

**COMPANY/STAFF AGREEMENT REGARDING DISPOSITION** Missouri Public  
Service Commission  
**OF SMALL SEWER COMPANY REVENUE INCREASE REQUEST**

**AQUA MISSOURI, INC (DEVELOPMENT)**

**MO PSC CASE NO. SR-2008-0268**

**BACKGROUND**

Aqua Missouri, Inc. (Development) (Company) initiated the small company revenue increase request (Request) for sewer service that is the subject of the above-referenced Missouri Public Service Commission (Commission) tracking file by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.330, Sewer Utility Small Company Rate Increase Procedure (Small Company Procedure). In its request letter, which was received at the Commission's offices on December 7, 2007, the Company set forth its request for an increase of \$9,625 in its total annual sewer service operating revenues for the affected service areas. In its request letter, the Company also acknowledged that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would be reviewed during the Commission Staff's (Staff) review of the revenue increase request, and could thus be the subject of Staff recommendations. The Company provides service to approximately 22 customers in the affected service areas, the vast majority of which are residential customers.

Pursuant to the provisions of the Small Company Procedure and related internal operating procedures, the Staff initiated an audit of the Company's books and records, a review of the Company's customer service and general business practices, a review of the Company's existing tariff, an inspection of the Company's facilities and a review of the Company's operation of its facilities. (Hereafter, these activities are collectively referred to as the Staff's "investigation" of the Company's Request.)

Upon completion of its investigation of the Company's Request, the Staff provided the Company and the Office of the Public Counsel (OPC) various information regarding the results of the investigation, as well as its initial recommendations for resolution of the Company's Request.

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

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

- (1) That for the purpose of implementing the agreements set out herein, the Company will file proposed tariff revisions with the Commission containing the rates, charges and language set out in the example tariff sheets attached hereto as Attachment A, with those proposed tariff revisions bearing an effective date of August 18.
- (2) That except as otherwise noted in the agreements below, the ratemaking income statement attached hereto as Attachment B accurately reflects the Company's annualized revenues generated by its current customer rates, the agreed-upon total annualized cost of service for the Company, and the resulting agreed-upon annualized operating revenue increase of \$9,406 needed to recover the Company's cost of service.
- (3) That the audit workpapers attached hereto as Attachment C, which include consideration of a capital structure of 46.77% equity for the Company and a return on equity of 10.10%, accurately reflect the agreed-upon total annualized cost of service for the Company and provide the basis for the ratemaking income statement referenced in item (2) above.
- (4) That the rates set out in the attached example tariff sheets, the development of which is shown on the rate design worksheet attached hereto as Attachment D, are designed to generate revenues sufficient to recover the agreed-upon total annualized cost of service for the Company.
- (5) That the rates included in the attached example tariff sheets will result in the residential customer impacts shown on the billing comparison worksheet attached hereto as Attachment E.
- (6) That the rates included in the attached example tariff sheets are just and reasonable, and that the provisions of the attached example tariff sheets also properly reflect all other agreements set out herein, where necessary.
- (7) That the schedule of depreciation rates attached hereto as Attachment F, which includes the depreciation rates used by the Staff in its revenue requirement analysis, should be the prescribed schedule of sewer plant depreciation rates for the Company.
- (8) That the Company will maintain records at the Jefferson City office of all new construction connections and develop written procedures to enter this information into the Company's customer billing system daily. These records will at a minimum include the customer name, address, date of connection, dollar amount of tap-on fees,

CIAC charges, connection fees and inspection fees. The Company will provide written documentation of this process to Staff by November 30, 2008.

(9) That the Company will develop a process to ensure that new customer information is promptly entered into the billing system for all new construction customers connecting to the sewer system and all customers that purchase an existing home already connected to the sewer system. Part of this process will include running a monthly exception report which will document move-ins, move-outs and final bill customers. This report will be used by the local office to verify the status change of the listed customers. The Company will provide written documentation of this process to Staff by November 30, 2008.

(10) That the Company will maintain and update customers counts on a going forward basis and provide these updated counts to the Managers of the Auditing and Water and Sewer Departments of Staff by April and November 15th of each year.

(11) That the Company will immediately notify Staff of any substantial conversions in its billing system that could impact customer bills and of any other substantial billing problems that occur in the future. This notification will be made to the managers of the Commission's Consumer Services and Water and Sewer Departments.

(12) That the Company will add the following language to its existing sewer tariffs under Rule 9, titled Bills for Service: In the event of an undercharge, an adjustment shall be made for the entire period that the undercharge can be shown to have existed not to exceed twelve (12) monthly billing periods. The customer may request to pay for this undercharge over a period of time not to exceed the number of months back-billed. This new language will be filed with the tariff sheets filed by the company reflecting the Company/Staff agreed upon change in rates.

(13) That the Company will modify its employee time sheets to distinguish time spent on capital improvement projects versus operation and maintenance expense. The Company will continue to track employee's time by district. The Company will provide copies of the new time sheets to Staff by November 30, 2008.

(14) That the Company will make appropriate adjustments to its books and records for plant in service, depreciation reserve and CIAC balances to reflect the Staff's position in calculating the Company's overall cost of service. The Company agrees that the Staff's amounts as of December 31, 2007 will be used as the starting point for the next rate proceeding.

