

**NON-UNANIMOUS AGREEMENT REGARDING DISPOSITION OF  
SMALL UTILITY COMPANY REVENUE INCREASE REQUEST**

**S. K. & M. WATER AND SEWER COMPANY**

**MO PSC FILE NO. SR-2019-0157**

**BACKGROUND**

S. K. & M. Water and Sewer Company ("Company") initiated the small company revenue increase request ("Request") for water and sewer service that is the subject of the above-referenced Missouri Public Service Commission ("Commission") File Number by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.050, Small Utility Rate Case Procedure ("Small Company Procedure"). In its request letter, which was received at the Commission's offices on November 27, 2018, the Company set forth its request for an increase of \$200,000 in its annual water service operating revenues and \$100,000 in annual sewer revenues. The Company also acknowledged that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would be reviewed during the Commission Staff's ("Staff") review of the revenue increase request, and could thus be the subject of Staff's recommendations. The Company is located in one residential area southwest of Perryville, Missouri, providing service to approximately 302 water customers and 156 sewer customers. As explained in the attached documentation, the annualized number of customers for the test year is 284 water customers and 158 sewer customers. All but one of these customers is residential.

Pursuant to the provisions of the Staff Assisted Rate Case Procedure<sup>1</sup> and related internal operating procedures, Staff initiated an audit of the Company's books and records, a review of the Company's customer service and general business practices, a review of the Company's existing tariff, an inspection of the Company's facilities and a review of the Company's operation of its facilities. (These activities are collectively referred to hereinafter as Staff's "investigation" of the Company's Request.)

Upon completion of its investigation of the Company's Request, Staff provided the Company and the Office of the Public Counsel ("Public Counsel") information regarding Staff's

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<sup>1</sup>Commission Rule 4 CSR 240-10.075

investigation and the results of the investigation, including Staff's initial recommendations for resolution of the Company's Request.

### **RESOLUTION OF THE COMPANY'S RATE INCREASE REQUEST**

Pursuant to negotiations held subsequent to the Company's receipt of the above-referenced information regarding Staff's investigation of the Company's request, Staff and the Company hereby state the following agreements:

- (1) The agreed upon revenue requirement increase for water of \$13,280 (13% increase) added to the level of previous revenues of \$105,822 results in overall annual revenues of \$119,102. The agreed upon revenue requirement increase for Sewer of \$15,598 (24% increase) added to the level of previous revenues of \$65,460 results in overall annual revenues of \$81,058. This revenue requirement is just and reasonable and designed to recover the Company's cost of service. These amounts are shown on the ratemaking income statements found in Attachment A, incorporated by reference herein;
- (2) The above increases are in addition to revenue received from the previously approved Emergency Rates. The Emergency Rates for both water and sewer will be eliminated upon Commission approval of replacement tariffs associated with this agreement.
- (3) Staff's Auditing Department conducted a full and complete audit of the Company's books and records using the 12-month period ended December 31, 2018, as the basis for the revenue requirement determined above. The audit findings can be found in Attachment B, incorporated by reference herein;
- (4) The agreed upon net rate base for sewer is \$880 as of January 1, 2019. The agreed upon net rate base for water \$55,892. The development of this amount is shown on the rate base worksheet that is found in Attachment C, incorporated by reference herein. This amount is included in the audit work papers in the ultimate determination of the revenue requirement shown in (1) above;
- (5) Included in Attachment B is the agreed upon capital structure which includes 25% common equity and 75% long-term debt. Return on Equity is 11.53%, with a cost of debt of 6%. After-tax Rate of Return is 8.37%;

- (6) The schedule of depreciation rates in Attachment D, incorporated by reference herein, includes the depreciation rates used by Staff in its revenue requirement analysis and shall be the prescribed schedule of water and sewer plant depreciation rates for the Company;
- (7) To allow the Company the opportunity to collect the revenue requirement agreed to in (1) above, the rates as shown on Attachment E, incorporated by reference herein, are just and reasonable rates that the Company will be allowed to charge its customers. The impact of these rates will be as shown on Attachment F, also attached and incorporated by reference herein;
- (8) For the purposes of implementing the agreements set out in this disposition agreement, the Company will file with the Commission, proposed tariff revisions containing the rates, charges, and language set out in the example tariff sheets attached as Attachment G. The proposed tariff revisions will bear an effective date of May 31, 2019;
- (9) The current PSC MO No. 1 tariff will be cancelled and replaced by PSC MO No. 4, which is included in the example tariff described above. The current PSC MO No. 3 tariff will be cancelled and replaced by PSC MO No. 5;
- (10) The Company agrees to implement the recommendations contained in the Auditing Department Report, attached hereto as Attachment B and incorporated by reference herein, and provide proof of implementing the recommendations to the Manager of the Commission's Auditing Unit:
  - (a) Within ninety (90) days of an order approving this Disposition Agreement, the Company will:
    1. Adjust the Company general ledger used for regulatory ratemaking purposes to agree with the plant and depreciation reserve account balances that are shown in the Staff/Company Disposition Agreement for this rate case;
    2. Modify its timesheets in the following manner: (1) add a new category named "Inst/Rep/Maint – **Sewer**" so the Company can appropriately split the installation, repair, and maintenance hours between the water and sewer operations; and (2) add a category on timesheets to record any time spent on new construction, split out between water and sewer;
    3. Comply with the requirements of the NARUC Uniform System of Accounts ("USOA"), including its guidelines for the recording of cost of removal and gross salvage in the Company ledger as adjustments to plant and reserves; and

