

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

OCT 26 1999

Missouri Public
Service Commission

In the Matter of a Management Audit of)
the Raytown Water Company.)

Case No. WO-93-194

STAFF'S SUPPLEMENTAL IMPLEMENTATION REVIEW
OF RAYTOWN WATER COMPANY

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and states:

1. On March 1, 1994, the Staff filed with the Missouri Public Service Commission (Commission) a report entitled "Management Audit of the Raytown Water Company" which listed and explained forty-eight recommendations identified by the Staff's management audit of the Raytown Water Company (Company).

2. On February 25, 1999, the Staff filed a Report entitled "Implementation Review of Raytown Water Company" which explained that the Company had completed all anticipated actions on forty-one of the forty-eight recommendations.

3. On September 16, 1999, the Commission directed the Staff to ascertain and report to the Commission on the current status of the seven remaining recommendations, and to state a Company-provided date certain for their implementation.

4. Appendix A attached hereto and incorporated by reference is the Staff's supplemental Implementation Review of Raytown Water Company, dated October 1999. Two of the seven recommendations have been completed since the February 1999 Implementation

Review. These recommendations pertain to the Company's rerouting of its meter books (Recommendation 25) and the timely return of meter books to the vault (Recommendation 28). The other five recommendations are in various stages of completion. Three of the five recommendations are directly related to the Company's anticipated filing of an informal rate case in December 1999. These recommendations pertain to the development of a long-range plan (Recommendation 2), the adequacy of service charges (Recommendation 32), and painting the Gregory Tower (Recommendation 46). The two remaining recommendations have an indefinite timetable. Obtaining access to inside remote meters (Recommendation 27) may not be fully implemented until the summer of 2000. The Company would not commit to the development of a formal capital additions budget and operating budget (Recommendation 18) until its financial picture improves.

WHEREFORE, the Staff recommends that this docket remain open until the Company's upcoming informal rate case is completed.

Respectfully submitted,

Dana K. Joyce
General Counsel

William K. Haas
William K. Haas
Senior Counsel
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 26th day of October, 1999.

William K. Haas

**Service List for
Case No. WO-93-194
October 26, 1999**

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October 26, 1999

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Jefferson City, MO 65102

RE: Case No. WO-93-194

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of **STAFF'S SUPPLEMENTAL IMPLEMENTATION REVIEW OF RAYTOWN WATER COMPANY.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

William K. Haas

William K. Haas
Deputy General Counsel
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WKH:sw
Enclosure
cc: Counsel of Record

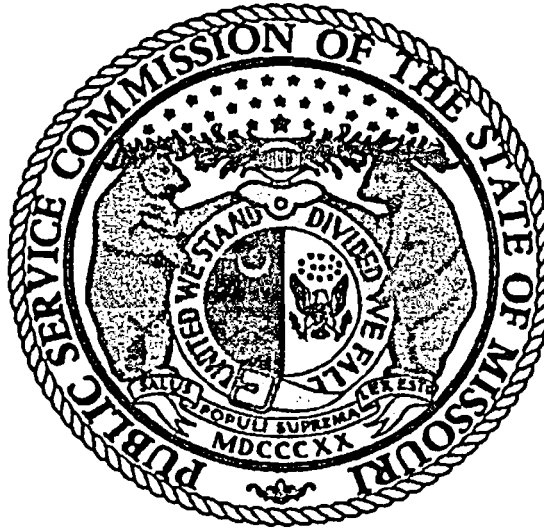
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OCT 26 1999

Missouri Public
Service Commission

IMPLEMENTATION REVIEW OF RAYTOWN WATER COMPANY

CASE NO. WO-93-194



**PREPARED BY THE
MISSOURI PUBLIC SERVICE COMMISSION
MANAGEMENT SERVICES DEPARTMENT**

OCTOBER 1999

RECOMMENDATION 2:

Develop, implement, and regularly revise a formal, documented rolling three-to-five-year long-range plan. The plan should detail strategic goals, construction projects, marketing and public relations activities, technological changes (e.g., incorporating the use of plastic pipe in the system), means for financing future projects under consideration, and anticipated completion dates.

