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**Missouri Public
Service Commission**

EXHIBIT

Exhibit No.:

Issue(s):

Capital Structure & Return on Equity

Witness/Type of Exhibit: Robertson/Surrebuttal

Sponsoring Party:

Case No.:

OPC-4

Availability Fees/

Public Counsel

WR-2013-0461

SURREBUTTAL TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of the Office of the Public Counsel

LAKE REGION WATER & SEWER COMPANY

CASE NO. WR-2013-0461

January 31, 2014

OPC Exhibit No. 4
Date 2-18-14 Reporter BSG
File No. WR-2013-0461

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

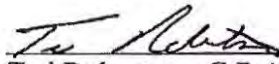
In the Matter of Lake Region Water & Sewer)	
Company's Application to Implement a General)	File No. WR-2013-0461
Rate Increase in Water and Sewer Service)	

AFFIDAVIT OF TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




Ted Robertson, C.P.A.
Chief Public Utility Accountant

Subscribed and sworn to me this 30th day of January 2014.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2017
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2017.

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LAKE REGION WATER AND SEWER COMPANY
CASE NO. WR-2013-0461

Q. ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED
DIRECT AND REBUTTAL TESTIMONY IN THIS CASE?

A. Yes. Company has consistently refused to provide Public Counsel and the Commission with the information that would allow OPC to identify accurately, without estimation, the alleged contributions in aid of constructions (i.e., donated

1 investment) associated with the individual utility's plant-in-service or the actual
2 availability fees billed and collected by either the utility, the utility shareholders or
3 the developer of the systems. However, Company's refusal to provide the actual
4 data has not prevented OPC from preparing an analysis for the Commission that
5 shows the estimated amounts for availability fees collected within the Shawnee
6 Bend Water and Sewer operations jurisdiction in comparison to the Company's
7 and the MPSC Staff's stated investment donated by the original developers.

8
9 Q. PLEASE CONTINUE.

10 A. Attached as Schedule TJR-1 is an analysis of availability fee amounts billed and/or
11 collected by the utility and/or its shareholders for the calendar years 1995 through
12 2013. As noted on Schedule TJR-1 some of the amounts shown are estimates
13 based on information relied upon in the Company's original Shawnee Bend
14 certificate case, Case No. WA-95-164, along with exhibits and affidavits provided in
15 the Company's last general rate increase cases, Case Nos. SR-2010-0110 and
16 WR-2010-0111.

17
18 What the analysis shows is that during the referenced time-period approximately
19 \$6.6 million of availability fees has been billed and/or collected by the utility and/or
20 its owners. Assuming that the fees are assigned 40%/60% between the water and
21 sewer systems (the actual yearly fees are 40% water and 60% sewer based on
22 monthly charges of \$10 for water and \$15 for sewer), as of the end of calendar year

1 2013 \$2,639,900 of the \$6.6 million are water-related fees and \$3,959,849 are
2 sewer-related fees.
3

4 Q HOW DO THE AVAILABILITY FEES SHOWN IN THE ANALYSIS COMPARE TO
5 THE COST OF DONATED INVESTMENT OF THE ORIGINAL DEVELOPERS?

6 A Comparison of the availability fees to developer donated investment first requires
7 the aggregation of the Utility's early investment amounts. Attached to this
8 testimony are two schedules which represent the plant investment of the utility for
9 the periods that the development was being built-out and subsequent years.
10 Schedule TJR-2 shows the costs pulled from the MPSC Annual Reports while TJR-
11 3 shows the costs from the MPSC Staff workpapers in the Company's current and
12 last general rate increase cases.
13

14 Q. WHAT IS THE AMOUNT OF PLANT INVESTMENT DONATED BY THE
15 DEVELOPERS AS SHOWN IN THE MPSC ANNUAL REPORTS?

16 A. Schedule TJR-2 shows CIAC of \$2,261,750 for the Shawnee Bend water system
17 and \$2,934,203 for the Shawnee Bend sewer system at the end of calendar year
18 2002 (the sewer system investment costs as shown in the MPSC Annual Reports is
19 an aggregated amount which includes costs associated with both the Shawnee
20 Bend and the Horseshoe Bend sewer systems; however, no CIAC is shown for the
21 Horseshoe Bend sewer system prior to development of the Shawnee Bend sewer
22 system so CIAC, if any, for the Horseshoe Bend sewer system would likely be
23 immaterial).

1
2 Q. WHY DID YOU CHOOSE CALENDAR YEAR 2002 TO DETERMINE THE
3 DEVELOPER'S DONATED INVESTMENT?

4 A. In calendar year 2002 the utility booked a large entry to its plant-in-service and
5 CIAC presumably to account for the finalization of the development costs. This is
6 evident because up until the current owners took control of the utility, in late 2004
7 (see attached Timeline, Schedule TJR-4), the subsequent years investment
8 increased only slightly on a year over year basis and the CIAC balances are shown
9 as decreasing.

10
11 Q. WHAT DOES THE COMPARISON OF THE AVAILABILITY FEES IN YOUR
12 ANALYSIS WITH DEVELOPER DONATED INVESTMENT IN THE MPSC
13 ANNUAL REPORTS SHOW?

