

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

In the Matter of the Application of)
Southtown Utilities Company, Inc. for a)
Certificate of Convenience and Necessity)
Authorizing it to Construct, Install,)
Operate and Maintain a Sewer System and)
to Supply and Render Sewer Service and)
Construct, Install, Operate and Maintain a)
Water System and to Supply and Render)
Water Service to the Public Located in)
and around an Unincorporated Area near)
Bolivar, Polk County, Missouri.)

Case No. WA-2005-0268

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through one of its attorneys, and for its Recommendation states as follows:

1. On February 8, 2005, Southtown Utilities Company, Inc. (Company) filed an Application with the Commission requesting that it be granted a Certificate of Convenience and Necessity (Certificate) to provide water and sewer service in an unincorporated area in Polk County, Missouri near Bolivar.

2. Section 393.170(3) RSMo 2000 provides, among other things, that the Commission may issue a Certificate if it is “necessary or convenient for the public service.” Also see *In the Matter of Tartan Energy Company et al.*, 3 Mo PSC 3d 173, 177 (1994), wherein the Commission set forth five criteria that should be met before a certificate may be issued. Staff

believes the Company has met the criteria established by the Commission and specified in §393.170 (3) RSMo 2000.

3. Included in the document that is attached hereto and labeled Appendix A, is the Staff's Official Case File Memorandum and related attachments, which includes the Staff's recommendations to the Commission regarding the subject Application.

WHEREFORE, the Staff respectfully submits this Staff Recommendation for the Commission's consideration, and respectfully requests that the Commission issue an Order consistent with the provisions of the Staff's Official Case File Memorandum.

Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/ Keith R. Krueger

Keith R. Krueger
Deputy General Counsel
Missouri Bar No. 23857

Attorney for the Staff of the
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102
573-751-4140 (telephone)
573-751-9285 (facsimile)
keith.krueger@psc.mo.gov (e-mail)

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or e-mailed to all counsel of record this 11th day of July, 2005.

/s/ Keith R. Krueger

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. WA-2005-0268
Southtown Utilities

FROM: Dale W. Johansen – Project Coordinator
Water & Sewer Department
James Merciel – Water and Sewer Department
Jerry Scheible – Water and Sewer Department
Kofi Boateng – Auditing Department
Dana Eaves – Auditing Department
Greg Macias – Engineering and Management Services

/s/ Dale W. Johansen

Project Coordinator

July 11, 2005

Date

/s/ Keith R. Krueger

General Counsel's Office

July 11, 2005

Date

SUBJECT: Recommendation Regarding Applications for the Granting of Certificates of Convenience and Necessity

DATE: July 11, 2005

THE APPLICATION

On February 7, 2005 (unless noted otherwise, all dates herein refer to the year 2005), Southtown Utilities Company, Inc. (SUC or Company) filed an Application for a Certificate of Convenience and Necessity seeking authority from the Commission to provide water service and sewer service in an area south of Bolivar, MO in Polk County. Case Number WA-2005-0268 was assigned to the water portion of the certificate request, and Case Number SA-2005-0269 was assigned to the sewer portion of the certificate request.

On February 15, the Commission issued an order consolidating the two above-named cases, with WA-2005-0268 being designated the lead case.

On February 18, the Commission issued an **Order Directing Filing** in which it directed SUC to file a statement regarding any judgments or decisions against it that may exist, and also to state whether or not any annual reports or assessments are overdue. On the same date, the Commission issued its **Order and Notice** directing any interveners that wish to become a party to this case to file a request to do so by March 10, and directing that the Staff file a status report by March 31, indicating when it will file a recommendation regarding the requested relief. SUC filed its statement to comply with the Order Directing Filing on March 7.

The Staff filed a Status Report on March 31, stating it would submit a recommendation by May 9. On May 5, the Staff submitted a Status Report and Request for Extension of Time requesting an extension of the filing date to June 10. On May 11, the Commission issued an order granting the requested filing date extension. On June 7, the Staff submitted its Second Status Report and Request for Extension of Time to File a Recommendation, in which it requested an extension to July 11 to file its recommendation. On June 22, the Commission issued an order granting the Staff's second requested extension.

No party has submitted a request to intervene in this case.

