

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

In the matter of the tariff filing of)
Algonquin Water Resources of Missouri,)
LLC to implement a general rate increase)
for water and sewer service provided to)
customers in its Missouri service areas.)

Case No. WR-2006-0425

STAFF’S RESPONSE TO ORDER DIRECTING SCENARIOS

COMES NOW the Staff of the Missouri Public Service Commission and submits the following Response to Order Directing Scenarios.

1. On March 1, 2007, the Commission issued an Order Directing Scenarios (“the Order”), in which it ordered the Staff to provide the Commission with information concerning the impact on the revenue requirements of Algonquin Water Resources, LLC (“Algonquin” or “Company”) under different scenarios.

2. The Order directed the Staff to assume, in all scenarios, that eight issues would be resolved in the manner specified in the order. It further directed the Staff to assess the impact of resolving four other issues, either in favor of Algonquin or in favor of the Staff. The result is that the Staff is required to assess the impact of 24 different scenarios regarding the impact on water rates and 24 different scenarios regarding the impact on sewer rates.

3. Attached hereto and incorporated herein are one summary sheet that summarizes the impact of the various scenarios upon the revenue requirement for water services (Attachment A) and a second summary sheet that summarizes the impact of the various scenarios upon the revenue requirement for sewer services (Attachment B). In

order to comply with the Commission's Order, without unduly increasing the number of scenarios addressed, the Staff found it necessary to make certain other assumptions, which are discussed in Paragraphs 4-8, following. The attached summary sheets are accurate, but incomplete, for reasons that are discussed in more detail in Paragraph 7 hereof.

4. Treatment of Unamortized Balance of Rate Case Expense. The Staff has assumed that Rate Case Expense will be amortized, and that the unamortized balance of the allowed Rate Case Expense will not be included in rate base. That is, Algonquin would get a "return of" the Rate Case Expense, but would it not receive a "return on" it. As a very rough "rule of thumb," the revenue requirement increases by about 10% of the amount of any increase in the rate base. Thus, if the Commission would allow the unamortized Rate Case Expense to be included in rate base, the revenue requirement might increase over the amounts shown on the attached summary sheets by about the following amounts:

by about \$500 if the Commission allows Algonquin to recover \$5,000 of Rate Case Expense (Scenarios A-1 through A-8);

by about \$17,500 if the Commission allows Algonquin to recover \$174,954 of Rate Case Expense (Scenarios B-1 through B-8); or

by about \$22,500 if the Commission allows Algonquin to recover \$225,000 of Rate Case Expense (Scenarios C-1 through C-8).

5. Amortization Period for Rate Case Expense. The Staff has assumed that Rate Case Expense will be amortized over a five-year period, so that Algonquin would recover 20% of the allowed Rate Case Expense each year, for five years. If the Rate Case

Expense is amortized over a ten-year period, the revenue requirement of this item would be half as great, so Algonquin would recover 10% of the allowed Rate Case Expense each year. For example, if the Commission would allow Rate Case Expense of \$174,954, the revenue requirement (for water and sewer combined) that results from this item would be \$34,991 if the amortization period is five years (as Staff has assumed in all of these scenarios), and would be \$17,996 if the amortization period is ten years.

6. Rate Design. In its Direct Testimony, Algonquin proposed “single tariff pricing,” pursuant to which the rates for residential customers in all of Algonquin’s service territories would be the same. However, in its Brief, Algonquin said it “would not object” to combining the rates for Holiday Hills and Ozark Mountain, but having a separate rate for Timber Creek. Based upon discussions at Agenda meetings, the Staff has assumed that the Commission wants the Staff to assume single tariff pricing for all three service territories. Staff notes, however, that because Silverleaf is the only customer at Timber Creek, such assumed rate design would result in Silverleaf receiving a substantial subsidy from the non-Silverleaf customers.