14 A. Comparing the \$2,639,900 of water availability fees to the CIAC of \$2,261,750 for
15 the Shawnee Bend water system shows that the availability fees exceed the
16 developer donated investment by approximately \$378,150 (i.e., \$2,639,900 less
17 \$2,261,750). While comparing the \$3,959,849 of sewer availability fees to the
18 CIAC of \$2,934,203 for the Shawnee Bend sewer system shows that those
19 availability fees exceed the developer donated investment by approximately
20 \$1,025,646 (i.e., \$3,959,849 less \$2,934,203).

21
22 In both operations the amount of availability fees presumed collected have far
23 exceeded the donated investment of the developer. This, along with the fact that

1 availability fees will most likely continue in the future, indicates that these fees were
2 designed to recover not only the original cost of the utility investment but also any
3 other additional treatment capacity or other water and sewer infrastructure, such as
4 line extensions and pumping stations, etc., required to build a state of the art
5 system to serve customers at the time they are ready to take service. Therefore,
6 Public Counsel recommends that the excess availability fees be included in the
7 instant case rate bases as additional CIAC paid by lot owners within the jurisdiction
8 of the Utility.

9
10 Q. DOES THE EXCESS OF AVAILABILITY FEES OVER DEVELOPER DONATED
11 INVESTMENT SHOWN IN THE PRIOR Q&A DIFFER MATERIALLY FROM A
12 COMPARISON OF THE AVAILABILITY FEES WITH THE DEVELOPER
13 DONATED INVESTMENT AS SHOWN IN THE MPSC STAFF WORKPAPERS?

14 A. There is a material difference for the sewer system comparison, but not for the
15 water system. For example, comparing the \$2,639,900 of water availability fees to
16 the MPSC Staff CIAC of \$2,308,570 for the Shawnee Bend water system shows
17 that the availability fees exceed the developer donated investment by
18 approximately \$331,330 (i.e., \$2,639,900 less \$2,308,570). The \$331,330 is only
19 \$46,820 less than the \$378,150 shown in the comparison of availability fees and
20 the developer donated investment booked in the MPSC Annual Reports. Whereas,
21 a comparison of the \$3,959,849 of sewer availability fees to the MPSC Staff CIAC
22 of \$3,254,006 (at calendar year end 2005) for the Shawnee Bend sewer system
23 shows that the availability fees exceed the developer donated investment by

1 approximately \$705,843 (i.e., \$3,959,849 less \$3,254,006). The \$705,843 is
2 \$319,803 less than the \$1,025,646 shown in the comparison of availability fees and
3 developer donated investment booked in the MPSC Annual Reports. This
4 difference of \$319,803 is a material change from the prior comparison, but the
5 excess availability fees of \$705,843 is still a very significant amount.

6
7 Q. WHY DID YOU COMPARE SEWER SYSTEM AVAILABILITY FEES WITH
8 DEVELOPER DONATED SEWER SYSTEM INVESTMENT AT THE END OF
9 CALENDAR YEAR 2005 RATHER THAN THE CALENDAR YEAR 2002 UTILIZED
10 IN THE WATER SYSTEM AND THE MPSC ANNUAL REPORTS
11 COMPARISONS?

12 A. The MPSC Staff sewer system workpapers shows the booking of the developer's
13 costs and contributions over several years with the large calendar year 2002
14 booking entry discussed earlier as occurring in calendar year 2005. Public Counsel
15 believes the MPSC Staff's workpaper to be incorrect since the current owners, who
16 were not the developers of the system, obtained control of the utility in late 2004.
17 However, since the CIAC amount shown at the end of calendar year 2005 includes
18 the large booking entry that actually occurred in calendar year 2002 and the
19 balance was not increasing Public Counsel believes it includes all of the developers
20 donated investment (and likely other additional CIAC provided by ratepayers or the
21 current shareholders subsequent to the developers relinquishing control of the
22 utility resulting in the \$705,843 actually being an understatement of the total
23 excess).

1
2 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S RECOMMENDATION FOR
3 THIS ISSUE.

4 A. Public Counsel prepared an analysis of the estimated availability fees billed and/or
5 collected by the utility based on available documentation. The Company's, and its
6 shareholders, consistent refusal to provide actual data on availability fees billed and
7 collected required that Public Counsel develop the estimates with the information
8 and data that was available. Public Counsel does not present its estimates of
9 availability fees billed and/or collected to the Commission as actual amounts as
10 only the Utility and its shareholders have access to that information, but Public
11 Counsel does believe that based on the information available to it the estimates are
12 a reasonable approximation of the availability fees billed and/or collected and the
13 comparisons with developer donated investment result in reasonable
14 approximations of excess monies collected by the developers, the Utility and/or the
15 Utility's shareholders over and above the cost of the developers donated
16 investment. Thus, Public Counsel recommends that the rate bases of the water and
17 sewer systems be further reduced by the excess availability fees shown. In order
18 to be conservative, Public Counsel recommends that the water system rate base
19 be reduced by the inclusion of additional CIAC in the amount of \$331,330 ,and that
20 the sewer system rate base be reduced by the inclusion of additional CIAC in the
21 amount of \$705,843.
22
23

1 IV. CAPITAL STRUCTURE AND RETURN ON EQUITY

2 Q. DOES PUBLIC COUNSEL HAVE CONCERNS WITH THE COMPANY AND
3 MPSC STAFF CAPITAL STRUCTURE AND RETURN ON EQUITY
4 RECOMMENDATIONS?