STAFF'S INVESTIGATION

As noted at the beginning of this Memorandum, Staff members from the Auditing, Water & Sewer and Engineering & Management Services Departments participated in the Staff's investigation of the Application. All Staff participants and the assigned attorney from the General Counsel's Office were provided the opportunity to review and comment on this Memorandum prior to it being filed. Jim Merciel of the Water & Sewer Department created the initial draft of this Memorandum and comments received from the reviewers were incorporated therein to create this final version.

Staff's investigation of the Application included a review of the included feasibility study and field visits. The Staff has also prepared audit and rate design evaluations.

DESCRIPTION OF THE AREA AND FACILITIES

The area proposed to be served consists of a small subdivision that presently has only a couple of houses, a commercial area with a restaurant and some other commercial and light industrial customers, and some land, most of which is owned by the owner of SUC, for which development plans are uncertain. There are presently 43 equivalent customers connected to the water and sewer systems; the term "equivalent" referring to water usage and sewage discharge equal to that of a typical residential customer. Rate base in the Staff's rate calculations has been adjusted to reflect this customer level.

The water system consists of two wells, along with a ground storage tank at each well site, and "high service" pumps at each site. The high service pumps are variable speed units that pump from the storage tank into the distribution system, and as variable speed pumps they maintain pressure by running at speeds appropriate to the demand flow. The Staff believes that the present well and pump facilities are adequate to reliably serve a level equivalent to 160 residential customers. The system is also capable of providing fire protection on a scale adequate for residential and commercial development.

The sewer system consists of a sand filter-type treatment facility, a portion of which is still under construction. The completed facility will have the capacity to serve 174 residential equivalent customers. In addition, a separate aeration unit is in place for the purpose of pre-treating treating the waste from the restaurant. Although in most cases such a pre-treatment facility would be owned and operated by a customer on the premises, this customer and the Company agreed that the facility will be owned and maintained by the Company at the treatment site in order to relieve the customer of

operational responsibility, as well as the risk of odor near the restaurant. As such, the restaurant will incur an additional special rate in consideration of the investment and operations of the pre-treatment facility.

The owner of SUC had originally intended for the water and sewer systems to be operated by an association, and, with the exception of the most recent phase of the sewage treatment plant, these systems have already been constructed.

STAFF'S FINDINGS & CONCLUSIONS

Based upon its review of the above-referenced documents and information, and applying the "Tartan Energy Criteria," the Staff believes that the proposed certificates are in the public interest, and should be granted, with certain conditions. The construction costs of the water and sewer systems are somewhat high in relation to the number of customers served, and in order for rates to be set at a reasonable level, the owner of SUC, as a developer, will need to absorb more of the capital investment than developers normally need to do. A factor of 50% and 68% for developer capital contribution to the water and sewer systems, respectively, has been included in the Staff's rate base and rate calculations. Additionally, much of the cost for water service is attributable to fire protection.

Water rates are proposed to be \$7.47 per customer equivalent per month, plus \$2.94 per 1,000 gallons usage. A typical residential bill for a customer using 6,000 gallons of water per month would be \$25.11 per month. Additionally, there is a fire protection charge of \$23.19 per month per fire hydrant. At present there are fourteen (14) hydrants located in the presently developed portion of the service area, resulting in an annual amount of \$5,009.80. It is proposed that this will be paid by the Southside Property Owners Association, not individual utility customers. It is possible that fire protection might not apply to some areas of future development.

Commercial sewer rates are proposed to be \$13.63 per month plus \$3.32 per 1,000 gallons water usage. Residential rates, which are flat rates designed on 6,000 gallons per month, are proposed to be \$33.56. In addition, a pre-treatment charge of \$329.25 per month is applicable to the restaurant.

Rate design work papers for both water and sewer service are included as Attachments 1 and 2.

THE TARTAN ENERGY CRITERIA

As noted previously, the Staff analyzed the Company's ability to meet the Tartan Energy criteria, as slightly modified by the Staff, as has historically been done in evaluating service area certificate applications. The Staff's conclusions regarding this matter are set out below.

Is there a need for the proposed service, and is there a need for the Company to provide the proposed service? There is a need for service in the requested area in that there are existing customers, mostly commercial, and room for additional development.