STATUS: In progress, with an estimated completion date of December 1999

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Continued involvement on City of Raytown's Advisory Committee - January 1994.
2. Solicited employee input for short-term and long-term purchases - May 1994.
3. Received Board approval for long-term purchases in Case No. WR-94-211 - July 1994.
4. Approved expenditures at bi-monthly Board meetings - December 1994.
5. Received Board approval for long-term purchases in Case No. WR-97-300 - May 1996.
6. Participated in Raytown Downtown Development Committee - July 1996.
7. Prepared "State of the Company Report" - August 1998.
8. Filed informal request for rate relief with PSC - May 1999.

DISCUSSION:

A formalized long-range planning document did not exist at the time of the management audit. The quantity, complexity and capital-intensive nature of the projects facing the Company dictated the need for formal documentation of the long-range planning process. The Company stated that this concern is being addressed in several ways.

First, the President and General Manager has worked on various committees for the City of Raytown since January 1994. This involvement has primarily been on the advisory committee for the City's Master Plan, a long-range planning document used to foster

economic development in Raytown. Other involvement has included the Chamber of Commerce, city council meetings and various public forums.

Second, the Company has solicited considerable employee input regarding short-term and long-term purchases. This ongoing process formally began in May 1994 and resulted in over 200 suggestions to management. The information has been used to support field and office expenditures in the Company's two most recent informal rate cases. Employee input has been solicited for anticipated expenditures in the Company's next informal rate case, which is anticipated to be filed in the fourth quarter of 1999.

According to the Company, long-term purchases are formally approved by the Board prior to the filing of an informal rate case. The Board approved long-term purchases in July 1994 for Case No. WR-94-211, and in May 1996 for Case No. WR-97-300. The Company plans to formalize anticipated long-term expenditures prior to filing its next informal request for rate relief.

Third, the Board reviews Company expenditures at each bi-monthly Board meeting. The Company also stated that its 1994 and 1996 formalized expenditure lists are the basis for ongoing review and are typically reviewed at every other Board meeting. The reviews began in December 1994.

Finally, the Company prepared a "State of the Company Report" in August 1998. This report updated the status of 30 operational concerns, many of which were recommended by the MSD staff in the management audit. The report also contains various schedules, contracts and other supporting documentation.

The Company is currently renovating the business office on Raytown Road. According to the Company, the project may cost upwards of \$90,000 and is expected to be completed in the fourth quarter of 1999. Upon completion, the Company is expected to prepare the necessary financial statements to support the May 1999 initial request for an informal rate increase.

However, the Company has not formally developed and approved a long-range plan. The MSD staff recommends that the Company develop this plan prior to filing its next informal rate case. The primary benefit from this action would be to formally coordinate the Company's ability to accomplish future goals cost-effectively and within a desired time frame.

The President and General Manager stated that a long-range plan would be developed prior to filing its next informal rate case, which is anticipated to be filed in the fourth quarter of 1999. Therefore, the MSD staff concludes that this recommendation is "in progress" as of October 21, 1999.

RECOMMENDATION 18:

Develop a formal capital additions budget and a formal operating budget.

STATUS: In progress, with no estimated completion date

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Solicited employee input for short-term and long-term purchases - January 1994.
2. Received Board approval for long-term purchases in Case No. WR-94-211 - July 1994.
3. Implemented competitive bidding policy - June 1995.
4. Received Board approval for long-term purchases in Case No. WR-97-300 - May 1996.
5. Discussed major equipment purchases with PSC staff in 1996 rate case - August 1996.

DISCUSSION:

A formal capital additions budget and a formal operating budget did not exist prior to the management audit. The MSD staff concluded that formalized capital and operating budgets should provide the Company with guidance for planning revenue, expense and cash flow projections.

The Company acknowledged that formal budgets currently are not prepared. The President and General Manager stated that revenues and expenses from the previous year are used as a guideline for the current year. The Company does not expect much change in revenues from year to year unless a rate increase is granted. The percentage of increase for most expenses can be reasonably estimated.

