37,883

Hillcrest Utility Operating Company, Inc.  
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 Test Year Ending 12/31/13 updated to 7/31/14  
 Revenue Adjustment Schedule - Sewer

<u>A</u> Revenue Adj Number	<u>B</u> Adjustment Description	<u>C</u> Account Number	<u>D</u> Adjustment Amount	<u>E</u> Total Adjustment
Rev-2	Annualized Rate Revenues			\$37,883
	1. To Annualize Rate Revenues		\$37,883	
Rev-3	Miscellaneous Revenues			\$0
	1. To Annualize Miscellaneous Revenues		\$0	
<b>Total Revenue Adjustments</b>				<b>\$37,883</b>

Hillcrest Utility Operating Company, Inc.  
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Revenue Summary Schedule - Sewer

Line Number	A Description	Residential Single Family		Commercial Commercial	
		B Amount	C Amount	D Amount	E Amount
1	<u>Customer Charge Revenues:</u>				
2	Customer Number	175		1	
3	Bills Per Year	12		12	
4	Customer Bills Per year	2,100		12	
5	Current Customer Charge	<u>\$14.63</u>		<u>\$11.70</u>	
6	Annualized Customer Charge Revenues		\$30,723		\$140
7	<u>Commodity Charge Revenues:</u>				
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	<b>Total Annualized Sewer Rate Revenues</b>		<u><u>\$30,723</u></u>		<u><u>\$140</u></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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Revenue Summary Schedule - Sewer

Line Number	A Description	Residential Apartments		Total	
		F Amount	G Amount	H Amount	I Amount
1	<u>Customer Charge Revenues:</u>				
2	Customer Number	50		226	
3	Bills Per Year	12			
4	Customer Bills Per year	600		2,712	
5	Current Customer Charge	<u>\$11.70</u>			
6	Annualized Customer Charge Revenues		\$7,020		\$37,883
7	<u>Commodity Charge Revenues:</u>				
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	<b>Total Annualized Sewer Rate Revenues</b>		<u><b>\$7,020</b></u>		<u><b>\$37,883</b></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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Miscellaneous Revenues Feeder - Sewer

Line Number	<u>A</u> Description	<u>B</u> Amount
1	Total Miscellaneous Revenues	<u><u>\$0</u></u>

Hillcrest Utility Operating Company, Inc.  
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Expense Schedule - Sewer

A	B	C	D	E	F	G	
Line Number	Account Number (Optional)	Expense Description	Company/ Test Year Amount	Adjustment Number	Adjustments	Jurisdictional Allocation	Adjusted Jurisdictional
1		<b>OPERATIONS EXPENSES</b>					
2		Management Salary	\$200	S-2	\$8,497	100.00%	\$8,697
3		Operators Salary / Contractor Services	\$0	S-3	\$7,764	100.00%	\$7,764
4		Electricity - Pumping Treatment	\$1,482			100.00%	\$1,482
5		Chemicals	\$90			100.00%	\$90
6		Sludge Removal	\$1,440			100.00%	\$1,440
7		Effluent Testing	\$5,750			100.00%	\$5,750
8		<b>TOTAL OPERATIONS EXPENSE</b>	<u>\$8,962</u>		<u>\$16,261</u>		<u>\$25,223</u>
9		<b>MAINTENANCE EXPENSES</b>					
10		System Repairs and Maintenance	\$325			100.00%	\$325
11		<b>TOTAL MAINTENANCE EXPENSE</b>	<u>\$325</u>		<u>\$0</u>		<u>\$325</u>
12		<b>CUSTOMER ACCOUNT EXPENSE</b>					
13		Billing & Collections	\$200	S-13	\$2,667	100.00%	\$2,867
14		Office Supplies/Postage	\$0	S-14	\$395	100.00%	\$395
15		<b>TOTAL CUSTOMER ACCOUNT EXPENSE</b>	<u>\$200</u>		<u>\$3,062</u>		<u>\$3,262</u>
16		<b>ADMINISTRATIVE &amp; GENERAL EXPENSES</b>					
17		Telephone & Internet	\$0	S-17	\$862	100.00%	\$862
18		Transportation Expense	\$0	S-18	\$1,513	100.00%	\$1,513
19		Employee Pensions and Benefits	\$0			100.00%	\$0
20		Property & Liability Insurance	\$0	S-20	\$1,119	100.00%	\$1,119
21		Building Rent/Utilities	\$0	S-21	\$2,400	100.00%	\$2,400
22		Outside Services Employed	\$1,025	S-22	\$290	100.00%	\$1,315
23		Other Expenses	\$0	S-23	\$1,183	100.00%	\$1,183
24		Bank Fees	\$0	S-24	\$12	100.00%	\$12
25		<b>TOTAL ADMINISTRATIVE AND GENERAL</b>	<u>\$1,025</u>		<u>\$7,379</u>		<u>\$8,404</u>
26		<b>OTHER OPERATING EXPENSES</b>					
27		MO DNR Fees	\$0			100.00%	\$0
28		PSC Assessment	\$0	S-28	\$282	100.00%	\$282
29		Corporate Registration	\$0			100.00%	\$0
30		Depreciation	\$0	S-30	\$54,672	100.00%	\$54,672
31		<b>TOTAL OTHER OPERATING EXPENSES</b>	<u>\$0</u>		<u>\$54,954</u>		<u>\$54,954</u>
32		<b>TAXES OTHER THAN INCOME</b>					
33		Real & Personal Property Taxes	\$0	S-33	\$1,085	100.00%	\$1,085
34		Payroll Taxes	\$0	S-34	\$665	100.00%	\$665
35		<b>TOTAL TAXES OTHER THAN INCOME</b>	<u>\$0</u>		<u>\$1,750</u>		<u>\$1,750</u>
36		<b>TOTAL OPERATING EXPENSES</b>	<u>\$10,512</u>		<u>\$83,406</u>		<u>\$93,918</u>