(15) That the Company will develop Continuing Property Records and maintain these records regarding utility plant-in-service, depreciation reserves, CIAC, operating revenues and operating expenses in a manner sufficient to allow the Staff to conduct district specific cost-of-service analyses for future rate increase requests. The Company will provide copies of these records by November 30, 2008.

- (16) That the Company will record plant retirements at the time the replacement plant items are put into service and confirm that the retirement corresponds to the actual item being placed in service.
- (17) That the Company will maintain all of its financial records in accordance with the Commissions Uniform System of Accounts.
- (18) That the Company will develop formal written procedures for all capital construction work orders that at a minimum include all individual's responsibilities in the process, establish procedures for authorization of purchases, identify procedures for proper tracking of all purchases, including district separation, and ensure that all projects are closed in a timely manner.
- (19) That the Company maintain by district a log of elder valves and water meters that includes when each item was purchased, when it is removed from inventory, where it was installed and identify the type of use (new, replacement of defective part or part of a meter replacement program).
- (20) That the Company will develop written procedures to process accounts payable that will eliminate duplicate payments and late fees. Copies of these procedures will be provided to Staff by November 30, 2008.
- (21) That the Company will develop and provide to Staff for Staff's review written procedures for the processing of the credit card purchases made by employees. Copies of these written procedures will be provided to Staff by November 30, 2008.
- (22) That the Company will develop written procedures to ensure the proper assignment of costs to each of its districts. Copies of these procedures will be provided to Staff by November 30, 2008.
- (23) That the Company will implement the recommendations contained in the Engineering & Management Services Department ("EMSD") Report attached hereto as Attachment G no later than November 30, 2008.
- (24) The Company will mail its customers a written notice of the rates and charges included in its proposed tariff revisions within 15 days of entry of the Commission approved Order. The notice will include a summary of the impact of the proposed rates on an average residential customer's bill. When the Company mails the notice to its customers, it will also send a copy to the Staff and the Staff will file a copy in the subject case file.
- (25) That the Company acknowledges that the Staff will, and the OPC may, conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this Disposition Agreement.
- (26) That the Company acknowledges that the Staff or the OPC may file a formal complaint against it, if the Company does not comply with the provisions of this Disposition Agreement.

(27) That the above agreements satisfactorily resolve all issues identified by the Staff and the Company regarding the Company's Request, except as otherwise specifically stated.

### **ADDITIONAL MATTERS**

Other than the specific conditions agreed upon and expressly set out herein, the terms of this Disposition Agreement reflect compromises between the Staff and the Company, and neither party has agreed to any particular ratemaking principle in arriving at the amount of the annual operating revenue increase specified herein.

The Company and the Staff acknowledge that they have previously agreed to an extension of the normal "Day-150" date by which an agreement regarding the resolution of a small company revenue increase request is to be reached because of problems with the Company providing customer and billing information due to a computer conversion in May 2007

The Company acknowledges that the Staff will be filing this Disposition Agreement, and the attachments hereto, in the case that will be opened when the Company files the proposed tariff revisions called for in the agreement. The Company also acknowledges that the Staff will be making another filing in that case that will include the following: (a) the Staff's recommendation for approval of the subject proposed tariff revisions, and any related recommendations; (b) background information regarding the Company's Request and the Staff's investigation thereof; (c) information regarding the status of the Company's payment of its Commission assessments; (d) information regarding the status of the Company's submission of its Commission annual reports; (e) information regarding the status of the Company's submission of its Commission annual statement of operating revenues; (f) information regarding any other cases that the Company may have before the Commission; (g) information regarding any recent Notices of Violations that the Department of Natural Resources has issued to the Company; and (h) the status of the Company's corporate standing with the Secretary of State.

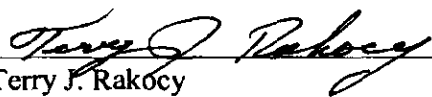
Additionally, the Company agrees that the Staff shall have the right to provide whatever oral explanation the Commission may request regarding the rate case that will be opened when the Company files the proposed tariff revisions called for in this Disposition Agreement, at any agenda meeting at which that case is noticed to be considered by the Commission. To the extent reasonably

practicable, the Staff will provide the Company with advance notice of any such agenda meeting so that it may have the opportunity to also be represented at the meeting.

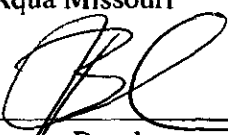
**EFFECTIVE DATE AND SIGNATURES**

This Disposition Agreement shall be considered effective as of the date that the Company files the proposed tariff revisions required herein with the Commission.

Agreement Signed and Dated:

  
\_\_\_\_\_  
Terry J. Rakocy  
President  
Aqua Missouri

JULY 3, 2008  
Date

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

7/3/2008  
Date

**List of Attachments**

- Attachment A – Example Tariff Sheets
- Attachment B – Ratemaking Income Statement
- Attachment C – Audit Workpapers
- Attachment D – Rate Design Worksheet
- Attachment E – Billing Comparison Worksheet
- Attachment F – Schedule of Depreciation Rates
- Attachment G – EMSD Report