The Company believes that formal budgeting has little practical use given the cash flow concerns and lack of discretionary money to budget for capital improvement projects. According to the Company, the cash flows necessary to do a formal budget are non-existent. For example, the wholesale water supplier is owed approximately \$156,000 as of October 1, 1999.

According to the Company, several steps have been taken to mitigate the lack of a formal budgeting process. First, the Company solicited input from field and office employees regarding potential capital projects prior to each of the Company's last two informal rate cases (see discussion in Recommendation 2). Second, the Company requests written competitive bids on all purchases greater than \$1,000. Third, the Company and the PSC staff have discussed the propriety of major purchases within the context of its 1996 informal rate case.

The Company believes that a formal budgeting process would be beneficial when its financial picture improves. The President and General Manager stated that a Budget Committee consisting of three Board members might be established to investigate the merits of a formal budget process. However, this committee has not been selected and the Company does not plan to formalize its capital and operating budgets for 1999 and 2000.

The MSD staff encourages the Company to develop formal capital and operating budgets to help manage the daily operating functions of the Company. The President and General Manager could not provide a timeframe for implementation of this recommendation, but committed to developing a formal capital and improvements budget once the Company's financial picture improves. Therefore, the MSD staff concludes that this recommendation is "in progress" as of October 21, 1999.

RECOMMENDATION 25:

Perform a study to determine the efficiency of the existing meter reading routes and adjust the routes as determined appropriate.

STATUS: Complete

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Held meeting with office and field employees - May 1994.
2. Constructed new meter sheets to reflect route changes - July 1994.
3. Completed data entry - August 1994.
4. Performed follow-up verification by office staff - September 1994.
5. Adjusted several meter routes - June 1998.
6. Eliminated eight of the 64 meter routes - July 1999.

DISCUSSION:

The most efficient manner in which to establish meter reading routes had not been formally studied at the time of the management audit. The MSD staff concluded that re-routing should reduce the number of books carried by the meter reader each day and result in a more efficient meter reading process. The MSD staff also concluded that the Company's meter reading routes could be consolidated into a six-week reading cycle if reads were scheduled for a minimum of six hours each day.

The meter reader should be more available for other necessary tasks as re-routing would require less time to complete the meter reading process. Re-routing should also result in fewer chances for errors or the need for call backs on re-reads if a substitute meter reader is necessary. Vehicle expenses should also be reduced because duplicate trips would no longer be made to the same area to obtain meter readings.

The meter reader was responsible for redesigning the meter routes given the familiarity of the routes. Several employee meetings were conducted to discuss the re-routing of meter books and the use of hand-held meter reading devices. According to the Company, the entire meter routing system was revamped as of July 1999. The Company has lowered the number of meter books from 64 to 56, resulting in reduced meter reading time and vehicle expense.

Several criteria were developed for rerouting. The Company tried to keep meters located on both sides of the road or street in the same book. Previously, some routes were sequentially set up that required the meter reader to cross the street several times as opposed

to going up one side of the street and continuing down the other side of the street. The Company also tried to ensure that routes do not stop or begin in the middle of a block.

The Company attempted to keep books and routes in sequence so that only one book is used for each area. When Raytown experienced major development decades ago, new service areas were entered in the meter books according to street name and address as opposed to convenient meter routes. This led to meter routes that varied considerably in size.

Company management expressed concerns over the use of account numbers and how they would be incorporated into a proposed route restructuring. The Company considered the incorporation of addresses into account numbers. The field computer operator changed all account numbers in the meter books and computer system for all current and past customers. After the meter account numbers were entered into the new meter books, office personnel changed the numbers on the meter pages and entered data into the computer using cross checks for accuracy.

The Company reported that entering the changed meter route number into the computer was a tedious and time-consuming project due to the Company's current computer program. The current meter program does not interface with the other computer programs and requires changing the numbers individually on each program.

The Company anticipated potential posting problems associated with payments received during a transition period. New meter sheets were constructed. The Company considered delaying the billing and posting process until all entries were made, but responded to this problem by pro-rating the bill for the month that was a partial month's bill. Approximately 100 customers received a pro-rated bill in the summer of 1998.

