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September 29, 2000

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General Counsel

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 eight (8) conformed copies of the **STAFF'S THIRD SUPPLEMENTAL IMPLEMENTATION REVIEW OF RAYTOWN WATER COMPANY, AND MOTION TO CLOSE CASE.**

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/lb
Enclosure
cc: Counsel of Record

FILED

SEP 29 2000

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

SEP 29 2000

Missouri Public
Service Commission

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

Case No. WO-93-194

**STAFF'S THIRD SUPPLEMENTAL IMPLEMENTATION REVIEW OF RAYTOWN
WATER COMPANY, AND MOTION TO CLOSE CASE**

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

1. On March 31, 2000, the Staff filed its second supplemental Implementation Review of Raytown Water Company which reported that forty-four of forty-eight recommendations identified in the Staff's Management Audit of Raytown Water Company had been completed, and that implementation of the other four recommendations was in progress.
2. On September 6, 2000, the Missouri Public Service Commission (Commission) issued an Order Directing Filing which directs the Staff to advise the Commission on the status of the implementation of the remaining recommendations.
3. Appendix A, attached hereto and incorporated by reference, is the Staff's third supplemental Implementation Review of Raytown Water Company. The Staff reports that the intent of the four remaining recommendations has been met as of September 2000. The Board of Directors approved the Company's formal long-range plan (Recommendation 2) and its capital and operating budgets (Recommendation 18) at its April 2000 meeting. The Company has also obtained access to all inside remote meters (Recommendation 27) as of May 2000. The Company stated that the painting of the Gregory Tower (Recommendation 46) began in September 2000 and that the painting of the Chapel Tower will begin in October 2000.

4. In the Staff's opinion, the Company has addressed the intent of each of the forty-eight recommendations in the Staff's Management Audit of Raytown Water Company.

WHEREFORE, the Staff requests the Commission to close this case.

Respectfully submitted,

DANA K. JOYCE
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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 29th day of September 2000.

William K. Haas

IMPLEMENTATION REVIEW OF RAYTOWN WATER COMPANY

CASE NO. WO-93-194



PREPARED BY THE
MISSOURI PUBLIC SERVICE COMMISSION
ENGINEERING & MANAGEMENT SERVICES DEPARTMENT

SEPTEMBER 2000

APPENDIX A

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: Complete

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 2000-2002 long-range plan - February 2000
9. Received Board approval for 2000-2002 long-range plan - April 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. The President and General Manager has also been involved with 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 three most recent general rate proceedings.

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 approximately 30 operational concerns, many of which were recommended by the Engineering and Management Services Department (EMSD) 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. Several projects were incorporated into the Company's current informal rate proceeding. The Company's external auditor assisted in the development of man-hour and dollar estimates for each project in the long-range plan, which was formally approved by the Board in April 2000.

The EMSD staff reviewed the Company's long-range plan for 2000-2002. The plan identified about \$362,000 in major purchases for 2000, excluding the tower painting contract that will be discussed in Recommendation 46. The largest planned expenditures include the leasing of three trucks and the purchase of a used backhoe (\$111,000), main upgrades (\$93,000) and hydrants (\$62,000). In addition, approximately \$245,000 in main upgrades are scheduled for 2002.

According to the Company, at least one other direct benefit has been realized from the development and approval of a formalized long-range plan. The President and General Manager stated that the City of Raytown requested a copy of the Company's long-range plan in the summer of 2000 to more effectively schedule street repairs, storm sewer projects, right-of-way rule changes and other construction activities between the City and the Company.

The primary benefit from the development of the long-range plan is to formally coordinate the Company's ability to accomplish future goals cost-effectively and within a desired timeframe. The President and General Manager stated that the long-range plan is continually updated to reflect potential changes in its operating environment. The EMSD staff has reviewed the Company's 2000-2002 long-range plan and concludes that the intent of the recommendation has been met.

RECOMMENDATION 18:

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

STATUS: Complete

MAJOR ACTIONS TAKEN BY THE COMPANY:

1. Solicited employee input for short-term and long-term purchases - January 1994.
2. Implemented competitive bidding policy - June 1995.
3. Discussed major purchases with PSC staff in 1996 rate proceeding - August 1996.
4. Established Board Budget Committee - December 1999.
5. Developed formal 2000-2002 long-range plan - February 2000.
6. Received Board approval for 2000-2002 long-range plan - April 2000.

DISCUSSION:

A formal capital additions budget and a formal operating budget did not exist prior to the management audit. The EMSD staff concluded that formalized capital and operating

budgets should provide the Company with guidance for planning revenue, expense and cash flow projections.