5 A. Yes. The Company's original recommendation incorporates a capital structure of
6 59.90% debt and 40.10% equity% that is based on its proposed net rate base along
7 with a common equity return of 11.07% and a debt cost of 5.00% for the loan
8 authorized in its recent financing Case No. WF-2013-0118. Whereas, the MPSC
9 Staff's recommendation incorporates a hypothetical capital structure of 75.00%
10 debt and 25.00% equity with a common equity return of 13.89% and a debt cost of
11 5.00%. The MPSC Staff utilized a hypothetical capital structure due to the fact that
12 its analysis determined the capital structure of the Company consists of 100.00%
13 debt based on a comparison of the MPSC Staff 's recommended net rate base
14 versus the aforementioned WF-2013-0118 loan plus another loan the shareholders
15 utilized to finance the original acquisition of the utility. Thus, according to the
16 MPSC Staff, because there are practical limitations on estimating the cost of
17 equity at such extreme levels of leverage the MPSC Staff decided to cap the
18 leverage ratio at 75% debt.

19
20 Q. HAS THE COMPANY SUBSEQUENTLY MODIFIED ITS RETURN ON EQUITY
21 RECOMMENDATION?

22 A. Yes. Though the Company does not appear to have moved off of its proposed
23 60% debt and 40% common equity ratio capital structure it now believes that the

1 MPSC Staff recommended return on equity of 13.89% is more appropriate or
2 "reasonable" than the 11.07% return on equity it originally proposed. Beginning on
3 page 2, line 21, of the Rebuttal Testimony of Company witness, Mr. Michael P.
4 Gorman, it states:

5
6 I find Staff's estimated return on equity to be generally consistent with
7 the Company's proposed capital structure mix, and is reasonable in
8 light of the Company's intention to use a verifiable capital structure.
9
10

11 Q. DO YOU AGREE WITH COMPANY THAT ITS ACTUAL CAPITAL STRUCTURE
12 SHOULD BE UTILIZED TO DEVELOP ITS WEIGHTED COST OF CAPITAL?

13 A. Yes.
14

15 Q. DO YOU AGREE WITH THE COMPANY THAT ITS ACTUAL CAPITAL
16 STRUCTURE IS COMPRISED OF 60% DEBT AND 40% EQUITY?

17 A. No. As of June 30, 2013 the Company's rate base per the MPSC Staff's Direct
18 Testimony filing consisted of Horseshoe Bend Sewer - \$1,274,431, Shawnee Bend
19 Sewer - \$276,864, and Shawnee Bend Water - \$1,084,271 for a total rate base of
20 \$2,635,566 (Public Counsel does have a couple of issues with the MPSC Staff's
21 rate base recommendations and has filed testimony addressing those issues, but
22 the issues are relatively immaterial for purposes of this analysis). The only debt in
23 the Company's name at that date is an Alterra Bank loan of \$1,396,731 with an
24 interest rate of 5%. Thus, the Company's capital structure based on the MPSC

1 Staff's investment testimony and Company's debt consists of approximately
2 53.00% debt and 47.00% equity.
3

4 Q. WHAT DOES PUBLIC COUNSEL BELIEVE IS THE COMPANY'S CAPITAL
5 STRUCTURE?

6 A. Based on the Public Counsel's recommended availability fee adjustments
7 discussed previously in this testimony, I believe that the inclusion of additional CIAC
8 in the Shawnee Bend Sewer and Shawnee Bend Water rate bases is warranted.
9 Therefore, the rate bases of the three utilities would consist of Horseshoe Bend
10 Sewer - \$1,274,431, Shawnee Bend Sewer - (\$428,979) (i.e., \$276,864 less
11 \$705,843), and Shawnee Bend Water - \$752,941 (i.e., \$1,084,271 less \$331,330).
12 Since the adjustment drives the Shawnee Bend Sewer rate base negative no
13 return, i.e., neither debt or equity, should be authorized for that system, but the total
14 rate base for the remaining two systems would be \$2,027,372. Since this rate
15 base is supported by the Alterra Bank loan, the Company's capital structure is
16 68.90% debt and 31.10% equity.
17

18 Q. DOES PUBLIC COUNSEL BELIEVE THAT THE MPSC STAFF'S
19 RECOMMENDED RETURN ON EQUITY IS REASONABLE?

20 A. No. The 13.89% return on equity proposed by the MPSC Staff, and now accepted
21 by Company's witness as reasonable, is not reasonable or appropriate. If fact, it is
22 based on a hypothetical capital structure which does not exist and is not supported
23 by the evidence since the Company apparently does not have a debt load equal to

1 or exceeding the 75% the MPSC Staff supports. What it is is an extrapolation of
2 returns for large publicly traded companies which this Company is not and has no
3 resemblance to.

4
5 This Utility may be categorized as a small utility but it has had no problems
6 obtaining financing under its own name as evidenced by the recent financing case,
7 Case No. WF-2013-0118. Nor, to my knowledge, is it operating under any undue
8 financial or operational stress. For its size, it is, I believe, a fairly strong well-run
9 utility and any risks it may be encountering do not appear to have been
10 insurmountable. Therefore, it is Public Counsel's recommendation that the return
11 on equity authorized by this Commission be no greater than the return on equity
12 proposed by the MPSC Staff in Company's last general rate increase case.