Regarding the matter of whether there is a need for the Company to be the entity providing service, the only other alternatives available appear to be an association of customers that the developer could promote, or acquisition of these systems by the City

of Bolivar. The Staff does not view an association as a good alternative given the nature and special interests of the commercial customers. The City could be a viable alternative, but it is not known at this time what interest the City might have, or what the time frame for acquisitions would be if the City is interested. The owner of SUC reports that he has had discussions with the City. As a result of these discussions, the Staff believes there is a need for the Company to be the entity providing the proposed service at this time.

Is the Company qualified to provide the proposed service? The Staff believes that the Company has demonstrated its technical and managerial ability to develop and operate the water and sewer systems, in that the systems are presently in existence and running. Additionally, the owner is a business person with an interest in the development of the area.

Does the Company have the financial ability to provide the proposed service? The Staff believes that the Company has the financial capability through bank financing and its owners' funding support to successfully move forward with its proposals, and will be able to generate sufficient cash flow to repay the bank loan.

Is the Company's proposal economically feasible? The Staff, having evaluated estimated expenses and rates, believes the proposals for the water and sewer systems within the requested area are economically feasible – if the Staff's proposed rates are adopted, and if the rates include a level of developer capital contribution as is assumed in the design of the rates. Plant additions beyond the existing systems, to serve future customers beyond the capacity of the existing system, need to be placed on line with a similar level of rate base.

Does the Company's proposal promote the public interest? The Staff believes the Company's proposal promotes the public interest because the central water and sewer systems, as well as fire protection, are desirable for the involved customers. Additionally, the Staff believes this criterion has been met since the other criteria have been met.

ADDITIONAL MATTERS

SUC will need to keep its books and records in accordance with the Uniform System of Accounts, as is required of all regulated utilities. Additionally, the Staff proposes that the depreciation rates for utility plant in service shown on the schedules included as Attachments 3 and 4 be approved by the Commission and used by SUC. Finally, SUC will need to prepare and file for approval a complete tariff for each service, water and sewer. The Staff will assist SUC in adapting the Water and Sewer Department's commonly used example tariffs for small water and sewer utilities for its use.

The Staff notes that SUC, as a utility that is not yet regulated, has had no requirements to submit any annual reports, and has not been assessed any annual assessments by the Commission. To the Staff's knowledge, there are no compliance-related issues involving the Missouri Department of Natural

Resources. SUC is presently in good standing with the Missouri Secretary of State. SUC has no other matters pending before the Commission.

The Staff and SUC have discussed the issue of the appropriate service area. The area shown in the feasibility study includes disconnected pieces of property, whereas the Staff believes it is reasonable to approve a contiguous area that would be slightly larger than what was originally proposed. The Staff and SUC have agreed on a service area. A map of the proposed revised area is included with this Memorandum as Attachment 5 and a written description is included as Attachment 6.

The Staff has discussed all of the above issues with SUC, and the Staff and SUC agree that the resolutions herein are reasonable.

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission issue an order that:

1. Approves Certificates of Convenience and Necessity for SUC to provide water and sewer service to the agreed-upon revised service area;
2. Requires the Company to submit complete tariffs, one for water and one for sewer, which include rates as described herein, and includes a map and service area description that is consistent with the agreed-upon revised service area;
3. Requires the Company to submit semi-annual customer number reports until such time that it submits its first rate increase request; and
4. Recognizes that nothing in this recommendation or in any order issued by the Commission in this case shall bind the Commission on any ratemaking issue in any future rate proceeding.

After the Company submits a complete tariff, the Staff will submit an additional recommendation regarding tariff approval.

List of Attachments:

1. Water rate design work paper
2. Sewer rate design work paper
3. Schedule of water plant depreciation rates
4. Schedule of sewer plant depreciation rates
5. Map of revised proposed service area
6. Metes and bounds description of revised proposed service area