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
S-2	Management Salary			\$8,497
	To adjust management salary.		\$8,497	
S-3	Operators Salary / Contractor Services			\$7,764
	To adjust operator's salary/contract services.		\$7,764	
S-13	Billing & Collections			\$2,667
	To adjust billing and collections expense.		\$2,667	
S-14	Office Supplies/Postage			\$395
	To adjust office supplies/postage expense.		\$395	
S-17	Telephone & Internet			\$862
	To adjust phone and internet expense.		\$862	
S-18	Transportation Expense			\$1,513
	To adjust transportation expense.		\$1,513	
S-20	Property & Liability Insurance			\$1,119
	To adjust insurance expense.		\$1,119	
S-21	Building Rent/Utilities			\$2,400
	To adjust building rent/utilites.		\$2,400	
S-22	Outside Services Employed			\$290
	To adjust Outside Services Employed.		\$290	
S-23	Other Expenses			\$1,183

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
	To adjust other expenses.		\$1,183	
S-24	Bank Fees			\$12
	To adjust bank fee expense.		\$12	
S-28	PSC Assessment			\$282
	To adjust PSC assessment fee.		\$282	
S-30	Depreciation			\$54,672
	1. To Annualize Depreciation		\$57,073	
	2. CIAC Amortization offset.		-\$2,401	
S-33	Real & Personal Property Taxes			\$1,085
	To adjust property taxes for additional estimated plant.		\$1,085	
S-34	Payroll Taxes			\$665
	To adjust payroll taxes for management salary.		\$665	
<b>Total Expense Adjustments</b>				<b><u>\$83,406</u></b>

Attachment F

Rate Calculations and Bill Comparison for Water Rates

# Hillcrest Utility Operating Company, Inc.

## Rate Making Income Statement-Water

### Operating Revenues at Current Rates

1	Tariffed Rate Revenues *	\$	27,093
2	Other Operating Revenues *	\$	-
3	<b>Total Operating Revenues</b>	<b>\$</b>	<b>27,093</b>
4	* See "Revenues - Current Rates" for Details		

