

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

<b>In the matter of Aqua Missouri, Inc.'s</b>	)	
<b>Request for an Increase in Rates for</b>	)	
<b>Water Service Pursuant to the</b>	)	<b>Case No. WR-2008-0266</b>
<b>Commission's Small Company Rate</b>	)	
<b>Increase Procedure.</b>	)	

<b>In the matter of Aqua Missouri, Inc.'s</b>	)	
<b>Request for an Increase in Rates for</b>	)	
<b>Sewer Service Pursuant to the</b>	)	<b>Case No. SR-2008-0267</b>
<b>Commission's Small Company Rate</b>	)	
<b>Increase Procedure.</b>	)	

<b>In the matter of Aqua Missouri, Inc.'s</b>	)	
<b>Request for an Increase in Rates for</b>	)	
<b>Sewer Service Pursuant to the</b>	)	<b>Case No. SR-2008-0268</b>
<b>Commission's Small Company Rate</b>	)	
<b>Increase Procedure.</b>	)	

<b>In the matter of Aqua Missouri, Inc.'s</b>	)	
<b>Request for an Increase in Rates for</b>	)	
<b>Water Service Pursuant to the</b>	)	<b>Case No. WR-2008-0269</b>
<b>Commission's Small Company Rate</b>	)	
<b>Increase Procedure.</b>	)	

**STAFF'S REPLY**  
**TO AQUA MISSOURI'S RESPONSE**  
**TO SECOND ORDER DIRECTING FILING**

**COMES NOW** the Staff of the Missouri Public Service Commission and, for its Reply to Aqua Missouri's Response to Second Order Directing Filing, states to the Missouri Public Service Commission as follows.

**1. Background.** On February 27, 2008, Aqua Missouri filed its Response to Second Order Directing Filing and Motion for Extension of Time for Rate Case Review. On March 10, 2008, the Commission granted Staff a one-day extension of time to respond to Aqua Missouri's

pleading, and ordered the Staff to file its response by no later than March 11, 2008. During an Agenda meeting on February 28, 2008, commissioners expressed a desire that, if the Staff experiences difficulty in obtaining any information that it needs to properly audit the Company, the Staff would promptly inform the Commission of such difficulty. The Staff files this Reply to satisfy this desire.

**2. Failure to Provide Data.** The Company has failed to provide timely data that the Staff needs for its audit, in regard to plant detail, plant retirement detail, CIAC charges and tap-on fees, and allocation of corporate charges. The data requests that the Staff has submitted to the Company are not burdensome, as the Company contends. And the data that the Company has provided are not reliable because of problems the Company experienced in converting from the Reflections billing program to the Banner billing program. The Staff provides a complete discussion of these issues on pages 1-3 of its Report, which is attached hereto as Attachment A.

**3. Data Provided was not “Actual” Data.** As the Staff previously reported, the data that the Company provided to the Staff for the test year was not actual data, but was a combination of actual data and budgeted data. See pages 3-4 of the Staff Report, Attachment A hereto.

**4. Billing Conversion Problems.** As noted above, the Company converted from Reflections billing software to Banner billing software in 2007. The Company has encountered great difficulty in this conversion, resulting in inaccurate billing in some cases and a complete failure to bill customers in other cases. As a result, the information that the Staff has received about revenues and customer counts is not reliable, and it is not possible for the Staff to complete an accurate audit until the Staff receives better information. See pages 4-6 of the Staff Report,

Attachment A, for a thorough discussion of the problems that resulted from the billing conversion.

**5. Data Received on March 11, 2008.** On March 11, 2008, the Company provided a large amount of data to the Staff, in an apparent attempt to correct the deficiencies and shortcomings in the data it had previously provided to the Staff. The Staff appreciates receiving this information. However, the Staff has not yet had sufficient time to thoroughly review it, or to determine whether it corrects the deficiencies and shortcomings.

**6. Responses Required.** The Staff requests that the Company provide responses to all of the issues addressed in the attached Staff Report by no later than March 21, 2008, in order to allow sufficient time for the Staff to review this information and prepare its recommendation in a timely manner.

**WHEREFORE,** the Staff submits its Reply to Aqua Missouri's Response to Second Order Directing Filing for the Commission's consideration.

Respectfully submitted,

/s/ **Keith R. Krueger**

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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed with first-class postage, hand-delivered, transmitted by facsimile or transmitted via e-mail to all counsel and/or parties of record this 11<sup>th</sup> day of March, 2008.