7. Rate Mitigation. The Staff assumes that if the Commission orders rate mitigation, the *rates* would be increased in the first phase by 100% (plus carrying costs), and that the remainder of the rate increase would become effective on November 1, 2007, to which Algonquin has consented. Unfortunately, the Staff has not been able to complete the portion of this Response that addresses the impact of the Rate Mitigation issue on revenue requirement. This is because the Staff needed to perform a two-step process to assess this impact. It needed to make a preliminary determination of the impact of various issues upon revenue requirements before it could determine whether

rate mitigation was required and, if so, how it would affect revenue requirements. Because the two-step process was required, the Staff was not able to assess the scenarios that assume there will be a phase-in of the rate increase. The Staff expects that it will be able to complete this work, and to file amended scenario summaries before 5:00 p.m. on March 7, 2007. In preparing these scenarios, the Staff will assume that carrying costs would all be recovered during the first phase, because if they are not recovered during the first phase, the Commission would probably have to reduce the second phase rates once the carrying costs are recovered, thus resulting in a third phase rate, which would be slightly lower than the second phase rate.

8. Allocation of Rate Case Expense. The Staff has assumed that 60% of any allowed Rate Case Expense will be allocated to the revenue requirement for water and 40% of the allowed Rate Case Expense will be allocated to the revenue requirement for sewer. It was necessary to make some assumption regarding the method of allocating this expense, because the Staff did not advocate any method of allocation (since it recommended that rate case be disallowed in its entirety), and Algonquin did not state in its testimony how it proposed to allocate rate case expense. The Staff assumed the 60-40 split because there are three water systems and two sewer systems. Other methods of allocation, such as allocation based on revenue, could, of course, also be considered.

9. The method that the Staff used to calculate the impact of the various scenarios on revenue requirement was as follows:

- a. The starting point for the scenarios is the reconciliation model results that the Staff filed on January 26, 2007, the Amended Reconciliation, which was identified as Docket Item 64 in the EFIS file for this case.

- b. The cost-of-service calculations of both Algonquin and the Staff were adjusted to reflect the Assumptions Common to All Scenarios (as described in the Order).
- c. The difference between Algonquin's and Staff's unadjusted revenue and expenses did not go to hearing; therefore, Algonquin's case was adjusted to reflect Staff's starting point for unadjusted revenues and expenses.
- d. The assumptions shown above, in Paragraphs 4-8 were incorporated.

10. In the enclosed Scenario Summary Schedules (Attachments A and B), an issue value is reflected when any of the three variables (ROE, Depreciation Expense and Rate Case Expense) is decided in a way that is different from Algonquin's position on the issue. For all issues that are the same as Algonquin's position, the letters "NA" appear in the summary schedule. For example, Scenarios C-1 through C-8 all assume that Algonquin will recover \$225,000 in Rate Case Expense. As this is Algonquin's position, there is no difference (issue value) reflected in the enclosed summary, and all of the entries on the "Rate Case Expense" line are "NA." But for a scenario that assumes a position different from Algonquin's position, the reconciliation generated the revenue requirement value for that difference, which is then reflected in the Scenario Summary.

11. It is worth noting that when a scenario assumes that the Staff wins the Depreciation Expense issue, it results in an *increase* to the revenue requirement, because the Staff's depreciation rates are actually higher than Algonquin's depreciation rates. In such cases, the issue values are shown without parentheses. But when a scenario would reduce the revenue requirement below that requested by Algonquin, the issue value is shown in parentheses, to indicate it is a negative amount.

12. The Commission's Order did not request bill comparison information. However the Staff believes the Commission would benefit receiving information on this subject. The Staff has therefore attached hereto two bill comparison sheets, which compare the water bill that a customer using 6000 gallons per month would receive under the present rates with the water bill that the same customer using 6000 gallons per month would receive under the two most extreme scenarios. The first such bill comparison sheet (Attachment C) compares the bills for a customer if the Commission orders rate increases in accordance with Scenario A-2 – the scenario that is closest to the Staff's position. The second such bill comparison sheet (Attachment D) compares the bills for a customer if the Commission orders rate increases in accordance with Scenario C-3 – the scenario that is closest to Algonquin's position.

WHEREFORE, the Staff submits its Response to Order Directing Scenarios.

Respectfully submitted,

/s/ Keith R. Krueger

Keith R. Krueger
Deputy General Counsel
Missouri Bar No. 23857

Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
(573) 751-4140 (Telephone)
(573) 751-9285 (Fax)
keith.krueger@psc.mo.gov (e-mail)

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 6th day of March, 2007.