### Cost of Service

Item	Amount
1 Management Salary	\$ 8,697
2 Operators Salary	\$ 7,764
3 Electricity	\$ 3,068
4 Water Testing	\$ 1,130
5 System Maintenance	\$ 818
6 Billing & Collections	\$ 3,067
7 Office Supplies/Postage	\$ 895
8 Telephone & Interner	\$ 862
9 Transportation Expense	\$ 1,513
10 Property & Liability Insurance	\$ 2,340
11 Building Rent	\$ 2,400
12 Outside Services Employed	\$ 1,315
13 Other Expenses	\$ 1,183
14 Bank Fees	\$ 12
15 PSC Assessment	\$ 269
16 <b>Sub-Total Operating Expenses</b>	<b>\$ 35,333</b>
17 Property Taxes	\$ 324
18 MO Franchise Taxes	\$ -
19 Employer FICA Taxes	\$ 665
20 Federal Unemployment Taxes	\$ -
21 State Unemployment Taxes	\$ -
22 State & Federal Income Taxes	\$ 1,167
23 <b>Sub-Total Taxes</b>	<b>\$ 2,156</b>
24 Depreciation Expense	\$ 12,988
25 Interest Expense	\$ 12,090
26 Amortization of Utility Plant	\$ -
27 <b>Sub-Total Depreciation/Interest/Amortization</b>	<b>\$ 25,078</b>
28 <b>Return on Rate Base</b>	<b>\$ 4,688</b>
29 <b>Total Cost of Service</b>	<b>\$ 67,255</b>
30 <b>Overall Revenue Increase Needed</b>	<b>\$ 40,162</b>

## Hillcrest Utility Operating Company, Inc.

### Revenue Annualizations at Current Rates-Water

#### Annualized Customer Counts and Customer Charge Revenues

##### Retail Metered Customers

Meter Size	Residential	Business	Total Meters	Rate *	Annual Revenue
5/8"	225	0	225	\$ 3.58	\$ 9,666
<b>Total</b>	<b>225</b>	<b>0</b>	<b>225</b>		<b>\$ 9,666</b>

\*monthly service charge

#### Annualized Commodity Sales - Volumes and Revenues

sales shown in Mgallons

Meter Size	Residential	Business	Total Sales	Rate	Annual Revenue
5/8"	9,471.0	-	9,471.0	\$ 1.840	\$ 17,427
<b>Total</b>	<b>9,471.0</b>	<b>-</b>	<b>9,471.0</b>		<b>\$ 17,427</b>

Net Annualized Commodity Revenues

**\$ 17,427**

#### Other Operating Revenues

Bulk Water Sales	\$	-
Sales to Other Public Authorities	\$	-
Late Charge Fees	\$	-
Turn-Off/Turn-On/Penalty Charges	\$	-
Miscellaneous Revenues - Service Lines	\$	-
Rents from Water Property - Tower Rental	\$	-
Discounts Earned	\$	-
<b>Total Other Revenues</b>	<b>\$</b>	<b>-</b>

#### Total Operating Revenues

Service Charges - Retail Customers	\$	9,666
Commodity Revenues - Retail Customers	\$	17,427
<b>Sub-Total Tariffed Rate Revenues</b>	<b>\$</b>	<b>27,093</b>
<b>Other Operating Revenues</b>	<b>\$</b>	<b>-</b>
<b>Total Operating Revenues</b>	<b>\$</b>	<b>27,093</b>

# Hillcrest Utility Operating Company, Inc.

## Development of Tariffed Rates-Water

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

Revenues Generated by Current Tariffed Rates	\$ 27,093
Agreed-Upon Overall Revenue Increase	\$ 40,162
Percentage Increase Needed	148.241%

### Metered Customer Rates

Meter Size	Current Service Charge	Proposed Service Charge	Current Usage Rate	Proposed Usage Rate
5/8"	\$ 3.58	\$ 8.89	\$ 1.84	\$ 4.57