13
14 Q. WHAT WAS THE RETURN ON EQUITY PROPOSED BY THE MPSC STAFF IN
15 COMPANY'S LAST GENERAL RATE INCREASE CASE?

16 A. In Case Nos. SR-2010-0110 and WR-2010-0111, the MPSC Financial Analysis
17 Staff (Shana Atkinson) recommended that the Commission authorize an overall
18 rate of return of 5.50% to 5.66% for Lake Region Water & Sewer Company. The
19 rate of return recommendation was based on a recommended return on common
20 equity of 8.00% to 9.00% applied to Lake Region's September 30, 2009,
21 common equity ratio of 16.36% and a 5.01% embedded cost of debt applied to a
22 83.64% debt ratio.

1 Q. DID THE MPSC STAFF'S ACCOUNTING SCHEDULES IN THE LAST RATE
2 CASE UTILIZE AN 8.50% RETURN ON EQUITY TO PRESENT THEIR
3 REVENUE REQUIRMENT RECOMMENDATIONS AND DID THE PARTIES,
4 INCLUDING THE COMPANY, AGREE THAT WAS AN APPROPRIATE AND
5 REASONABLE RETURN?

6 A. Yes, it's my understanding that all the parties, including the Company, agreed that
7 the 8.50% which was the mid-point of the MPSC Staff's recommended return on
8 equity range of 8.00% to 9.00% was a reasonable return on equity.
9

10 Q. IS IT PUBLIC COUNSEL'S RECOMMENDATION THAT THE RETURN ON
11 EQUITY AUTHORIZED IN THE CURRENT RATE CASE BE 8.50%?

12 A. Yes. The Company's equity ratio has increased significantly since the prior case;
13 thus, all other things being equal, the Company is likely to be subject to less risk
14 than it was in the prior case. If an 8.50% return on equity was appropriate then, I
15 see no reason that it is not even more appropriate now given that the Company's
16 risk exposure has improved.
17

18 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

19 A. Yes, it does.
20
21

Robertson Availability Fee WP
Avail Fees

Lake Region Water and Sewer Company
Case No. WR-2013-0461

T. Robertson

Availability Fees

Year	Utility	Unimproved Lots	Fee	Fees \$	Source
1995			300	116,400	Application Pro Forma Financials Case No. WA-95-164
1996			300	112,800	Application Pro Forma Financials Case No. WA-95-164
1997			300	109,200	Application Pro Forma Financials Case No. WA-95-164
1998			300	109,200	OPC Estimate based on Application 1997 amount
1999		1427	300	428,100	Estimate based on POA April 14, 2010 Updated Pleading Exh. 3 2003 amount
2000		1427	300	428,100	Estimate based on POA April 14, 2010 Updated Pleading Exh. 3 2003 amount
2001		1427	300	428,100	Estimate based on POA April 14, 2010 Updated Pleading Exh. 3 2003 amount
2002		1427	300	428,100	Estimate based on POA April 14, 2010 Updated Pleading Exh. 3 2003 amount
2003		1427	300	428,100	POA April 14, 2010 Updated Pleading Exh. 3 Case Nos. SR-2010-0110/WR-2010-0111
2004		1392	300	417,600	POA April 14, 2010 Updated Pleading Exh. 3 Case Nos. SR-2010-0110/WR-2010-0111
2005		1361	300	408,300	POA April 14, 2010 Updated Pleading Exh. 3 Case Nos. SR-2010-0110/WR-2010-0111
2006			300	416,536	Staff Annual Report Analysis Report Case Nos. SR-2010-0110/WR-2010-0111
2007			300	393,645	Staff Annual Report Analysis Report Case Nos. SR-2010-0110/WR-2010-0111
2008			300	396,154	Staff Annual Report Analysis Report Case Nos. SR-2010-0110/WR-2010-0111
2009			300	365,414	Staff Annual Report Analysis Report Case Nos. SR-2010-0110/WR-2010-0111
2010	SB Only	1345	300	403,500	B. Schwermann May 14, 2010 Affidavit Question 8 Response SR-2010-0110/WR-2010-0111
2011	SB Only	1345	300	403,500	Estimate based on B.S. May 14, 2010 Affidavit 2010 bills sent
2012	SB Only	1345	300	403,500	Estimate based on B.S. May 14, 2010 Affidavit 2010 bills sent
2013	SB Only	1345	300	403,500	Estimate based on B.S. May 14, 2010 Affidavit 2010 bills sent
Total				<u>6,599,749</u>	

Year End Net Rate Base Balances - MPSC Annual Reports
SB Water

Year End	Plant	Accumulated Reserve	CIAC	Total Amort. of CIAC	Construction Work in Progress	Customer Advances	Net Rate Base
1995	-	-	-	-	-	-	-
1996	-	-	-	-	-	-	-
1997	10,233	-	-	-	-	-	10,233
1998	141,389	907	21,523		-	-	118,959
1999	139,914	1,814	22,017		-	-	116,083
2000	146,212	7,664	19,342		-	-	119,206
2001	217,408	17,317	20,247		-	-	179,844
2002	2,965,718	76,588	2,261,750		9,466	390,150	237,230
2003	3,038,725	138,818	2,215,341		251	390,150	294,416
2004	3,443,377	241,403	2,348,222	141,614	2,215	345,181	650,185
2005	3,471,346	309,501	2,394,332	189,239	2,214	357,105	599,647
2006	3,535,857	385,986	2,447,622	237,658	2,215	332,805	607,102
2007	3,914,424	470,707	2,915,667	291,291	2,536	562,435	256,906
2008	3,966,514	517,201	2,934,677	349,795	22,895	558,760	305,671
2009	4,054,467	606,894	2,770,452	396,912	-	-	1,074,033
2010	4,079,786	696,122	2,780,762	452,425	-	411,375	643,952
2011	4,083,445	786,343	2,783,258	508,066	-	411,000	610,910
2012	4,394,075	844,315	2,787,513	563,775	-	409,875	916,147