*/s/ Keith R. Krueger*

## ATTACHMENT A

### Status Report and Staff's Reply to Aqua Missouri, Inc.'s Response to Second Order Directing Filing and Motion For Extension of Time for Rate Case Review

On February 27, 2008, Aqua Missouri, Inc. (Aqua Missouri or Company) filed its Motion for Extension of Time for Rate Case Review requesting that the timeline for the case be extended by an additional 60 days due to difficulties it was having in providing requested information about the Company's customer accounts and consumption information. Aqua Missouri also cited delays in providing the Staff with certain plant retirement information. As part of its February 27, 2008 filing, Aqua Missouri also filed its Response to the Second Order Directing Filing, which provided information to the Commission that requires a response by the Staff.

The Staff will address a number of statements provided by Aqua Missouri in its February 27, 2008 filing. The Staff will list each italicized heading provided in Company's response and will provide specific comments about some the Company's statements contained under each of these headings.

#### *Company failed to provide data on a timely basis.*

Aqua Missouri states that "...plant and retirement detail, allocation and expense information has been provided, as requested." The Company also claims that: "Regarding retirements, the only remaining retirement information to be provided is plant that was retired in January 2008, and Aqua Missouri had to wait for the books for the month of January, 2008, to be closed before that information can be provided. Given that December 31<sup>st</sup> is Aqua Missouri's year-end, the January close was later than normal. The company's plant records are detailed and tie to the general ledger. All detail of corporate charges has been provided to the staff."

**Plant Detail.** The Staff disagrees with the Company's characterization that it has adequately provided plant detail information. The Company's plant records do not tie to the Company's general ledger. Instead, the Company maintains an "off book" set of records to track its plant and assets information. Although the Commission ordered the Company in the last case to update its books and records regarding plant in service, depreciation reserve and Contributions in Aid in Construction (CIAC) balances, the Company has not corrected its general ledger to address the Commission's directive through the end of the test year (the twelve months ending September 30, 2007) and update period (through December 31, 2007) being used in this rate case.

The plant records that the Company has supplied to the Staff, and has requested the Staff to rely upon, instead represent "off-book" plant record schedules. None of these off-book schedules accurately tie to the Company's general ledger through December 31, 2007.

The Staff has found that this off-book plant detail was largely accurate for 2005 and 2006 because it has tied to the supporting invoice detail. The Staff is still working with the Company in an effort to tie the 2007 plant additions to the supporting actual invoices. The Company maintains that its off-book plant, CIAC, depreciation expense, and depreciation reserve data should be relied upon by Staff, although the Company is currently attempting to correct admitted errors that Staff has identified during its analysis.

The Company continues to have the same problems as it had in the last rate case with keeping the various operating districts separate, which is evident by the fact that a large amount of the plant data for seven operating districts was incorrectly booked to one operating district.

**Plant Retirement Detail.** The Staff is still waiting for complete and accurate plant retirement detail. A review of the Company's books and records reveals that the Company has replaced many blower motors, pumps, aerators, standpipes, and meters throughout its various systems, as well as numerous other plant items for which the Staff has received no corresponding plant retirement information. The listing of plant retirements that Company has provided to date is incomplete. The Staff is still attempting to obtain from the Company a complete listing of all plant retirements.

The Staff's review of Company plant additions shows several instances where a new component was added to the system but no corresponding plant retirement was made. Furthermore, there is insufficient detail regarding the amounts of plant retirements that the Company has identified. The Staff is unable to determine what these retirements relate to. In addition, the Staff has found that many districts did not show any retirements where replacements have taken place.

**CIAC Charges and Tap-On Fees.** The Staff has requested on several occasions that the Company supply a list of customers that have paid CIAC charges and/or tap-on fees since the cut-off point in the last rate case. The Staff has still not received a listing of the customers that it has connected to its system or any correlation of contributions that it has collected as a result of connecting any new customers to its various systems.

**Staff Data Requests.** On page 2 of its February 27<sup>th</sup> filing, the Company complains that the Staff has submitted 20 additional requests regarding the areas in question since the Commission issued its Order on February 25. The Company characterizes the Staff's additional requests as an "expansion of information." However, the vast majority of these requests merely documented oral requests that the Staff made in a February 20, 2008 conference call with Company representatives to discuss the billing function and related customer billing problems, as well as related call center functions. Other Staff requests were follow-up questions pertaining to incomplete or unclear information the Company had previously provided.

The Staff is not attempting to overburden the Company with unnecessary questions related to insignificant matters in this rate case. The Staff is merely attempting to obtain very basic customer-related revenue information as well as plant addition, plant

retirements, CIAC, and expense allocation data that should be readily available to the Company.