Two billing considerations were also addressed. The meter reading route changes have an effect on the billing clerk's duties as billing is directly affected by these changes. All changes were subsequently forwarded to the City of Raytown, since the Company does the billing for the city's sewer services.

The meter reader has been able to assist in other areas as the number of routes has been reduced from 64 to 56 during 1999. The Company stated that program maintenance would be updated on a continuous basis. Additional re-routing should be simplified given the marginal development expected to occur in the future, as the Company's service territory is

virtually landlocked. The MSD staff concludes the Company has addressed the objective of this recommendation.

RECOMMENDATION 27:

Develop a policy to periodically check inside remote meters to determine they are accurately recording water usage.

STATUS: In progress, with an estimated completion date of **December 2000**

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Compiled information from 64 meter books - February 1994.
2. Began meter testing and computer program updating - March 1994.
3. Instructed meter reader and billing clerk to monitor consumption of inside meters - April 1994.
4. Formalized changes to rules and regulations - May 1994.
5. Presented new policies to employees - May 1994.
6. Changed 122 of 192 meters to an outside location - September 1998.
7. Mailed letters requesting access to change out remaining 54 inside meters - September and October 1999.

DISCUSSION:

At the time of the management audit, the Company did not have an established policy to periodically check its 192 inside remote meters. The MSD staff concluded this policy was necessary to determine if the remote meters are accurately recording water usage. Although the meters are read by a remote reading device, there is no assurance these meters are not tampered with unless periodic physical inspections are performed.

Company policy requires inside meters to be moved out of the remote area when a new copper service is installed. The Company will furnish the customer with a complete meter well setup at no charge (excluding labor) in order to move the remaining inside meters

to the outside. The Company had 192 remote meters when this policy was implemented. According to the Company, there were approximately 54 inside remote meters still to be moved outside as of October 12, 1999.

Moving the meters will benefit both the Company and its customers in several ways. First, meter testing will not be hampered by missed appointments to access basements. Second, the potential for tampering with outside meters may be reduced. Third, inside meters have old curb stops at the property line that can break or corrode, preventing operation in case of an emergency.

In addition to testing, a schedule will be incorporated to verify the actual inside remote meter read corresponds with the outside read because broken or disconnected wires will cause the outside meter not to register. Office personnel have been instructed to pay special attention to pages marked as "inside meters" and to notify the foreman of any sudden changes in consumption. The meter reader will then look for any broken wires.

The inside remote meter is replaced with a new meter that is moved to the outside if the Company sets a service line or performs work inside the customer's home. For the remaining inside remote meters, the Company has a policy of mailing a series of three letters to schedule an appointment with the customer to move the remote meter to the outside.

The Company acknowledged very little has been done with this recommendation during 1999. The primary reason has been with employee turnover, especially with field personnel. The Company stated that it takes three men approximately six hours each to move an inside meter to the outside of a house.

The Company mailed reminder letters to the customers with inside meters in September and October 1999. The letters give the customer several options. The President and General Manager stated that a few customers have responded and that appointments have been set up to change out inside meters by December 1999.

It is the MSD staff's conclusion the Company has changed most of its inside remote meters. The MSD staff encourages the Company to continue the process of changing the remote meters to an outside location until there are no inside remote meters on the system.

However, the President and General Manager acknowledged that some inside remote meters would not be changed out until 2000. As a result, the MSD staff estimates that this

recommendation would not be fully implemented until December 2000 and concludes that this recommendation is "in progress" as of October 21, 1999.

RECOMMENDATION 28:

Ensure that meter books are placed in the vault or a similar fire-proof location when not in use.

STATUS: Complete

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Revised Company policy - February 1994.
2. Revised billing clerk job description - March 1994.
3. Held information meeting on meter book security - April 1994.
4. Implemented new meter book security procedure - November 1994.
5. Enforced new meter book security procedure - April 1999.

DISCUSSION:

While performing the management audit, the MSD staff observed the meter books were not properly stored in the vault or similar fireproof location when not in use. The MSD staff concluded meter book security would ensure overnight safety so duplication efforts required to replace a lost meter book would be eliminated.