**Source: Annual Reports

Annual Reports do not show a balance of CIAC amortization

Year End Net Rate Base Balances - MPSC Annual Reports
SB Sewer

Year End	Plant	Accumulated Reserve	CIAC	Total Amort. of CIAC	Construction Work in Progress	Customer Advances	Net Rate Base
1995	804,572	159,426	-	-	-	-	
1996	810,388	192,119	-	-	-	-	
1997	816,072	225,132	-	-	65,451	-	
1998	1,095,751	263,726	9,369		-	-	822,656
1999	1,144,042	302,320	9,520		-	-	832,202
2000	1,188,006	350,504	7,277		-	-	830,225
2001	1,382,529	421,650	8,989		-	-	951,890
2002	4,989,020	569,306	2,934,203		-	384,400	1,101,111
2003	5,034,468	746,764	2,874,306		3,500	384,400	1,028,998
2004	5,161,279	900,553	3,011,620	180,577	20,814	269,571	1,160,112
2005	5,218,320	1,074,061	3,031,760	241,011	11,715	238,070	1,115,440
2006	5,298,670	1,253,394	3,054,460	301,873	11,715	255,020	1,037,669
2007	5,803,475	1,461,077	3,385,059	366,268	22,528	-	1,323,607
2008	5,898,332	1,692,252	3,390,179	434,020	69,941	-	1,249,921
2009	5,920,056	1,909,616	3,663,434	514,841	112,868	412,875	448,972
2010	6,308,662	2,144,941	3,665,954	588,135	21,695	-	1,085,902
2011	6,385,927	2,386,048	3,666,381	661,458	12,697	-	994,956
2012	6,363,475	2,512,174	3,667,784	734,850	24,203	-	918,367

**Source: Annual Reports

Annual Reports do not show a balance of CIAC amortization

Year End Net Rate Base Balances - Staff Workpapers
SB Water

Year End	Plant	Accumulated Reserve	CIAC	Total Amort. of CIAC	Customer Advances	Net Rate Base	Source
1998	146,351	2,607	-	-		143,744	Herrington
1999	146,351	5,347	22,018	779		119,765	Herrington
2000	181,166	10,395	21,239	592		150,124	Herrington
2001	226,453	17,273	20,647	627		189,160	Herrington
2002	2,999,560	27,148	2,308,570	7,600		671,442	Herrington
2003	3,075,241	93,744	2,300,970	49,829		730,356	Herrington
2004	3,124,316	161,430	2,288,796	49,585		723,675	Herrington
2005	3,394,100	235,755	2,285,321	50,044		923,068	Herrington
2006	3,484,735	311,145	2,288,567	49,511		934,534	Herrington
2007	3,683,122	391,188	2,707,099	58,832		643,667	Herrington
2008	4,032,309	478,299	2,667,278	57,622		944,354	Herrington
2009	4,054,467	606,894	2,770,452	396,912		1,074,033	Annual Report
2010	3,977,125	594,324	2,662,080	574,642		1,295,363	Rice
2011	3,980,139	677,173	2,663,300	630,080		1,269,746	Rice
2012	4,021,806	758,009	2,666,960	685,567		1,282,404	Rice
Jun-13	4,123,633	796,638	2,673,463	713,588	245,925	1,121,195	Rice

**Source: Staff plant workpapers Case # SR-2010-0110 & WR-2010-0111 - Staff member: Herrington - Years 1998 - 2008

** Herrington's workpapers combine SB Sewer and HB Sewer

Annual Report for 2009

** Annual Report combines SB Sewer and HB Sewer

Staff plant workpapers Case # SR-2013-0459 & WR-2013-0461 - Staff member: A. Rice - Years 2010 - 2013

** From Direct Testimony

Year End Net Rate Base Balances - Staff Workpapers
SB Sewer

Year End	Plant	Accumulated Reserve	CIAC	Total Amort. of CIAC	Customer Advances	Net Rate Base	Source
1998	1,170,171	263,614	-	-		906,557	Herrington
1999	1,226,843	314,573	9,520	-		902,750	Herrington
2000	1,357,761	366,600	9,520	423		982,064	Herrington
2001	4,495,203	423,477	320,389	14,853		3,766,190	Herrington
2002	4,495,303	496,887	305,535	16,519		3,709,400	Herrington
2003	5,052,586	667,052	289,016	10,940		4,107,458	Herrington
2004	5,037,693	837,297	278,076	9,370		3,931,690	Herrington
2005	5,187,079	1,013,866	3,254,006	114,052		1,033,259	Herrington
2006	5,259,927	1,188,291	3,162,760	106,354		1,015,230	Herrington
2007	5,382,316	1,371,913	3,128,524	109,215		991,094	Herrington
2008	5,584,345	1,586,521	3,377,708	134,679		754,795	Herrington
2009	5,920,056	1,909,616	3,663,434	514,841		861,847	Annual Report
2010	3,975,825	899,660	3,179,270	700,763		597,658	A. Rice
2011	3,979,902	1,008,557	3,179,830	791,692		583,207	A. Rice
2012	3,837,962	905,424	3,180,670	883,324		635,192	A. Rice
Jun-13	4,193,337	1,264,730	3,422,910	972,668	163,950	314,415	A. Rice