Southtown water rates
WA-2005-0268

Customer equivalents

160 total capacity

Water usage	annual usage	14,600 kgal	customer lvl factor	4,234 kgal
	ave day	40 kgpd		
	1.5 peak day	60 kgpd		
	1.6 est peak hr	96 kgpd		

	system rb	depreciation
	\$ 237,370.00	\$ 16,075.31
Rate base factor, rate base design	0.5	\$ 118,685.00 \$ 8,037.65

customer lvl factor	46 customers	0.29	\$ 34,418.65	\$ 2,330.92
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\$ 741.78 rate base per eq customer

rate base allocation for fire flow

			total rb	allocated rb	allocoated dep	
electric pumping?	wells	81.3%	\$ 44,174	\$ 35,908	\$ 718	2%
	high serv	88.2%	\$ 138,159	\$ 121,905	\$ 12,191	10%
	storage	85.2%	\$ 55,037	\$ 46,883	\$ 1,172	3%
			\$ 237,370	\$ 204,696	\$ 14,081	
	Rate base factor		0.5	\$ 102,348	\$ 7,040	ave bill \$ 25.11
	customer level factor		0.29	\$ 29,681	\$ 2,042	

Expenses

	total	customer	commodity
Electric	4,800.00	-	4,800.00
Operations labor & exp	7,800.00	1,200.00	6,600.00
insurance	991.00	991.00	
postage -billing	831.00	831.00	
misc - property maint	600.00	600.00	
property taxes	500.00	400.00	100.00
return on investment	10% 474.00	-	474.00
depreciation	289.00	-	289.00
asses	285.00	100.00	185.00
	\$ 16,570.00	\$ 4,122.00	\$ 12,448.00

customer charge \$ 7.47 per month

commodity charge \$ 2.94 per 1,000 gal

6 kgal \$ 25.11

fire protection cost

18 hydrants

return \$ 2,968.09

depr \$ 2,041.71

\$ 5,009.80 paid by property association

cost per hydrant \$ 23.19 per month

cost per customer \$ 9.00 per month based on

46.4 customers

Southtown sewer rates

Customer equivalents		174 total capacity	52,000 gal per day	
Water usage	annual usage ave day	18980 kgal 52 kgpd	customer lvl factor	4935 kgal
		system rb	depreciation	4.08%
		\$ 375,022	\$ 15,283	
	Rate base factor, rate base desig	0.32	\$ 120,007	\$ 4,891
customer lvl factor	46 customers	0.26	\$ 31,202	\$ 1,272
				ave bill \$ 33.56
Rate base for BOD treater, for surcharge		\$ 27,248	\$ 1,226	
				rate base per equ customer

Expenses

	total	customer	commodity
Electric	4,800	-	4,800
Operations labor & exp	7,800	1,200	6,600
insurance	991	991	
postage - billing	831	831	
misc - property maint	600	600	
testing	250	250	
maintenance	2,610	2,610	
tank pumping	1,800	-	1,800
property taxes	500	400	100
return on investment	0.1 395	-	395
depreciation	45	-	45
dnr	1,000	-	1,000
assess	2,291	641	1,650
	\$ 23,913	\$ 7,523	\$ 16,390

customer charge \$ 13.63 per month

commodity charge \$ 3.32 per 1,000 gal

flat rate for residenti: \$ 33.56 6,000 gal basis

Restaurant surcharge, BOD treater

return \$ 2,725
depr \$ 1,226

tot annual \$ 3,951

Surcharge \$ 329.25 per month Applicable to the restaurant

SOUTHTOWN UTILITIES COMPANY, INC.

DEPRECIATION RATES

(WATER)