Meter book security has been addressed by Company management. An employee meeting was used to communicate a new meter book policy requiring all meter books to be placed in the safe at the end of each day. The safe is located in the vault that is locked at the close of business each day.

The billing clerk is responsible for verifying all meter books are in the safe at the end of each day by taking a physical count of the 56 meter books (reduced from 64 due to re-routing). If each meter book is not accounted for, the billing clerk checks desks, meeting rooms and service trucks. Whenever a meter book cannot be located, a notice is placed on

the shop door to inform the servicemen a meter book is missing and all other possible locations have been checked.

A form was developed to record the daily verification. If a book is left out overnight, the billing clerk will place an explanation in the safe. Company management stated it takes the billing clerk about eight minutes each day to perform this task properly. It is estimated \$50 in materials and 16 hours of clerical time per book would be necessary to duplicate this information if a book is misplaced or lost.

The Company acknowledged not all meter books were placed in the vault each night during 1998 and the first quarter of 1999. This was confirmed by a review of meter book security logs that indicated several instances where as many as six books would be checked out and not returned to the vault in a timely manner. There were several instances that the same book would be checked out for more than a week at a time.

The MSD staff also learned of an instance when a meter book was left in a service truck overnight instead of being placed in the vault. The truck was stolen during the night and the meter book was not found. Reproduction of the meter book was required by one of the office personnel.

The Company strengthened its enforcement of the meter book policy in April 1999. According to the President and General Manager, repeated violations will be included in the meter reader's personnel file and used during the employee evaluation process.

The MSD staff reviewed the meter book logs for the first nine months of 1999 and found that all books have been returned to the vault on a daily basis since mid-June 1999. The MSD staff concludes the Company has addressed the objective of this recommendation.

RECOMMENDATION 32:

Determine the propriety of current charges for insufficient funds check handling (\$13) and after-hours service turn-ons (\$10), and file appropriate market rates to recoup costs in the Company's next rate filing.

STATUS: In progress, with an estimated completion date of **December 1999**

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Conducted two studies to determine proper costs - March 1994.
2. Discussed findings with employees - April 1994.
3. Implemented new procedures for treatment of insufficient funds checks and after hours service turn-ons - July 1994.
4. Developed service charge schedule as part of next informal rate case - September 1999.

DISCUSSION:

The Company did not charge a market rate for handling insufficient funds checks and after-hours service turn-ons at the time of the management audit. The current charge for insufficient funds checks is \$13 and the charge for after-hours service turn-ons is \$10.

Non-sufficient funds checks are run through the bank twice and the bad check buy-back policy is no longer in practice. The bank currently mails the insufficient funds checks to the Company after the checks have been run through the bank twice. The Company delivers notice to the customer informing them of their insufficient funds check at the Company. The customer has 48 hours to make payment for the insufficient funds check with cash or money order.

The new procedure has eliminated the need for large sums of petty cash and frequent trips to the bank. The Company estimates about one clerical hour per day is saved by not making repeat trips to the bank to buy back bad checks. The President and General Manager stated these savings mitigated the need to increase these charges in the Company's 1996 rate case.

The increased service charges may help the Company's cash flow by deterring an unknown amount of bad checks and non-payments. The MSD staff encourages the Company to charge the market rates for the actual costs of performing these tasks so the charges will be appropriately shifted to the customers who cause this expense.

The Company developed a service charge rate table in September 1999 that will be part of the next informal rate case. According to the Company, the return check charge will remain at \$13. The President and General Manager acknowledged \$13 is relatively low for a

business in Raytown, but is an adequate amount to charge given the few checks that are returned to the bank.

The Company plans to charge \$10 for field collections, disconnection of water service and reconnection of water service during office hours. The Company currently does not charge for field collection or disconnection activities during office hours, and only \$5 for reconnection during office hours. After hours service charges will increase from \$10 to \$25 for collection and reconnection activities.

It is the understanding of the MSD staff that Company will file appropriate market rates to recoup more of these costs in their next informal rate filing. If the Company files an informal rate case by the end of the fourth quarter 1999, it is anticipated that these service charges would not be in effect until the summer of 2000. Therefore, the MSD staff concludes that this recommendation is "in progress" as of October 21, 1999.