**Source: Staff plant workpapers Case # SR-2010-0110 & WR-2010-0111 - Staff member: Herrington - Years 1998 - 2008

**** Herrington's workpapers combine SB Sewer and HB Sewer**

Annual Report for 2009

**** Annual Report combines SB Sewer and HB Sewer**

Staff plant workpapers Case # SR-2013-0459 & WR-2013-0461 - Staff member: A. Rice - Years 2010 - 2013

**** From Direct Testimony**

Timeline for Lake Region Water & Sewer Co. and Availability Fees

December 2, 1969: Harold Koplar, the original developer of Four Seasons Lakesites, Inc., executed the original Declaration of Restrictive Covenants for the development that would eventually encompass Lake Region's service area.

March 10, 1971: Harold Koplar, the original developer of Four Seasons Lakesites, Inc., executed the 1st Amended Declaration of Restrictive Covenants for the development that would eventually encompass Lake Region's service area. Articles VII and VIII of the 1st Amended Covenants pertain to the central sewage disposal system and water works and establish a "minimum monthly availability charge for water, water service and the accommodations afforded the owners of said lots by said water works systems" that would commence when water service was available and continue regardless whether the property owner takes water service from the central system to be constructed within the development and establish "a minimum monthly availability charge for sewage disposal and treatment and the accommodations afforded the owners of said lots by said sewage disposal system" that would commence upon the availability for use of a sewage collection main that leads to an operating sewage treatment facility and continue regardless whether the property owner connects to the central sewage to be constructed within the development.

August 10, 1971: Documents filed with the MO Secretary of State to register the business entity Four Seasons Lakesites Water & Sewer Co. The filed Articles of Incorporation for Four Seasons Lakesites Water & Sewer Co. were signed by James L. Zemelman as the Incorporator and

included a statement that the corporation was formed to “carry on the operations and business of a water company and a sewer company” among other responsibilities.

July 1972: Annual Report for Four Seasons Lakesites Water & Sewer Co. filed with the MO Secretary of State shows Harold Koplar, President; Morris Shenker & Robert Koplar as Vice-President, Lillian Shenker as Secretary, Joseph McCabe as Assistant Secretary, Betty Bennett as Treasurer and Robert Koplar as Assistant Treasurer.

December 27, 1973: The Commission’s Report and Order in Case No. 17,954 grants Four Seasons Lakesites Water & Sewer Co. a CCN for water service, acknowledges the use of availability fees and distinguishes the agreement for those charges from the rates and charges proposed for rendering metered and unmetered water service but does not require the tariffing of availability fees.

1989: Annual Report for Four Seasons Lakesites Water & Sewer Co. filed with the MO Secretary of State shows Peter and Susan Brown as Company officers and Board of Directors and no longer shows Harold Koplar. It is believed Peter and Susan Brown, son-in-law and daughter of Harold Koplar, inherited Four Seasons Lakesites Water & Sewer Co.

1992: In Case No. WR-92-59, where Four Seasons Lakesites Water & Sewer Co. sought an increase in rates, the availability fees were removed from the general revenue stream and the rate base was reduced as an offset for the reduction in general revenue related to the availability fees.

This case was settled with a unanimous agreement from the parties that the Commission approved.

1992-1993: In Case No. WM-93-59, the Commission approved Four Seasons Lakesites Water & Sewer Co.'s application to sell its water system on Horseshoe Bend to Ozark Shores Water Co. Ozark Shores Water Co. was granted authority to acquire the water system assets and issued a CCN to provide water service in the Horseshoe Bend service area. Ozark Shores is wholly owned by North Suburban Public Utilities, Inc. which is owned 51.76% by RPS Properties and 48.24% by Sally Stump. Sewer system assets and the CCN to provide sewer service remained with Four Seasons Lakesites Water & Sewer Co.

1994-1995: In Case No. WA-95-164, the Commission granted Four Seasons Lakesites Water & Sewer Co. a CCN to extend its sewer operation to areas in Shawnee Bend and Horseshoe Bend and adjust water tariff depreciation schedules. Four Seasons Lakesites Water & Sewer Co. already had a CCN to provide sewer service in part of Horseshoe Bend.

July 2, 1996: Peter N. Brown, successive developer for Four Seasons Lakesites, Inc., executed the 3rd Amended and Restated Declaration of Restrictive Covenants. Article IX(A) of the 3rd Amended Covenants duplicates the provisions from prior declarations relating to the water system, but the water system only. This duplication includes the provisions concerning availability fees. This article includes the provision that owners of the water works system will be a privately owned utility authorized by a CCN issued by the MoPSC and all availability charges, and times and methods of payment thereof, shall be provided in schedules or rates and

rules to be approved by the MoPSC, or if not so provided, as determined by the Owner of the water works system. The 3rd Amended Covenants do not mention or require any availability fees for sewer service to be paid to the developer or to Four Seasons Lakesites Water & Sewer Company.

