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March 31, 2000

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Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
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 the **STAFF'S SECOND 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,

Wm K Haas

William K. Haas
Deputy General Counsel
(573) 751-7510
(573) 751-9285 (Fax)

WKH/lb
Enclosure
cc: Counsel of Record

FILED²

MAR 31 2000

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

Case No. WO-93-194

FILED²
MAR 31 2000
Missouri Public
Service Commission

STAFF'S SECOND SUPPLEMENTAL IMPLEMENTATION REVIEW
OF RAYTOWN WATER COMPANY

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

1. On October 26, 1999, the Staff filed a Supplemental Implementation Review of Raytown Water Company which reported that 43 of 48 recommendations identified in the Staff's management audit of Raytown Water Company (Company) had been completed, and that implementation of the other five recommendations was in progress.

2. On March 2, 2000, the Missouri Public Service Commission (Commission) issued an Order Directing Filing which requests the Staff to report on the status of those five remaining recommendations.

3. Appendix A, attached hereto and incorporated by reference, is the Staff's second supplemental Implementation Review of Raytown Water Company. Formal approval of a long-range plan (Recommendation 2) will be discussed by the Company's Board of Directors at its April 2000 meeting. The Company plans to have its external auditor review major items that can be incorporated into a formal capital and operating budget (Recommendation 18) by June 2000. The Company has obtained access to all but a few inside remote meters (Recommendation 27) and expects to have moved the remaining inside remote meters to an outside location by June 2000. The Company propose to revise its service charges (Recommendation 32) in the small company rate proceeding that it expects to file in the second quarter of 2000. The Company

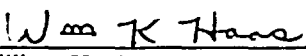
proposes to address tower maintenance (Recommendation 46) in the upcoming small company rate proceeding.

4. Pursuant to 4CSR 240-2.200 Small Company Rate Increase Procedure, an agreement must be reached in a small company rate proceeding, and tariff sheets filed based upon the agreement, within 150 days from the date the letter initiating the procedure is filed with the Commission, unless this time period is extended by the consent of the parties.

WHEREFORE, the Staff recommends that this docket remain open for the Staff to file a supplemental report following the conclusion of the Company's upcoming small company rate case.

Respectfully submitted,

DANA K. JOYCE
General Counsel



William K. Haas
Deputy General Counsel
Missouri Bar No. 28701

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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 31st day of March 2000.

Wm K Haas

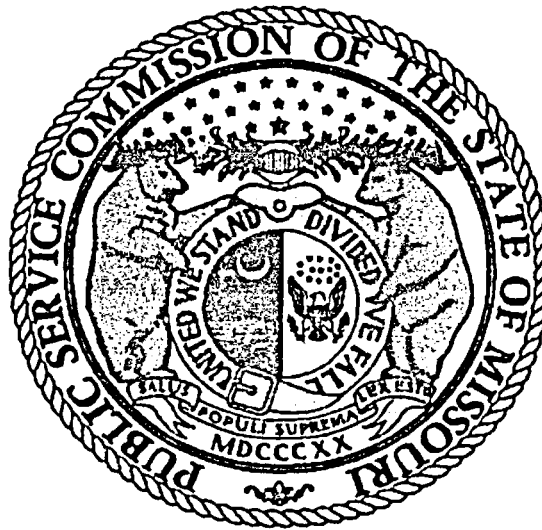
**Service List for
Case No. WO-93-194
March 28, 2000**

**Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102**

**Neal Clevenger
Raytown Water Company
9820 East 63rd Street
Raytown, MO 64133**

IMPLEMENTATION REVIEW OF RAYTOWN WATER COMPANY

CASE NO. WO-93-194



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

MARCH 2000

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 April 2000

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. Developed formal long-range plan - February 2000.

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 proceedings. Employee input has also been solicited for anticipated expenditures in the Company's next informal rate proceeding, which is expected to be filed in the second quarter of 2000.

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. According to the Company, long-term purchases are formally approved by the Board prior to the filing of an informal rate proceeding. 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 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 developed a formal long-range plan in February 2000 that identified construction and maintenance activities through 2002. The MSD staff recognizes the efforts that went into the development of the long-range plan. However, the long-range plan has not been formally approved by the Board nor has it been sufficiently developed to incorporate internal man-hours or estimated dollar expenditures. 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 formal approval of the long-range plan would be discussed at the April 2000 Board meeting. The Company also plans to have its external auditor assist in the development of man-hour and dollar estimates for each project. Therefore, the MSD staff concludes that this recommendation is "in progress" as of March 28, 2000.