**Billing Program Problems.** The Staff has also requested information regarding the Company's billing and related call center functions in an effort to learn about the extent of the serious customer billing issues that the Company and its customers currently continue to experience following the May 2007 conversion from its previous Reflections billing program to the Banner billing program that it uses today. The Staff will address some of the billing problems it is aware of, which the Company's customers have experienced, later in this filing.

**Allocation of Corporate Charges.** The Company states on page 3 of its February 27<sup>th</sup> filing that: "All detail of corporate charges has been provided to the Staff." This statement is simply not correct.

The Staff originally requested this information on December 20, 2007. The Staff held a formal meeting with the Company on February 14, 2008, to discuss what was needed. Even today, the Staff has not received the supporting detail for all of the corporate allocations, despite holding yet another meeting with the Company to address this subject on February 29, 2008.

During the February 14, 2008 meeting, the Company told the Staff to ignore how allocated items were booked, and the Company also indicated it believed the amounts that were eventually distributed to the individual rate districts were correct. The Company did provide Staff with some detail related to "sundry" items on March 10, 2008, some of which may require some follow-up questions by Staff, due to the brevity of the description given. In addition, the Company provided information regarding the allocation of all other items, but this response was incomplete.

In order to perform a fair and accurate audit of the company's expense levels, all of the records related to the various types of allocations must be provided, for the Staff to determine whether the amounts booked are correct, accurately depict the expenses incurred, and serve to the benefit of Missouri ratepayers. The Company is attempting to gather the corporate allocation information necessary for Staff to do a proper examination for this important area.

*The data the Company provided was not up to date and was not "actual" data.*

On December 7, 2007, the Company filed its rate increase request based on a test year ending September 30, 2007. The data the Company provided in its initial request represented a combination of actual and budgeted data. The Company did not provide the Staff with *actual* data until February 5, 2008, more than four months after the end of the test year.

Surely, the Company had access to actual data for the twelve months ending September 30, 2007 by the time of its December 7<sup>th</sup> filing. And if not, the Staff should not have been required to wait an additional two months before finally receiving the actual data.

*The Company experienced problems with a billing conversion  
that caused information to be unreliable*

The Company states on page 3 of its pleading that: “Any computer conversion has its problems, and Aqua Missouri’s was no exception. Aqua Missouri is still looking into the customer billing issues however these have little to no effect on the revenue issues.”

The Staff suggests that the Company’s billing problems are much more severe than what the Company admits and that indeed these billing issues have prevented that Company from supplying the Staff with critical revenue data. The revenues are a major component of the determination of revenue requirement. Absent this information, it seems unlikely that the Company can meet its burden of proof in this rate case.

The Company has still not provided the Staff with accurate customer consumption data or accurate customer counts by tariffed meter size for each of the Company’s water and applicable sewer rate districts since the Company converted from the Reflections billing system to Banner on May 1, 2007. Absent this information the Staff is left unable to annualize revenues because it is unable to determine customer growth or loss, changes in consumption patterns or usages, or even account for water that the Company has pumped but was not actually consumed by customers because of any significant water loss problems that may exist for each of the Company’s various distribution systems.

The Company has communicated to the Staff that it has had problems accessing customer counts and consumption data that is presently in the Banner system. The Company stated that it has the data, but does not know how to readily access the data in useful ways.

Aqua America indicated that it encountered various degrees of difficulty in transitioning other jurisdictions to the Banner billing system as part of previous conversion processes. Aqua America encountered especially difficult problems in Missouri, during its conversion to the Banner billing system.

None of Aqua Missouri’s approximately 3,700 customers received a bill from the time of this bill conversion on May 1, 2007 until the first half of July 2007. At least 31 sewer customers did not receive their first bills following the May 1 conversion until sometime in December 2007. These same customers encountered another glitch in billing and did not receive a second, corrected bill for service until February 2008.



The May 2007 billing conversion resulted in the Company incorrectly over-collecting from Missouri customers during 2007 for primacy fees as authorized by the Missouri Department of Natural Resources. The Company has indicated to the Staff that it has attempted to credit all customers for these over-collected amounts.

Until December 2007, Aqua Missouri supplied customer meter reads in hard copy to billing department personnel located in Kankakee, Illinois. These personnel then converted this information into electronic format and forwarded this electronic version to billing personnel located in Bryn Mawr, Pennsylvania. If the Company did not process this consumption information before a Company-determined targeted cutoff date that was set for each billing month, then those customers were billed as if they had zero consumption.