July 1997: An Amendment of the Articles of Incorporation filed with the MO Secretary of State was made by Peter N. Brown, President and Susan K. Brown, Secretary, changing the name of Four Seasons Lakesites Water & Sewer Co. to Four Seasons Water & Sewer Co. and setting the number to Directors to constitute the Board of Directors to 2.

July 1998: The annual report for Four Seasons Water & Sewer Co. filed with the MO Secretary of State continues to show Peter and Susan Brown as officers and Board of Directors

August 17, 1998: Peter N. Brown, successive developer for Four Seasons Lakesites, Inc., assigned the availability fees to Roy and Cindy Slates.

September 18, 1998: The registered agent for Four Seasons Water & Sewer Co. was changed with the MO Secretary of State to Roy Slates.

September 23, 1998: A statement of correction filed with the MO Secretary of State states all Four Seasons Water & Sewer Co. officers and directors were changed on August 17, 1998 to Roy Slates and Cindy Slates. It is believed this was related to a sale of Four Seasons Water & Sewer Co. stock.

1998-1999: In Case No. WR-98-564, Four Seasons Water & Sewer Co. filed a rate case pertaining to the sewer service on Horseshoe Bend.

March 1999: An Amendment of the Articles of Incorporation was filed with the MO Secretary of State by Roy Slates, President and Cindy Slates, Secretary, changing the name of Four Seasons Water & Sewer Co. to Lake Region Water & Sewer Co. Additionally, the registered agent with the MO Secretary of State was changed to David A. Shorr.

March 1999: Roy Slates filed a fictitious name registration with the MO Secretary of State called Lake Utility Development. It is believed the purpose of this fictitious name was to collect availability charges and keep funds separate from Lake Region Water & Sewer Co.

October 1999: A letter filed with the MO Secretary of State advises an election of officers for Lake Region Water & Sewer Co.: Roy Slates, Chief Executive Officer; Cindy Slates, Chief Operations Officer; and Eugene (Fitz) Ritter, President and Secretary.

1999-2000: In Case No. WR-99-193, Ozark Shores Water Co. sought an increase in rates, the parties agreed to add availability fees into the general revenue stream of the company and add additional rate base to the company as an offset. The availability fees were included in utility rates and were not tariffed. This case was settled with a unanimous agreement from the parties that the Commission approved.

March 2000: Mr. Ritter filed with the MO Secretary of State to register the business entity Lake Utility Development, LLC. It is believed that, similar to the March 1999 fictitious registration, this LLC was also created for the purpose of collecting availability charges and to keep the funds separate from Lake Region Water & Sewer Co.

April 12, 2000: Roy and Cindy Slates assigned the availability fees to Lake Region Water & Sewer Co. It is believed that Roy Slates and Cindy Slates also sold their interest in Lake Region Water & Sewer Co. to Waldo Morris at this time.

April 12, 2000: Lake Region Water & Sewer Co. assigned availability fees to Waldo Morris.

April 2002: The annual report for Lake Region Water & Sewer Co. filed with the MO Secretary of State shows Waldo Morris and Fritz Ritter as Company officers. No Board of Directors is listed. The annual report filed with the Commission for calendar year 2001 shows Waldo Morris as the only voting shareholder.

February 2003: The registered agent for Lake Region Water & Sewer Co. was changed from David A. Shorr to Fritz Ritter.

April 2003: The annual report for Lake Region Water & Sewer Co. filed with the MO Secretary of State continues to show Waldo Morris and Fritz Ritter as officers. Fritz Ritter is the only name listed as the Board of Directors.

October 8, 2003: A lawsuit was initiated by Four Seasons Lakesites, Inc., contesting the ownership of the property rights for the availability fees; Civil Case No. CV103-760CC. The defendants in that lawsuit included Lake Region Water & Sewer Co., Waldo Morris and Roy and Cindy Slates, the former owners of Lake Region Water & Sewer Co.

October 13, 2004: Waldo I. Morris and Robert P. Schwermann and Sally J. Stump executed a "Contract Regarding Availability Fees". Part of the Fee Contract included consummating and closing a Stock Purchase Agreement (dated September 10, 2004) in which Robert P. Schwermann and Sally J. Stump purchased all of the stock in Lake Region Water & Sewer Co. for \$3 million dollars. The Fee Contract was accompanied by a separate "Assignment of Availability Fees" agreement specifying that for the amount of \$1.00, and "other good and valuable consideration," Mr. Morris assigned the availability fees to Robert P. Schwermann and Sally J. Stump. It is believed Mr. Schwermann transferred his interests in Lake Region Water & Sewer Co. and the availability fees to RPS Properties at that time.

November 2004: The registered agent for Lake Region Water & Sewer Co. was changed from Fritz Ritter to D & A Agency Services, Inc. The Secretary of State form was signed by Robert P. Schwermann for "RPS Properties, L.P., by Schwermann Properties, LTD". (RPS Properties, L.P., is a partnership owned by Schwermann Properties, LTD.)