RECOMMENDATION 46:

Correct all deficiencies cited in the 1993 PSC Water Department inspection report.

STATUS: In progress, with an estimated completion date of **December 2000**

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Performed minor work and electrical repairs at two tower sites - August 1993.
2. Solicited competitive bids for tower painting - April 1994.
3. Developed semi-annual tower inspection report - December 1994.
4. Developed monthly valve pit inspection report - January 1996.
5. Received engineering maintenance contract bid to paint each tower - August 1999.

DISCUSSION:

The PSC staff's Water and Sewer Department cited several deficiencies in its June 1993 inspection report. The Company acknowledged that substantive corrective measures have been taken on all but one of the items cited in the report.

The President and General Manager stated that field personnel and an electrician performed minor repairs in July 1993. The repairs, which cost approximately \$450 in labor and materials, involved miscellaneous electrical repairs and work on the overflow lines at two of the Company's three tower sites.

The inspection also cited the lack of progress being made with hydrant testing, valve locating and valve exercising. The Company stated that hydrant testing is currently near completion while valve testing is somewhat behind schedule. The Company plans to fund the hiring of an additional field person to assist in valve testing and other duties as part of its next informal rate case.

The major concern that has not been corrected is the painting of the Gregory Tower (Gregory). This has been cited in each of the six annual inspections since 1993. The Company received three competitive bids to paint the tower in April 1994 ranging from \$28,850 to \$40,000.

According to an outside engineer's report, timely painting is recommended to avoid any sandblasting. The Company's in-house inspection disclosed that the legs, riser and bowl of Gregory are nearing a condition where painting alone may not be sufficient. The Company acknowledged that sandblasting might be required because of the 11% lead content in the existing paint. If sandblasting is necessary, it could substantially increase the initial total estimated cost.

The President and General Manager stated that cash flow constraints have precluded the Company from painting Gregory. Similar to the valve testing, the Company anticipates that the painting and other costs associated with Gregory will also be included in the Company's next informal rate case.

The Company expanded the scope of the recommendation by developing a semi-annual tower inspection report in December 1994. This report contains information about each tower's security, accessories, utilities, paint condition and an overall grounds check. The MSD staff reviewed a three-year sample of tower inspection reports. The in-house inspections repeatedly identified the Gregory painting concern as a top priority.

The Company also developed a monthly valve pit inspection report in January 1996. The report contains information about each of the eight valve pits, including power, sump pump, security, cathodic protection and heat. The MSD staff reviewed the 1998 inspection

reports and found that most of the problems were relatively minor and corrected the following month.

The President and General Manager received a maintenance painting contract bid in September 1999 from an outside engineering firm. The Company would be required to enter into a five-year contract at a cost of approximately \$7,000 per month. The engineering firm would be responsible for the painting and subsequent regulatory compliance for Gregory in the summer of 2000, the Chapel Tower in 2001, and recoating the bowl of the main tower in 2002.

According to the engineering firm, the Gregory Tower could be powerwashed and recoated. The Chapel Tower needs to be covered and repainted as the lead paint is beginning to peel from the surface. The engineering firm stated that the new tower would need to be recoated about 10 years after its initial construction in 1992.

The primary benefit of the contract would be two-fold. First, the Company could take proper care of its towers before painting becomes cost-prohibitive. Second, the Company could recoup the monthly maintenance contract expense in rates within the context of the case that is anticipated to be filed by the end of the fourth quarter 1999.

The MSD staff is encouraged that the Company has addressed nearly all of the concerns in the 1993 PSC inspection report. The President and General Manager could not provide a timeframe for implementation of this recommendation, as it is tied to the Company's next informal rate filing.

According to the Company, the outside engineer is currently reviewing the maintenance contracts. The Company acknowledged that the painting proposal has not been discussed with the PSC staff's Water and Sewer Department. If the maintenance contract is approved as part of the Company's next informal rate case, it is anticipated that painting would begin on Gregory late summer of 2000. Therefore, the MSD staff concludes that this recommendation is "in progress" as of October 21, 1999.