4. Purchase property and general liability insurance;

(11) The Company agrees to implement the recommendations contained in the Customer Experience Department (CXD) Report, attached hereto as Attachment H and incorporated by reference herein, and provide proof of implementing the recommendation to the Manager of the Commission's CXD:

(a) Within thirty (30) days of an order approving this Disposition Agreement, the Company will:

1. Change billing practices such that a monthly-billed customer shall have at least twenty-one (21) days to pay the bill in accordance with 4 CSR 240-13.020(7);
2. Change Company procedures such that the Company shall make reasonable efforts to contact the customer to advise the customer of the proposed discontinuance and what steps must be taken to avoid it, at least twenty-four (24) hours preceding discontinuance, in accordance with 4 CSR 240-13.050(8). Reasonable efforts shall include either a written notice, a door hanger, or at least two (2) telephone call attempts reasonably calculated to reach the customer;
3. Create and implement a complaint log in accordance with 4 CSR 204-13.040(5); and
4. Create and distribute to customers a 'Customer Rights and Responsibilities Brochure' in accordance with 4 CSR 240-13.040(3).

(b) Within ninety (90) days of an order approving this Disposition Agreement, the Company will:

1. Modify the customer bill format such that information required by 4 CSR 240.13.020(9) is clearly presented;

(12) The Company agrees to implement the recommendations contained in the Water & Sewer Department Report, attached hereto as Attachment I and incorporated by reference herein, and provide proof of implementing the recommendation to the Manager of the Commission's Water & Sewer Department:

(a) The Company agrees to complete the following tasks, as listed in Attachment I, no later than the dates listed, in accordance with the Environmental Improvement Contingency Fund (EICF), pursuant to Commission Rule 4 CSR 240-10.095:

1. Submit Engineering Report to PSC Staff – December 1, 2020;
2. Install Backup Booster Pump – January 1, 2021
3. Repair Sewer Line Breaks – January 1, 2021;
4. Replace Master Meters – June 1, 2021;
5. Complete Sewer Camera Survey and Jetting – January 2022.

- (b) The Parties agree that this schedule requires that the Commission grant a waiver from 4 CSR 240-10.095(4)(B)3. This section requires that if a requested EICF includes funds for a preliminary engineering report, the report must be completed and submitted to the commission prior to the first disbursement from the EICF account; however, the Parties agree good cause exists to allow disbursements from the fund for other improvements prior to the completion of the engineering study. Good cause exists for allowing fund disbursement for a backup booster pump because if the existing single booster pump is taken down by failure or for maintenance, all water pressure in the drinking water system would immediately be lost for an indeterminate amount of time. Good cause exists for allowing fund disbursements for repairing the sewer line breaks because these represent a significant threat of sewer blockage and sewer backups into customer's homes. The intent of 4 CSR 240-10.095(4)(B)3 is to ensure prudent spending on the most cost effective upgrades to a water or sewer system; however, the parties agree no engineering analysis is necessary to determine that the backup booster pump and sewer line repairs are critical for continued safe and reliable service;
- (13) The parties agree that an EICF shall be implemented in this proceeding. The EICF charge shall be \$2.14 each month for water customers, and \$5.11 for sewer customers, as shown in Attachment I;
- (a) The Company agrees that these charges are to be collected as part of the monthly customer charge. The Company agrees to comply with revenue recording and segregation required by 4 CSR 240-10.095(5).
  - (b) The Company shall comply with 4 CSR 240-10.095(5)(C), including at least 30 days' notice to Staff prior to making a disbursement.
  - (c) The Company agrees to file quarterly reports in the SR-2019-0157 Docket in EFIS showing monthly EICF funds received, deposits to the escrow account, expenditures, and end of the month balances in accordance with 4 CSR 240-10.095(6).
  - (d) This charge shall be reviewed in the Company's next rate case;
- (14) The Company agrees to cease collection of "Sewer Maintenance Fees"; the remaining balance of fees collected shall be spent only on sewer plant, repairs, or maintenance, and shall be recorded as contribution in aid of construction. The Company agrees to provide documentation of the spending of the remaining funds for review at the next rate case. Provided that the Company fulfills this requirement, Staff agrees it will not claim, in any Commission proceeding, that the Company's collection of the "Sewer Maintenance Fee" was a violation of any tariff, statute, rule, order, or decision within the Commission's jurisdiction;
- (15) The Company has identified several customer meters in the system which are not functioning. Water customers currently served by a non-functioning meters, or customers at a future date whose meter stops functioning, shall be charged the non-metered rate found in the tariff. The non-metered rate shall be effective until