According to the Company, several interim measures were taken since the management audit 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 general rate proceeding (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 each of the Company's three most recent general rate proceedings.

The President and General Manager stated that the Board established a Budget Committee in December 1999. The Budget Committee consists of three Board members and is responsible for the development of a capital budget and an operating budget.

The Company developed a formal long-range plan in February 2000 that identified construction and maintenance activities through 2002. Several projects were incorporated into the Company's current informal rate proceeding. The Company's external auditor assisted in the development of man-hour and dollar estimates for each project in the long-range plan, which was formally approved by the Board in April 2000.

According to the Company, at least one other direct benefit has been realized from the development and approval of a formalized capital and operating budget. The President and General Manager stated that the City of Raytown requested this information in the summer of 2000 in order to more effectively coordinate the scheduling of short-term and long-term construction activities between the City and the Company.

The primary benefits from the development of a capital budget and operating budget are to help manage the daily operating functions of the Company and to formally coordinate the Company's ability to accomplish future goals cost-effectively and within a desired time frame. The EMSD staff has reviewed the Company's capital and operating budgets and concludes that the intent of the recommendation has been met.

RECOMMENDATION 27:

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

STATUS: Complete

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 personnel to monitor consumption of inside meters - April 1994.
4. Formalized inside meter testing and change-out policy - May 1994.
5. Presented new policies to employees - May 1994.
6. Completed inside remote meter testing - May 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 EMSD staff concluded this policy was necessary to determine if these 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.

The Company's current policy was implemented in May 1994. The policy requires inside meters to be moved outside only if a new copper service is installed. In most cases, the inside meter is tested but not moved outside. The President and General Manager stated that there has been a gradual testing of all inside meters since 1994 and that all meters had been tested as of May 2000.

The policy requires that an inside meter is only replaced with a new outside meter if the Company sets a service line or performs work inside the customer's home. The President and General Manager stated that it takes three men approximately six hours each to move an

inside meter to the outside of a house. If the Company does not set a service line or perform other work inside the customer's home, the customer would have to pay between \$700 and \$1,500 to have the meter moved outside. As a result, fewer than 35 meters have been moved outside since 1994.

Moving the meters outside 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 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 EMSD staff concludes that the Company has tested all of its inside remote meters and has addressed the intent of this recommendation. However, the EMSD staff encourages the Company to continue the process of changing the inside meters to an outside location until no inside meters remain on the system.

RECOMMENDATION 46:

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

STATUS: Complete

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 and maintain each tower - August 1999.
6. Began painting Gregory Tower - September 2000.

DISCUSSION:

The PSC staff's Water and Sewer Department cited several deficiencies in its June 1993 inspection report. The Company stated that substantive corrective measures have been taken on all 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 Water and Sewer Department's major concern was the need for the painting of the Gregory Tower. This has been cited in each of the seven annual inspections since 1993. The Company received three competitive bids to paint the Gregory Tower in April 1994 that ranged from \$13,850 to \$40,000.

According to an outside engineer's report, timely painting is recommended to avoid any sandblasting. The Company's in-house inspection also 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 Company expanded the scope of this 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 EMSD 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.

A monthly valve pit inspection report was developed internally in January 1996. The report contains information about each of the eight valve pits, including power, sump pump,

security, cathodic protection and heat. The EMSD staff reviewed the 1998 and 1999 inspection reports and found that most of the problems were relatively minor and corrected the following month.

The Company contracted with a nationally recognized engineering firm to paint the Gregory Tower and the Chapel Tower in September 1999. The engineering firm agreed to be responsible for the painting, maintenance, and subsequent regulatory compliance for both towers throughout the 10-year, \$317,000 contract.

The President and General Manager stated that the painting of the Gregory Tower had begun in September 2000 and is expected to be finished in early October 2000. According to the contract, the Gregory Tower interior and exterior will be powerwashed and recoated.

The President and General Manager also stated that the painting of the Chapel Tower will begin in October 2000 and is expected to be finished in early November 2000. According to the contract, the Chapel Tower needs to be enclosed and repainted immediately as the lead paint is beginning to peel from the surface. The Company intends to notify their customers of the tower painting on the customer bill and when the customer is placed on hold when calling the Company.

The EMSD staff is encouraged that the Company has addressed each of the concerns in the 1993 PSC inspection report. Since the painting of the Gregory Tower has already begun, the EMSD staff concludes that the Company has addressed the intent of this recommendation.