# Hillcrest Utility Operating Company, Inc.

## Revenue Annualizations at Proposed Rates-Water

### Annualized Customer Counts and Customer Charge Revenues

#### Retail Metered Customers

Meter Size	Residential	Business	Total Meters	Rate *	Annual Revenue
5/8"	225	0	225	\$ 8.89	\$23,995
<b>Total</b>	<b>225</b>	<b>0</b>	<b>225</b>		<b>\$23,995</b>

monthly service charge

### Annualized Commodity Sales - Volumes and Revenues

sales shown in M gallons

Meter Size	Residential	Business	Total Sales	Rate	Annual Revenue
5/8"	9,471.0	-	9,471.0	\$ 4.568	\$43,260
<b>Total</b>	<b>9,471.0</b>	<b>-</b>	<b>9,471.0</b>		<b>\$43,260</b>

volumes adjusted as needed per net revenue annualization at current rates

### Other Operating Revenues

Bulk Water Sales	
Sales to Other Public Authorities	
Late Charge Fees	
Turn-Off/Turn-On/Penalty Charges	
Miscellaneous Revenues - Service Lines	
Rents from Water Property - Tower Rental	
Discounts Earned	
<b>Total Other Revenues</b>	<b>\$ -</b>

### Total Operating Revenues

Service Charges - Retail Customers	\$ 23,995
Commodity Revenues - Retail Customers	\$ 43,260
<b>Sub-Total Tariffed Rate Revenues</b>	<b>\$ 67,255</b>
<b>Other Operating Revenues</b>	<b>\$ -</b>
<b>Total Revenues at Proposed Rates</b>	<b>\$ 67,255</b>

#### Revenue Check - Proposed Rates vs. Current Rates

Total Revenues at Proposed Rates	\$ 67,255
Total Revenues at Current Rates	\$ 27,093
Increase In Revenues at Proposed Rates	\$ 40,162
Agreed-Upon Increase in Operating Revenues	\$ 40,162

# Hillcrest Utility Operating Company, Inc.

## Residential Customer Bill Comparison-Water

### Rates for 5/8" Meter

Current Base Customer Charge	Proposed Base Customer Charge	Current Usage Rate	Proposed Usage Rate
\$3.58	\$8.89	\$1.84	\$4.57

current service charge is monthly charge

usage rate is per 1,000 gallons used

### MONTHLY BILL COMPARISON

6,000 gallons/month usage

#### Current Rates

Customer Charge	\$ 3.58
Usage Charge	\$ 11.04
<b>Total Bill</b>	<b>\$ 14.62</b>

#### Proposed Rates

Customer Charge	\$ 8.89
Usage Charge	\$ 27.41
<b>Total Bill</b>	<b>\$ 36.29</b>

#### INCREASES

##### Customer Charge

\$ Increase	\$5.31
% Increase	148.24%

##### Usage Charge

\$ Increase	\$16.37
% Increase	148.24%

##### Total Bill

\$ Increase	\$21.67
% Increase	148.24%



Attachment G

Rate Calculations and Bill Comparison for Sewer Rates

**Hillcrest Utility Operating Company, Inc.**  
**Rate Making Income Statement-Sewer**

**Operating Revenues at Current Rates**

1	Tariffed Rate Revenues *	\$ 37,883
2	Other Operating Revenues *	\$ -
3	<b>Total Operating Revenues</b>	<b>\$ 37,883</b>
4	* See "Revenues - Current Rates" for Details	

**Cost of Service**

Item	Amount
1 Management Salary	\$ 8,697
2 Operators Salary	\$ 7,764
3 Electricity	\$ 1,482
4 Chemicals	\$ 90
5 Sludge Removal	\$ 1,440
6 Effluent Testing	\$ 5,750
7 System Maintenance	\$ 325
8 Billing & Collections	\$ 2,867
9 Office Supplies/Postage	\$ 395
10 Telephone & Internet	\$ 862
11 Transportation Expense	\$ 1,513
12 Property & Liability Insurance	\$ 1,119
13 Building Rent	\$ 2,400
14 Outside Services Employed	\$ 1,315
15 Other Expenses	\$ 1,183
16 Bank Fees	\$ 12
17 PSC Assessment	\$ 282
18 <b>Sub-Total Operating Expenses</b>	<b>\$ 37,496</b>
19 Property Taxes	\$ 1,085
20 MO Franchise Taxes	\$ -
21 Employer FICA Taxes	\$ 665
22 Federal Unemployment Taxes	\$ -
23 State Unemployment Taxes	\$ -
24 State & Federal Income Taxes	\$ 5,883
25 <b>Sub-Total Taxes</b>	<b>\$ 7,633</b>
26 Depreciation Expense	\$ 54,672
27 Interest Expense	\$ 60,933
28 Amortization of Utility Plant	\$ -
29 <b>Sub-Total Depreciation/Interest/Amortization</b>	<b>\$ 115,605</b>
30 <b>Return on Rate Base</b>	<b>\$ 23,626</b>
31 <b>Total Cost of Service</b>	<b>\$ 184,360</b>
32 <b>Overall Revenue Increase Needed</b>	<b>\$ 146,477</b>