/s/ Keith R. Krueger

Summary of Staff Response to MPSC Scenario Order

Case No. WR-2006-0425 - Water

March 5, 2007

Scenario Variables	A.1	A.2	A.3	A.4	A.5	A.6	A.7	A.8
Rate Case Expense	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Return on Equity	Algonquin	Staff	Algonquin	Algonquin	Algonquin	Staff	Staff	Staff
Depreciation Expense	Algonquin	Algonquin	Staff	Algonquin	Staff	Algonquin	Staff	Staff
Total Revenue Requirement	227,620	\$ 182,322	269 523	\$ 227,620	269,523	\$ 182,322	\$ 224,225	224,225
Issue Values - Difference from Algonquin Position								
Rate Case Expense	\$ (26,400)	\$ (26,400)	\$ (26,400)	\$ (26,400)	\$ (26,400)	\$ (26,400)	\$ (26,400)	\$ (26,400)
Return on Equity	NA	\$ (45,356)	NA	NA	NA	\$ (45,356)	\$ (45,356)	\$ (45,356)
Depreciation Expense	NA	NA	\$ 41,903	NA	\$ 41,903	NA	\$ 41,903	\$ 41,903
Scenario Variables	B.1	B.2	B.3	B.4	B.5	B.6	B.7	B.8
Rate Case Expense	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954
Return on Equity	Algonquin	Staff	Algonquin	Algonquin	Algonquin	Staff	Staff	Staff
Depreciation Expense	Algonquin	Algonquin	Staff	Algonquin	Staff	Algonquin	Staff	Staff
Total Revenue Requirement	\$ 248,014	202,716	2899 7	\$ 248014	\$ 289917	\$ 202,7 6	\$ 244,619	\$ 244,619
Issue Values - Difference from Algonquin Position								
Rate Case Expense	\$ (6,006)	\$ (6,006)	\$ (6,006)	\$ (6,006)	\$ (6,006)	\$ (6,006)	\$ (6,006)	\$ (6,503)
Return on Equity	NA	\$ (45,356)	NA	NA	NA	\$ (45,356)	\$ (45,356)	\$ (45,356)
Depreciation Expense	NA	NA	\$ 41,903	NA	\$ 41,903	NA	\$ 41,903	\$ 41,903
Scenario Variables	C.1	C.2	C.3	C.4	C.5	C.6	C.7	C.8
Rate Case Expense	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000
Return on Equity	Algonquin	Staff	Algonquin	Algonquin	Algonquin	Staff	Staff	Staff
Depreciation Expense	Algonquin	Algonquin	Staff	Algonquin	Staff	Algonquin	Staff	Staff
Total Revenue Requirement	\$ 254,020	\$ 208,722	295923	\$ 254020	\$ 295923	\$ 208,722	\$ 250,625	250,625
Issue Values - Difference from Algonquin Position								
Rate Case Expense	NA	NA	NA	NA	NA	NA	NA	NA
Return on Equity	NA	\$ (45,356)	NA	NA	NA	(45,356)	\$ (45,356)	\$ (45,356)
Depreciation Expense	NA	NA	\$ 41,903	NA	\$ 41,903	NA	\$ 41,903	\$ 41,903
Note: All Scenarios assume a 5 - Year Amortization for Rate Case Expense with no Rate Base Treatment for the Unamortized Balance								

