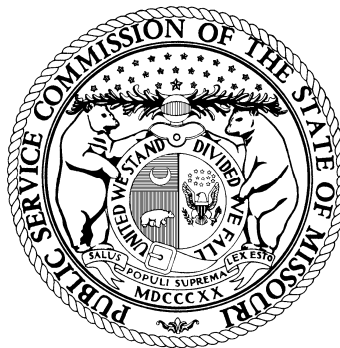


MISSOURI PUBLIC SERVICE COMMISSION

STAFF'S JULY 9, 2010 RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S JUNE 24, 2010 ORDER REGARDING RATE CASE EXPENSE



LAKE REGION WATER & SEWER COMPANY

CASE NO. SR-2010-0110

**Horseshoe Bend Sewer
Shawnee Bend Sewer**

&

CASE NO. WR-2010-0111

Shawnee Bend Water

*Jefferson City, Missouri
July 9, 2010*

STAFF'S JULY 9, 2010 RESPONSE TO THE COMMISSION'S JUNE 24, 2010 ORDER REGARDING RATE CASE EXPENSE

1. The Missouri Public Service Commission (Commission) issued an Order on June 24, 2010 (the June 24th Order) requiring the Staff of the Missouri Public Service Commission (Staff) to file an update to Staff's rate case expense recommendation by July 9, 2010 to include all of Lake Region Water and Sewer's (Lake Region or Company) legal expenses through May 31, 2010. Staff was further directed to explain any material differences between the rate case expense it currently recommends be allowed to be recovered in rates versus what Staff had advocated on pages 7 - 8 in its pleading captioned "Late-Filed Exhibit" filed on June 21, 2010.

2. On June 21, 2010 Staff filed a report entitled *STAFF'S JUNE 21, 2010 RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S JUNE 16, 2010 ORDER REGARDING CLARIFICATION TO PLANT ADDITIONS* (the June 21st Report). In the June 21st Report, under Section IV, Post True-up Changes for Customer Advances, Contributions in aid of Construction and Rate Case Expense (at page 5), Staff indicated there were changes to the May 18, 2010 revenue requirement calculations. The May 18, 2010 revenue requirements were filed with the Commission in a report entitled *STAFF RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S APRIL 8, 2010 ORDER REGARDING AVAILABILITY CHARGES* (the May 18th Report).

3. The May 18th revenue requirements were based on the true-up period ending March 31, 2010, and filed with the Commission on April 16, 2010 (the April 16th True-up Direct). The true-up was addressed by the Commission in its order dated December 1, 2009, wherein the Commission stated "should it be determined that a

true-up proceeding is necessary, the true-up period shall run through March 31, 2010 to reflect any significant and material impacts on Lake Region Water & Sewer's revenue requirement." A true-up hearing was held on April 26, 2010 (the April 26th true-up hearings).

4. Staff's April 16th True-up Direct stated one of the changes for the revenue requirement calculations was rate case expense¹ because "...Staff was provided additional costs relating to the processing of this rate case by Lake Region. These rate case costs were primarily related to costs charged by the outside counsel to conduct hearings in this case. Staff received the billings made to Lake Region for the processing of this case and reflected what it believes are reasonable costs in the revenue requirement calculation. Staff included an on-going level of these costs based on recovery over a period of three years and allocated among the three operating systems of Lake Region" -- see True-up Direct at page 8. In the true-up through March 31, 2010, Staff supported a total amount of rate case expense for Lake Region's three operating systems of \$22,498 amortized over a three year period (as reflected under Section 3 of the True-up Reconciliation filed on April 23, 2010, identified as Staff's true-up position).

5. The June 21st Report included an amount for Lake Region's three operating systems of \$42,997 for rate case expense for costs through May 31, 2010.

6. The June 21st Report was filed to answer Commission questions about plant additions and rate base calculations. In the June 21st Report Staff also presented what it originally thought was an agreement with Lake Region relating to two items referenced as Customer Advances and changes for contributions in aid of construction (CIAC) specifically identified to the three operating systems previously allocated in the original

¹ See pages 3 and 4 of Staff witness Featherstone's True-up Direct testimony.

direct case and the true-up case. Because Staff was making changes to the March 31 true-up for these two items, Staff believed it was proper to include updates for rate case expense after the March 31 true-up cutoff.

7. On June 22, 2010, Lake Region contacted Staff indicating the terms of the agreement from the Company's perspective were different than what was presented in the June 21st Report-- Staff's view of the agreement. During discussions it became apparent Company and Staff could not resolve the differences and the agreement collapsed. Staff re-filed the June 21st Report on June 23rd² to make changes which eliminated the terms of the agreement. Because Staff linked its updated recommendation on rate case expense for the post-true-up period to the terms of the agreement, Staff no longer supported making changes after the true-up March 31, 2010 period. Staff's June 23rd covering pleading provided notification to the Commission that Staff's "revised [June 23rd] exhibit substitutes . . . the June 21st filing in its entirety. Staff's updated [June 23rd] late-filed exhibit is based upon parties *Unanimous Stipulation of Undisputed Facts* filed on March 16, 2010.³

8. In the June 23rd Report, Staff reverted back to the amount it was supporting for the March 31 true-up for rate case expense for Lake Region's three operating systems of \$22,498, amortized over a three year period.