# Hillcrest Utility Operating Company, Inc.

## Revenue Annualizations at Current Rates-Sewer

### Annualized Customer Counts and Customer Charge Revenues

#### Retail Metered Customers

Meter Size	Total Customers	Rate *	Annual Revenue
Residential	175	\$ 14.63	\$ 30,723
Res. Apts.	50	\$ 11.70	\$ 7,020
Commercial	1	\$ 11.70	\$ 140
<b>Total</b>	<b>226</b>		<b>\$ 37,883</b>

\*monthly service charge

#### Other Operating Revenues

Sales to Other Public Authorities	\$ -
Late Charge Fees	\$ -
Turn-Off/Turn-On/Penalty Charges	\$ -
Miscellaneous Revenues - Service Lines	\$ -
Rents from Water Property - Tower Rental	\$ -
Discounts Earned	\$ -
<b>Total Other Revenues</b>	<b>\$ -</b>

#### Total Operating Revenues

Service Charges - Retail Customers	\$ 37,883
Other Operating Revenues	\$ -
<b>Total Operating Revenues</b>	<b>\$ 37,883</b>

# Hillcrest Utility Operating Company, Inc.

## Development of Tariffed Rates-Sewer

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

Revenues Generated by Current Tariffed Rates	\$ 37,883
Agreed-Upon Overall Revenue Increase	\$ 146,477
Percentage Increase Needed	386.651%

### Metered Customer Rates

Meter Size	Current Service Charge	Proposed Service Charge
Residential	\$ 14.63	\$ 71.20
Res. Apts.	\$ 11.70	\$ 56.94
Commercial	\$ 11.70	\$ 56.94

# Hillcrest Utility Operating Company, Inc.

## Revenue Annualizations at Proposed Rates-Sewer

### Annualized Customer Counts and Customer Charge Revenues

#### Retail Metered Customers

Meter Size	Total Meters	Rate *	Annual Revenue
Residential	175	\$ 71.20	\$ 149,514
Res. Apts.	50	\$ 56.94	\$ 34,163
Commercial	1	\$ 56.94	\$ 683
<b>Total</b>	<b>226</b>		<b>\$ 184,360</b>

monthly service charge

### Other Operating Revenues

Sales to Other Public Authorities	
Late Charge Fees	
Turn-Off/Turn-On/Penalty Charges	
Miscellaneous Revenues - Service Lines	
Rents from Water Property - Tower Rental	
Discounts Earned	
<b>Total Other Revenues</b>	<b>\$ -</b>

### Total Operating Revenues

Service Charges - Retail Customers	\$ 184,360
Other Operating Revenues	\$ -
<b>Total Revenues at Proposed Rates</b>	<b>\$ 184,360</b>

#### Revenue Check - Proposed Rates vs. Current Rates

Total Revenues at Proposed Rates	\$ 184,360
Total Revenues at Current Rates	\$ 37,883
Increase In Revenues at Proposed Rates	\$ 146,477
Agreed-Upon Increase in Operating Revenues	\$ 146,477

# Hillcrest Utility Operating Company, Inc.

## Residential Customer Bill Comparison-Sewer

### Rates for 5/8" Meter

<u>Current Base Customer Charge</u>	<u>Proposed Base Customer Charge</u>
<b>\$14.63</b>	<b>\$71.20</b>

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	\$ 71.20
Usage Charge	\$ -
Total Bill	\$ 71.20

#### INCREASES

##### Customer Charge

\$ Increase	\$56.57
% Increase	386.65%

##### Usage Charge

\$ Increase	\$0.00
% Increase	N/A

##### Total Bill

\$ Increase	\$56.57
% Increase	386.65%