Summary of Staff Response to MPSC Scenario Order

Case No. WR-2006-0425-Sewer

March 5, 2007

Scenario Variables	A.1	A.2	A.3	A.4	A.5	A.6	A.7	A.8
Rate Case Expense	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Return on Equity	Algonquin	Staff	Algonquin	Algonquin	Algonquin	Staff	Staff	Staff
Depreciation Expense	Algonquin	Algonquin	Staff	Algonquin	Staff	Algonquin	Staff	Staff
Total Revenue Requirement	\$ 145,169	\$ 126,845	\$ 175,937	\$ 145,169	175,937	\$ 126,845	\$ 157,613	\$ 157,613
Difference from Algonquin's Position								
Rate Case Expense	\$ (17,600)	\$ (17,600)	\$ (17,600)	\$ (17,600)	\$ (17,600)	\$ (17,600)	\$ (17,600)	\$ (17,600)
Return on Equity	NA	\$ (18,324)	NA	NA	NA	(18,324)	\$ (18,324)	\$ (18,324)
Depreciation Expense	NA	NA	\$ 30,768	NA	\$ 30,768	NA	\$ 30,768	\$ 30,768
Scenario Variables	B.1	B.2	B.3	B.4	B.5	B.6	B.7	B.8
Rate Case Expense	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954	\$174,954
Return on Equity	Algonquin	Staff	Algonquin	Algonquin	Algonquin	Staff	Staff	Staff
Depreciation Expense	Algonquin	Algonquin	Staff	Algonquin	Staff	Algonquin	Staff	Staff
Total Revenue Requirement	\$ 158,766	\$ 140,441	\$ 189,533	\$ 158,766	\$ 189,533	140,441	\$ 171,209	\$ 171,209
Difference from Algonquin's Position								
Rate Case Expense	\$ (4,004)	\$ (4,004)	\$ (4,004)	\$ (4,004)	\$ (4,004)	\$ (4,004)	\$ (4,004)	\$ (4,004)
Return on Equity	NA	\$ (18,324)	NA	NA	NA	\$ (18,324)	\$ (18,324)	\$ (18,324)
Depreciation Expense	NA	NA	\$ 30,768	NA	\$ 30,768	NA	\$ 30,768	\$ 30,768
Scenario Variables	C.1	C.2	C.3	C.4	C.5	C.6	C.7	C.8
Rate Case Expense	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000
Return on Equity	Algonquin	Staff	Algonquin	Algonquin	Algonquin	Staff	Staff	Staff
Depreciation Expense	Algonquin	Algonquin	Staff	Algonquin	Staff	Algonquin	Staff	Staff
Total Revenue Requirement	\$ 162,769	\$ 144,445	\$ 193,537	\$ 162,769	\$ 193,537	\$ 144,445	\$ 175,213	\$ 175,213
Difference from Algonquin's Position								
Rate Case Expense	NA	NA	NA	NA	NA	NA	NA	NA
Return on Equity	NA	\$ (18,324)	NA	NA	NA	\$ (18,324)	\$ (18,324)	\$ (18,324)
Depreciation Expense	NA	NA	\$ 30,768	NA	\$ 30,768	NA	\$ 30,768	\$ 30,768
Note: All Scenarios assume a 5 - Year Amortization for Rate Case Expense with no Rate Base Treatment for the Unamortized Balance								

ALGONQUIN WATER RESOURCES OF MISSOURI
Residential Customer Bill Comparison - Water Scenario A.2

Rates for 5/8" Meter

Current Base Customer Charge	Proposed Base Customer Charge	Current Usage Rate	Proposed Usage Rate
\$3.00	\$6.96	\$3.02	\$5.12

MONTHLY BILL COMPARISON

Current Rates		
Customer Charge	\$	3.00
Usage Charge	\$	18.12
Total Bill	\$	21.12

Proposed Rates		
Customer Charge	\$	6.96
Usage Charge	\$	30.74
Total Bill	\$	37.70

INCREASES

Customer Charge		
\$ Increase		\$3.96
Increase		132.12%

Usage Charge		
\$ Increase		\$12.62
Increase		69.64%

Total Bill		
\$ Increase		\$16.58
Increase		78.52%

ALGONQUIN WATER RESOURCES OF MISSOURI
Residential Customer Bill Comparison - Water Scenario C.3

Scenario C.3			
Current Base Customer Charge	Proposed Base Customer Charge	Current Usage Rate	Proposed Usage Rate
\$3.00	\$6.96	\$3.02	\$7.06

Current Rates

Customer Charge	\$ 3.00
Usage Charge	\$ 18.12
Total Bill	\$ 21.12

Proposed Rates

Customer Charge	\$ 6.96
Usage Charge	\$ 42.38
Total Bill	\$ 49.35

INCREASES

Customer Charge

\$ Increase	\$3.96
Increase	132.12%

Usage Charge

\$ Increase	\$24.26
Increase	133.91%

Total Bill

\$ Increase	\$28.23
Increase	133.66%