9. The purpose of the true-up was to reflect material changes that occurred after the September 30, 2009 update period used for the January 14, 2010 direct filing. This update period was ordered by the Commission in its December 1, 2010 Order. The

² The re-filing was entitled "JUNE 23, 2010 REFILE OF STAFF'S JUNE 21, 2010 RESPONSE TO MISSOURI PUBLIC SERVICE COMMISSION'S JUNE 16, 2010 ORDER REGARDING CLARIFICATION TO PLANT ADDITIONS" (the June 23rd Report).

³ Staff's Late-Filed Exhibit Cover Pleading filed on June 23, 2010.

determination of revenue requirements for updated periods and true-up periods reflects all relevant factors for revenues, expenses and rate base components. Taking isolated adjustments, referred to as out of period adjustments, distorts the revenue requirement calculation. In reality, utility's revenue and cost structures change the moment the cut-off of the true-up passes. Lake Region's revenues and costs have changed within the months following the March 31 true-up cut-off. There have been changes in customer levels resulting in changes in revenues (up or down) and changes in costs (up or down). If no changes occurred for plant in service amounts, the monthly affect of depreciation on the accumulated depreciation reserve levels would cause a decline in rate base resulting in decrease to the revenue requirements. The Company benefits from those declining revenue requirement because rates would be set based on a higher level of the March 31 true-up rate base. Any reductions in revenue requirements occurring beyond the March 31, 2010 true-up period is retained by the Company. Those reduced revenue requirements are then used to cover any increased costs such as increases for rate case expense incurred beyond the March 31, 2010 true-up. As a matter of general practice, Staff does not advocate going beyond the true-up to capture isolated adjustments such as for rate case expense. Therefore, it would be improper to extend the true-up period beyond the March 31, 2010 true-up date.

10. Staff used invoices to support the costs for rate case expense in the March 31, 2010 true-up. The Company supplied additional costs identified by outside counsel for the March 29 to 31 hearings based on costs given to Lake Region past the invoice date of March 25, 2010. Those costs through the true-up were also included in the True-Up Direct filed on April 16th.

11. In June the Company supplied more accurate actual amounts paid to its outside counsel for the costs incurred through March 31, 2010, the true-up period Ordered by the Commission in this case. Staff updated the amount of rate case expense to reflect the actual payments through March 31, 2010. This updated amount is \$26,273 for Lake Region's three operating systems-- an increase from the April 16th True-up Direct amount of \$22,498. Staff proposes to use the three-year recovery period for the \$26,273 amount which is \$8,758 per year allocated to each operating system annually by \$2,919. This represents actual costs through March 31, 2010.

12. Lake Region provided Staff with updated invoices through May 31, 2010. Staff has reviewed and verified that the amount of rate case expenses of \$42,997 is supported by documentation. However, as discussed above, it is Staff's recommendation to only update rate case expense through the true-up period using the actual invoice amounts; therefore Staff does not support any additional expenses beyond the March 31, 2010 true-up cutoff point.

CONCLUSION

13. Staff supports the level of \$26,273 for rate case expense using a recovery period of three years to determine rates for the Shawnee Bend Water and Sewer and Horseshoe Bend Sewer operating systems of Lake Region. Staff does not support going beyond the Commission Ordered March 31, 2010 true-up period for any revenue or costs increases or decreases to set rates for Lake Region.

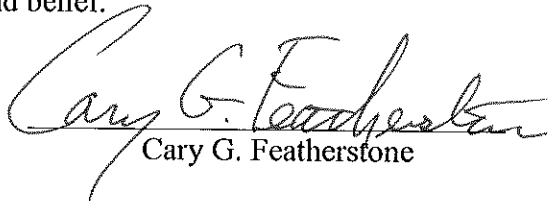
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Lake Region Water & Sewer) SR-2010-0110
Company's Application to Implement a)
General Rate Increase in Water and Sewer) Case No. AND
Service.)
WR-2010-0111

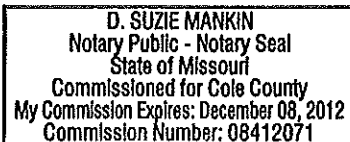
AFFIDAVIT OF CARY G. FEATHERSTONE

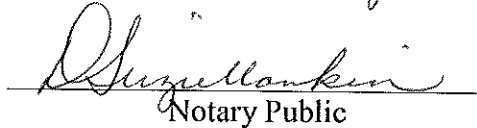
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has reviewed and analyzed the Rate Case Expense Recommendation regarding Lake Region Water and Sewer Company (formerly known as Four Seasons Lakesites Water and Sewer Company) filed with Missouri Public Service Commission. The information in the Staff Response was developed by him; that he has knowledge of the matters set forth in such Staff Response; and that such matters are true and correct to the best of his knowledge and belief.


Cary G. Featherstone

Subscribed and sworn to before me this 9th day of July, 2010.




Notary Public