WA-2005-0268

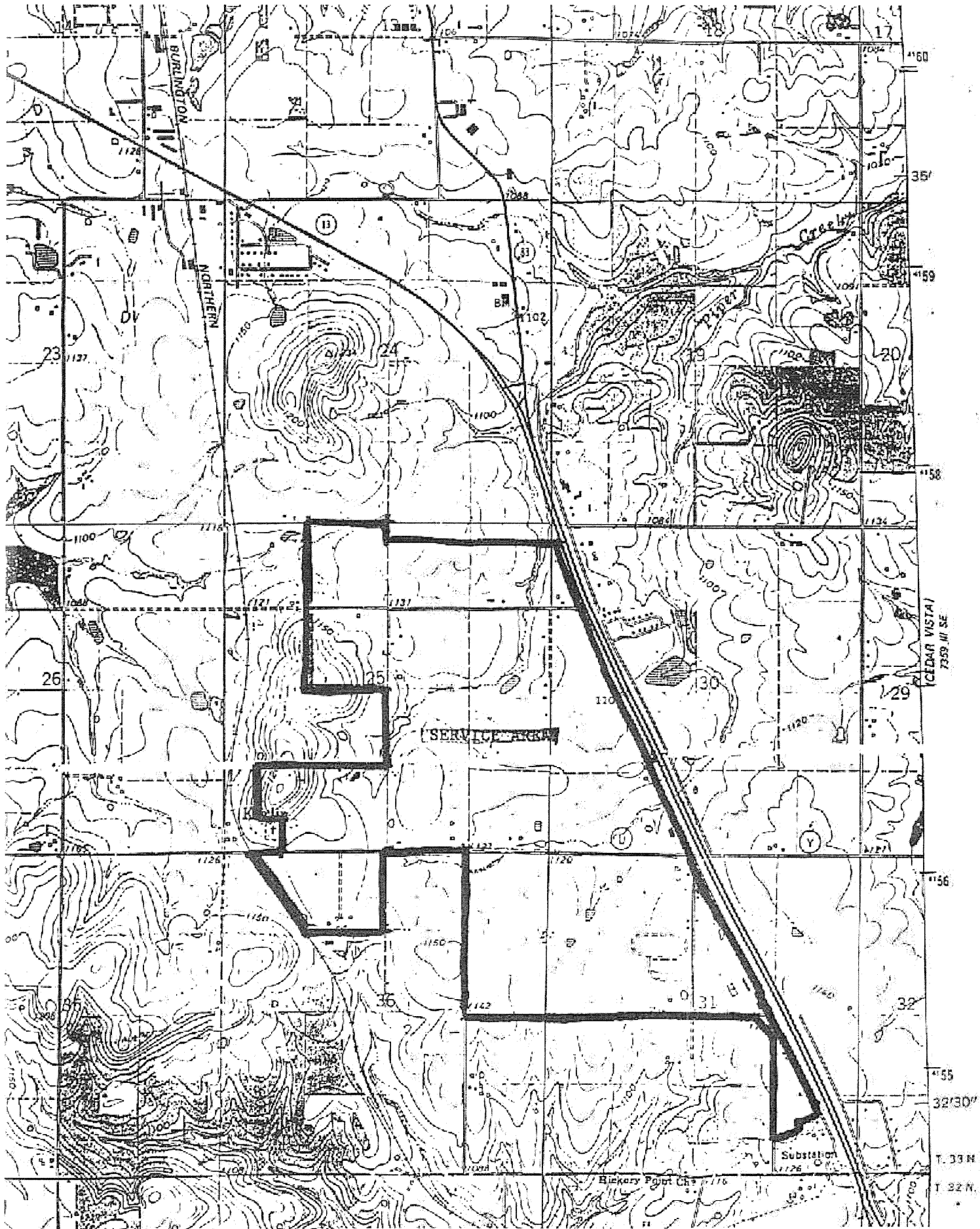
ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)
311	Structures & Improvements	2.5%	40
314	Wells & Springs	2.0%	50
321	Structures & Improvements	2.5%	40
325	Electric Pumping Equipment	10.0%	10
325.1	Submersible Pumping Equipment	10.0%	10
326	Diesel Pumping Equipment	2.9%	35
331	Structures & Improvements	2.5%	40
332	Water Treatment Equipment	2.9%	35
341	Structures & Improvements	2.5%	40
342	Distribution Reservoirs & Standpipes	2.5%	40
343	Transmission & Distribution Mains	2.0%	50
345	Services	2.5%	40
346	Meters	10.0%	10
347	Meter Installations	2.5%	40
348	Hydrants	2.0%	50
390	Structures & Improvements	2.5%	40
391	Office Furniture & Equipment	5.0%	20
391.1	Office Computer Equipment	14.3%	7
392	Transportation Equipment	12.5%	8
393	Stores Equipment	4.0%	25
394	Tools, Shop, Garage Equipment	5.0%	20
395	Laboratory Equipment	5.0%	20
396	Power Operated Equipment	6.7%	15
397	Communication Equipment	6.7%	15

SOUTHTOWN UTILITIES COMPANY, INC.