In December 2007, the Staff learned that the Company has converted to hand-held devices, which allow the local Aqua-Missouri office to send the customer meter read data directly to Bryn Mawr billing personnel, thereby eliminating the need to send information to Kankakee. The Staff has learned that the Company was delayed past its targeted cutoff date numerous times throughout 2007. Unfortunately, the new hand-held process has not eliminated the Company's problems with missing its targeted cutoff date, either.

Many customers, once they actually began receiving bills, have been billed for zero consumption over periods covering several months. The full extent of this problem is not known, because the Company has not been able to provide good data to the Staff. However, these customers could eventually face large "make-up" bills, in order to catch up for several prior months of actual consumption, once the Company is able to correct the problems with its current billing process.

The Staff is also aware that when the Company transitioned its billing process from Reflections to Banner, it incorrectly loaded data for its Spring Valley Water district customers into the Ozark Mountain Water district. It is unclear whether Spring Valley customers were billed using Ozark Mountain Water district rates, and also how and when this problem was corrected.

On February 20, 2008, the Staff discovered that Aqua-Missouri has several new customers who built new homes and connected to an Aqua-Missouri system during 2007, but still have not received any bills for service.

The Staff asked the Company to identify those new construction customers whose information has been delayed in being entered into the system for billing purposes. The Company responded on March 5, 2008, but the Staff knows this response is incomplete, because the Staff is aware of customers, not found on the Company's response, who have been receiving service since September 2007 but have not yet received their first bill.

The Staff has serious concerns that the Company may have lost this customer data and that customers are being served by Aqua Missouri but are not being billed. The Staff

also has unanswered questions about what processes the Company has in place to ensure that this problem does not continue.

Also on February 20, 2008, the Staff learned that a similar problem exists when an existing home on the Company's system is sold to a new customer. When this occurs, all of the new customer's information must be entered into the Banner billing system. The Company explained that, because of bill processing delays that occurred in the Company's Bryn Mawr offices, some of this information has not been processed in a timely manner, and as a result some customers that have purchased an existing home already served by Aqua Missouri have not yet been billed. The Staff has asked the Company to identify the customers that are in this situation on February 20, 2008, and followed up in writing on February 26, 2008 but to date has not received a response.

Because of the billing problems, the Company also has experienced problems with providing current information regarding miscellaneous revenue amounts that it has collected from its other tariffed items, such as for late fees, disconnect and reconnects.

The Staff has serious concerns that, because of the problems that the Company and its customers have experienced as a result of the May 2007 conversion to the Banner billing system, the Company may be unable to provide accurate customer consumption and customer count information to the Staff. The Company has informed the Staff that it is still working on addressing this problem. Because of all the potential problems with any data that the Company ultimately supplies, the Staff will need time to ask follow-up questions in order to determine that the data is usable and has taken into account all of the aforementioned problems.

#### *Motion for Extension of Time for Rate Case Review*

The Company has recognized some of its problems in supplying acceptable data to the Staff as part of its reasons for filing for an extension for additional time to process its rate case.

### **Summary**

The Staff continues to experience delays in obtaining relevant basic information from the Company. The Staff is concerned that because of the bill conversion that took place during May 2007, the Company may be unable to provide relevant and accurate revenue related data for the remainder of 2007. A number of customer-billing-related questions remain unanswered. Based on the information it has received and had an opportunity to review, to date, the Staff cannot determine customer consumptions or customer growth or loss, or identify any "lost water" problems, or determine an ongoing level for revenues. Furthermore, the Staff still awaits plant addition information for 2007, plant retirement data, CIAC data (collected CIAC charges and tap-on fees) and information regarding the allocation of expenses.

The Staff believes that all of this is very basic information that should be readily available to the Company, and Staff's requests do not represent anything unusual or out of the ordinary. In other words, the Company should have expected that it would be required to provide this type of information as part of any type of rate increase request. The Company was well aware of its data problems long before its decision to file its rate increase request. However, the Company proceeded to file its rate case without taking adequate steps internally to ensure that it could produce the evidence necessary to support its rate filing in a timely manner.

On March 11, 2008, the Company sent several responses to various Staff questions, including responses to many of the revenue issues previously discussed in this filing, which the Staff has not yet had time to review. The Staff will continue to work through these issues with the Company, but is concerned that it will be receiving necessary information later rather than sooner. The Staff will need sufficient time to review Company's recent and future anticipated responses to address all of the issues.

The Staff requests that the Company provide responses to all of the remaining issues by March 21, 2008 in order to allow sufficient time for the Staff to review this information and prepare its recommendation in a timely manner.