June 1, 2024, or until changed or replaced by a subsequent rate case. Unless changed or replaced by a subsequent rate case, customers on the non-metered rate after June 1, 2024, shall be charged the metered rate. Customers being switched to the non-metered rate shall first be notified by letter at least 21 days prior to the change taking effect. Once the non-functioning meter is replaced, customers will be notified at least 21 days before being switched back to the metered rate. The Company may mail or hand-deliver these notifications. The Company agrees to receive approval of the language in these customer notifications from Staff prior to implementing this procedure. For the purpose of this agreement, and execution of the tariff language associated with the non-metered rate, non-functioning meters are those for which the meter can be observed to not be turning while water is flowing through the meter. The Company shall document the date the meter was evaluated, how water was determined to be flowing through the meter at the time of the evaluation, and any customer contact associated with the evaluation;

(16) The Company shall mail its customers a final written notice of the rates and charges included in its proposed tariff revisions prior to or with its next billing cycle after issuance of the Commission order approving the terms of this Company/Staff Disposition Agreement. The notice shall include a summary of the impact of the proposed rates on an average residential customer's bill. When the Company mails the notice to its customers, it shall also send a copy to Staff Case Coordinator who will file a copy in this case;

(17) The Company shall provide adequate notification and information regarding changes to customers' service and billing as they occur. This information shall include, but not be limited to, an explanation of new rates and rate structures, billing charges, and meter replacements;

(18) The Company agrees to immediately undertake actions to verify customer information at each billing address and determine the functioning and accuracy of its meter at each address. The Company agrees to develop procedures to ensure the integrity of future customer information, and will verify function of any meter observed to have unusually low usage over a two-month period;

(19) The Company agrees to file a rate case for both water and sewer utilities no later than January 31<sup>st</sup>, 2022;

(20) Staff may conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this Company/Staff Disposition Agreement;

(21) Staff may file a formal complaint against the Company, if the Company does not comply with the provisions of this Company/Staff Disposition Agreement;

(22) The Company and Staff agree that they have read the foregoing Company/Staff Disposition Agreement, that facts stated therein are true and accurate to the best of the Company's knowledge and belief, that the foregoing conditions accurately reflect the agreement reached between the Company and Staff; and that the Company freely and voluntarily enters into this Disposition Agreement; and

(23) The above agreements satisfactorily resolve all issues identified by Staff, and the Company regarding the Company's request, except as otherwise specifically stated herein.

### **Additional Matters**

Other than the specific conditions agreed upon and expressly set out herein, the terms of this Unanimous Disposition Agreement reflect compromises between the Staff and the Company, and no party has agreed to any particular ratemaking principle, unless specifically detailed herein, in arriving at the amount of the annual operating revenue increase specified herein.

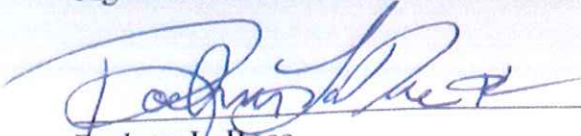
Staff has completed a Summary of Case Events and has included that summary as Attachment K to this Disposition Agreement.

The Company and Staff acknowledge that Staff will be filing this Unanimous Disposition Agreement and the attachments hereto, in the existing case and that the Company will file the proposed tariff revisions called for in the agreement. The Company also acknowledges that Staff may make other filings in this case.


Additionally, the Company agrees that subject to the rules governing practice before the Commission and without waiving the confidentiality of the facts and positions disclosed in the course of settlement, Staff shall have the right to provide an oral explanation to support its entering into this Partial Disposition Agreement, if the Commission requests one at any agenda meeting at which this case is noticed to be considered by the Commission. Subject to the rules governing practice before the Commission and without waiving the confidentiality of the facts and positions disclosed in the course of settlement, Staff will be available to answer Commission questions regarding this Partial Disposition Agreement. To the extent reasonably practicable, Staff shall provide the Company with advance notice of any such agenda meeting so that they may have the opportunity to be present and/or represented at the meeting.

**SIGNATURES**

Agreement Signed and Dated:

  
\_\_\_\_\_  
Rodney LaRose  
President  
S. K. & M. Water and Sewer Company

5-17-19  
Date

  
\_\_\_\_\_  
Susan LaRose  
Vice President  
S. K. & M. Water and Sewer Company

5-17-19  
Date

  
\_\_\_\_\_  
Jim Busch  
Manager – Water & Sewer Department  
Missouri Public Service Commission Staff

5/17/19  
Date

**List of Attachments**

- Attachment A – Income Statements
- Attachment B – Auditing Department Report
- Attachment C – EMS Runs
- Attachment D – Schedule of Depreciation Rates
- Attachment E – Rate Design Worksheets
- Attachment F – Billing Comparison Worksheets
- Attachment G – Example Tariff Sheets
- Attachment H – CXD Report
- Attachment I – Water and Sewer Department Report
- Attachment J – Summary of Events