DEPRECIATION RATES (SEWER)

SA-2005-0269

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	DEPRECIATION RATE	AVERAGE SERVICE LIFE (YEARS)
351	Structures & Improvements	2.50%	40
352.1	Collection Sewers (Force)	2.00%	50
352.2	Collection Sewers (Gravity)	2.00%	50
354	Flow Measurement Devices	3.30%	30
362	Receiving Wells	4.00%	25
363	Electric Pumping Equipment	10.00%	10
372	Treatment & Disposal Facilities	5.00%	20
373	Plant Sewers	2.50%	40
374	Outfall Sewer Lines	2.00%	50
391	Office Furniture & Equipment	5.00%	20
391.1	Office Computer Equipment	14.30%	7
392	Transportation Equipment	12.50%	8
393	Stores Equipment	4.00%	25
394	Tools, Shop, and Garage Equipment	5.00%	20
395	Laboratory Equipment	5.00%	20
396	Power Operated Equipment	6.70%	15
397	Communication Equipment	6.70%	15



POLK COUNTY SURVEYOR

P.O. Box 482

102 East Broadway, Box 3, Bolivar, MO 65613

Telephone 417-326-2777

Fax 417-326-4010

JUNE 30, 2005

DESCRIPTION OF PROPOSED WATER SERVICE AREA FOR SOUTHSIDE PROPERTY OWNERS ASSOCIATION, INC IN POLK COUNTY, MISSOURI.

BEGINNING AT THE NORTHEAST CORNER OF THE SOUTH 60 ACRES OF THE NORTH HALF OF THE NORTHEAST QUARTER OF SECTION TWENTY-FIVE, TOWNSHIP THIRTY-THREE, RANGE TWENTY-THREE, THENCE SOUTHERLY ALONG THE WESTERLY RIGHT OF WAY OF MISSOURI HIGHWAY "13", 10,270 FEET TO THE SOUTHEAST CORNER OF A TRACT OF LAND AS DESCRIBED IN DEED BOOK 556 AT PAGE 1682, THENCE S 66°05'W 313.69 FEET, THENCE S 7°47'E, 309.33 FEET, THENCE S 72°47'W, 483.95 FEET, THENCE NORTH ALONG THE EAST LINE OF THE SOUTHWEST ¼ OF THE SOUTHEAST ¼ OF SECTION 31, TOWNSHIP 33 N., RANGE 22 W, 1630 FEET THENCE N 24°25'W 660 FEET, THENCE WEST 4745 FEET TO THE SOUTHWEST CORNER OF THE EAST ¼ OF THE NORTHEAST ¼ OF SECTION 36, TOWNSHIP 33, RANGE 23, THENCE NORTH 2610 FEET TO THE SOUTH RIGHT OF WAY OF MISSOURI HIGHWAY "U", THENCE WEST ALONG SAID RIGHT OF WAY, 1320 FEET, THENCE SOUTH 1290 FEET TO THE SOUTHEAST CORNER OF NORTH ¼ OF THE NORTHWEST ¼ OF SAID SECTION 36, THENCE WEST 1300 FEET TO THE OLD RAILROAD, THENCE NORTHWESTERLY ALONG SAID RAILROAD, 1530 FEET TO THE SOUTH RIGHT OF WAY OF MISSOURI HIGHWAY "U", THENCE EAST 410 FEET, THENCE NORTH 460 FEET, THENCE WEST 400 FEET, THENCE NORTH 880 FEET, THENCE EAST 2140 FEET TO THE NORTHEAST CORNER OF THE SOUTHEAST ¼ OF THE SOUTHWEST ¼ OF SECTION 25, TOWNSHIP 33, RANGE 23, THENCE NORTH 1320 FEET TO THE SOUTHEAST CORNER OF THE SOUTHEAST ¼ OF THE NORTHWEST ¼ OF SAID SECTION 25, THENCE WEST 1320 FEET TO THE SOUTHWEST CORNER OF THE SOUTHEAST ¼ OF THE NORTHWEST ¼ OF SAID SECTION 25, THENCE NORTH 2640 FEET, TO THE NORTHWEST CORNER OF THE NORTHEAST ¼ OF THE NORTHWEST ¼ OF SAID SECTION 25, THENCE EAST 1320 FEET TO THE NORTHEAST CORNER OF THE NORTHEAST ¼ OF THE NORTHWEST ¼ OF SAID SECTION 25, THENCE SOUTH 330 FEET, THENCE EAST 2640 FEET TO THE POINT OF BEGINNING.

920 ACRES, MORE OR LESS