RECOMMENDATION 18:

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

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

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. The Company stated that the cash flows necessary to do a formal budget are non-existent. For example, the wholesale water supplier is owed approximately \$337,000 as of March 28, 2000.

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 proceeding.

The Company believes that a formal budgeting process would be beneficial when it has increased cash flow. The President and General Manager stated that a Budget Committee consisting of three Board members would be established to investigate the merits of a formal budget process.

The President and General Manager discussed capital and operating budgets with its external auditor in February 2000. The Company plans to have the auditor review the major items that can be incorporated into a formal capital and operating budget by June 2000. The MSD staff continues to encourage the Company to develop formal capital and operating budgets to help manage the daily operating functions of the Company. Therefore, the MSD staff concludes that this recommendation is "in progress" as of March 28, 2000.

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 June 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.
8. Mailed letters requesting access to change out remaining 16 inside meters - March 2000.

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 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. The customer is furnished 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 in May 1994. According to the Company, there were approximately 16 inside remote meters still to be moved outside as of March 1, 2000.

Moving the meters has benefited 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 was 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 Company acknowledged that very little was done with this recommendation during 1999. The primary reason has been 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 in September and October 1999 to the 54 customers with inside meters, giving the customer several options. Subsequent reminder letters were mailed to the 16 remaining customers with inside meters as of March 2000. The Company's current policy is to mail up to three letters to contact the customer and schedule an appointment to move the remote meter to the outside. According to the Company, most of the remaining meters are scheduled to be changed in the spring of 2000.

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. Therefore, the MSD staff concludes that this recommendation would not be fully implemented until the remaining inside meters are changed. The Company anticipates changing the remaining inside meters by June 2000.

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: Complete

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 proceeding - March 2000.

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 1993 charges for insufficient funds checks and after-hours service turn-ons were \$13 and \$10, respectively.

Non-sufficient funds checks are now 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 July 1994 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 proceeding.

The Company developed a service charge rate table in March 2000 that will be part of the next informal rate proceeding. Office personnel contacted local businesses and neighboring utilities to determine an appropriate amount to charge for selected activities. For the most part, the Company proposes to raise the fees on some items and to charge for other items that have historically been performed free of charge.

According to the schedule, the return check charge will be increased from \$13 to \$20. The charge to restore service will be increased from \$5 during business hours and \$10 after hours to \$15 during business hours and \$25 after hours. Field collections at the door (\$10), meter testing (\$10), emergency call-outs (\$10 during business hours and \$25 after hours), a second trip to investigate a high bill within 12 months (\$25), and late fees (2% of the bill) were previously done without charge.

The MSD staff encourages the Company to periodically evaluate the adequacy of its service charges. It is reasonable for these charges to be assessed to those customers who cause the expense to be incurred. The Company plans to file this schedule in its next informal rate proceeding and that these service charges, if determined to be reasonable, could be in effect in the fall of 2000.

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.
2. Developed semi-annual tower inspection report - December 1994.
3. Developed monthly valve pit inspection report - January 1996.
5. Received engineering maintenance contract bid to paint and maintain 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 seek funding to hire an additional field person to assist in valve testing and other duties as part of its next informal rate proceeding.

The major concern that has not been corrected is the painting of the Gregory Tower. This has been cited in each of the six annual inspections since 1993. In April 1994, the Company received three competitive bids to paint the tower 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 the Gregory Tower 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 either of the Company's 50-year-old towers in the past 15 years. Similar to the valve testing, the Company anticipates that the painting and other costs associated with the Gregory Tower will also be included in the Company's next informal rate proceeding.

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 and found that the in-house inspections repeatedly identified the Gregory Tower 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 and 1999 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 a nationally recognized engineering firm. The 10-year contract would

cost the Company approximately \$7,168 per month. The engineering firm would be responsible for the painting, maintenance, and subsequent regulatory compliance for each of the three towers. The Company's engineer reviewed the maintenance contract and believes it is the most cost-effective solution.

According to the engineering firm, the Gregory Tower could be powerwashed and recoated. The Chapel Tower needs to be covered and repainted immediately as the lead paint is beginning to peel from the surface. The engineering firm stated that the epoxy on the main tower is beginning to chalk through, and would need to be recoated around 2002.

The MSD staff is encouraged that the Company has addressed nearly all of the concerns in the 1993 PSC inspection report. It is anticipated that painting would not begin until the fourth quarter of 2000 if the maintenance contract is approved as part of the Company's next informal rate proceeding. Therefore, the MSD staff concludes that this recommendation is "in progress" as of March 28, 2000.