April 2005: The annual report for Lake Region Water & Sewer Co. filed with the MO Secretary of State (and subsequent annual reports to present) show variations of Robert Schwermann, Brian Schwermann, Sally Stump and Vernon Stump as Company officers and Board of

Directors. The voting shareholders of Lake Region Water & Sewer Co. in the 2004 Commission annual report and subsequent Commission annual reports to present are Sally Stump and RPS Properties.

April 15, 2005: A confidential settlement was reached in Civil Case No. CV103-760CC regarding who owned the property rights to the availability fees. This settlement included the assignment of availability fees from Waldo Morris to RPS Properties, L.P. and Sally J. Stump. RPS Properties, L.P. and Sally Stump began collecting availability fees in 2005, but they retain only a portion of the availability fees pursuant to the settlement agreement.

August 2005: Sally Stump and RPS Properties, L.P. filed a fictitious name registration called Lake Utility Availability 1 with the MO Secretary of State. It is believed this registration was for the purpose of collecting availability charges and to keep funds separate from Lake Region Water & Sewer Co.

July 23, 2009: An amendment to the Declaration by Peter N. Brown, successive developer for Four Seasons Lakesites, Inc., removes and replaces the entire Article IX from the 3rd Covenants, and provides that Shawnee Bend Lot Owners must “pay the owner of the central water system, or its assigns or designees, a monthly availability charge of Ten Dollars (\$10.00), unless the Owner of the Lot is contractually obligated to Developer, or Developer’s assign to pay a different amount;”and Shawnee Bend Lot Owners must “pay the owner of the central sewer system, or its assigns or designees, a monthly availability charge of Fifteen Dollars (\$15.00), unless the Owner of the Lot is contractually obligated to Developer, or Developer’s assign to pay

a different amount.” Horseshoe Bend Lot Owners must pay the owner of the water works system a minimum monthly availability charge (amount not specified).

October 1, 2009: the 4th Amended and Restated Declaration of Restrictive Covenants was executed by Peter N. Brown, successive developer for Four Seasons Lakesites, Inc. Article 9 of the 4th Amended Covenants states that all provisions relating to the water and sewer systems and treatment are set forth in the Amendment to the 3rd Amended Covenants dated July 22, 2009 (executed July 23, 2009). Section 19.3 of the 4th Amended Covenants allows the property owners to seek amendment of the Declaration subject to certain conditions. Those conditions include:

- a.) The Declaration is binding until January 15, 2015, after which it is automatically renewed unless the owners of 90% of the lots vote to terminate the Declaration.
- b.) The Declaration may be amended at any time by the Developer at the request or with the consent of the Board until such time as all lots are sold, at which such time the Declaration may be amended by the affirmative vote of two-thirds of the owners of all of the lots entitled to vote. (All of the lots developed by Four Seasons Lakesites, Inc. on Shawnee Bend have been sold.)
- c.) In the case of amendment by two-thirds of the property owners the amendment shall be executed by the requisite lot owners or the POA.

September 2010: Sally Stump and RPS Properties, L.P. filed another fictitious name registration for Lake Utility Availability 1 with the MO Secretary of State. It is believed this registration is

for the purpose of collecting availability charges and to keep funds separate from Lake Region Water & Sewer Co.

2012: Sally Stump transferred her stock of Lake Region Water & Sewer Co. to Vernon Stump.

Ownership

- 1969: Harold Koplar – original developer of Four Seasons Lakesites, Inc. & creator of Four Seasons Lakesites Water & Sewer Co.
- 1989: Peter & Susan Brown – successors of Koplar (successive developer of Four Seasons Lakesites, Inc., successive owner of Four Seasons Lakesites, Inc. availability fees & successive stockholder of Four Seasons Lakesites Water & Sewer Co.)
- 1998: Roy & Cindy Slates – Four Seasons Water & Sewer Co. stock purchase from Browns & partial assignment of Four Seasons Lakesites, Inc. availability fees from Browns (partial availability assignee of Four Seasons Lakesites, Inc.)
- 2000: Lake Region Water & Sewer Co. – partial assignment of Four Seasons Lakesites availability fees from Slates (partial availability assignee of Four Seasons Lakesites, Inc.)
- 2000: Waldo Morris – Lake Region Water & Sewer Co. stock purchase from Slates & partial assignment of Four Seasons Lakesites availability fees from Lake Region Water & Sewer Co. (partial availability assignee of Four Seasons Lakesites, Inc.)
- 2004: Robert Schwermann – stock purchase of Lake Region Water & Sewer Co. from Morris & full co-assignment of Four Seasons Lakesites availability fees from Morris & Brown (total availability co-assignee of Four Seasons Lakesites, Inc.)
- 2004: RPS Properties, L.P. – stock transfer of Lake Region Water & Sewer Co. from Schwermann & transfer of full co-assignment of Four Seasons Lakesites availability from Schwermann (total availability co-assignee of Four Seasons Lakesites, Inc.)
- 2004: Sally Stump – stock purchase of Lake Region Water & Sewer Co. from Morris & full co-assignment of Four Seasons Lakesites availability fees from Morris & Brown (total availability co-assignee of Four Seasons Lakesites, Inc.)

- 2012: Vernon Stump – stock transfer of Lake Region Water & Sewer Co. from Sally Stump & transfer of co-assignment of Four Seasons Lakesites availability fees from Sally Stump (total availability co-assignee of Four Seasons Lakesites, Inc.)