

Exhibit No. _____
Witness/Type of Exhibit: William P. Mitchell
Rebuttal Testimony
Company: Osage Water Company
CASE NO. ST-2003-0562
CASE NO. WT-2003-0563

Issues: Rates, Rate Base, Cost of Capital

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

CASE NO. ST-2003-0562
CASE NO. WT-2003-0563

OSAGE WATER COMPANY

REBUTTAL TESTIMONY OF

WILLIAM P. MITCHELL

FILED²
JAN 09 2004
Missouri Public
Service Commission

January 9, 2004

1	TABLE OF CONTENTS	
2		
3	REBUTTAL TO TESTIMONY OF KIMBERLY K. BOLIN	3
4	REBUTTAL TO TESTIMONY OF DANA K. EAVES	6
5	REBUTTAL TO TESTIMONY OF JANIS FISCHER	14
6	REBUTTAL TO THE TESTIMONY OF GREGORY E. MACIAS	16
7	REBUTTAL TO THE TESTIMONY OF DAVID MURRAY	18
8	REBUTTAL TO THE TESTIMONY OF MARTIN HUMMEL	23
9	REBUTTAL TO THE TESTIMONY OF GREG R. MEYER	25
10	REBUTTAL TO THE TESTIMONY OF DALE JOHANSEN	33
11	Conclusions on Staff Direct Testimony	39
12	AFFIDAVIT OF WILLIAM P. MITCHELL	40
13	SCHEDULE A MO. RUAL WATER CO. MGRS. SALARY 1 PAGE	
14	SCHEDULE B MO. RUAL WATER FIELD OP. SALARY 1 PAGE	
15	SCHEDULE C MO. RUAL WATER BILL CLERK SALARY 1 PAGE	
16	SCH. D 12/31/98 OWC AUDITED DEPRECIATION EXPENSE 3 PAGES	
17	SCH. E CEDAR GLEN RATE BASE ANALYSIS OWC-STAFF 2 PAGES	
18	SCH. F AGREED UPON RATE BASE FOR OWC 11/26/03 2 PAGES	
19		

REBUTTAL TO TESTIMONY OF KIMBERLY K. BOLIN

Q. Have you reviewed the testimony of Kimberly K Bolin?

A. Yes.

Q. Is Ms. Bolin familiar with the tasks required in order to properly manage and operate Osage Water Company?

A. She does not appear to be. To my knowledge, she has spent less than 8 hours during the past 5 years in OWC offices, and could not possibly have gathered sufficient information during that time upon which to base a meaningful opinion as to the level of staffing required to operate OWC in compliance with PSC and MDNR regulations.

Q. Do you have any specific comments on Ms. Bolin's recommendations?

A. Yes. Ms. Bolin acknowledges that Osage Water Company has incurred expenses for employees other than an Office Manager and one Field Staff position but recommends not allowing for the additional costs. She supports this recommendation with the statement that "Debra Williams should be able to carryout all of the office duties for the Company." Ms. Bolin does not give any testimony that establishes that she has ever operated any utility company or has any special knowledge that establishes that Debra Williams has the skills to carry out all of the office and record keeping duties. Further, she fails to provide this Commission with any factual basis for her opinion. Ms. Bolin's list of office duties is not inclusive of all of the bookkeeping/accounting/reporting

1 required by the PSC, MDNR, the State of Missouri or the United States of
2 America.

3 Q. Is OWC through its management agreement with Environmental Utilities able
4 to perform all of the duties necessary to comply with state and federal
5 regulations, and operate its systems adequately?

6 A. No. At the present time, Environmental Utilities is able to perform the basic
7 field operations necessary to keep OWC's water and sewer systems
8 functioning, and the basic office functions necessary to generate customer bills,
9 deposit receipts, and pay operating expenses. With respect to field operations,
10 there is not sufficient field operator time available to perform in depth
11 maintenance, preventive maintenance, additional meter installations, or a
12 number of major and minor non-essential repairs which would make the water
13 and sewer systems more reliable, but are not required for daily operations. In
14 addition, the one field operator available must be "on call" 24 hours a day 7
15 days a week to respond to system outages and emergency repairs. On a
16 regular basis he works at least some hours 6 or 7 days a week. A second field
17 person would allow the field staff to have at least every other weekend off, and
18 to rotate the responsibility to respond after hours.

19 Q. What about office operations?

20 A. Essential office operations are being handled, and little more. Meter readings
21 are entered, the customer database is maintained for new customers, lost

1 customers, changes of address, payments made, and bills are generated.
2 Monthly monitoring reports are obtained and filed with MDNR. Accounts
3 payable are paid on an ongoing basis and recorded in NARUC format. Federal
4 and state payroll taxes, and state sales taxes are calculated, reported, and paid.
5 Most of these duties were the responsibility of the billing clerk until the fall of
6 2002 when she quit unexpectedly. What is not being handled would be the
7 preparation of year end accounting, tax accounting, income tax return
8 preparation, PSC annual report preparation, monthly monitoring of water loss
9 to identify potential leaks, and similar important but not absolutely essential
10 office functions.

11 Q. Ms. Bolin further states " No additional employees are needed to operate this
12 system correctly." What is your response to this statement?

13 A. Obviously it depends on what the Commission believes constitutes operating a
14 water utility company correctly. If the Commission is satisfied with the
15 absence of annual reports, a responding to problems on a last minute basis
16 because of a lack of personnel to anticipate and prevent system failures, and
17 working company personnel in a manner generally regarding as abusive in
18 every other industry, then no additional employees are needed to operate OWC
19 correctly. I certainly do not agree with Ms. Bolin's conclusory opinions, and
20 would strongly recommend that the Commission provide sufficient revenues
21 for a second field operator and a billing clerk. The number of office employees

1 now is one less than in the Fall of 2002 and the amount of work has increased
2 due to the increase in the number of customers.

3 ***REBUTTAL TO TESTIMONY OF DANA K. EAVES***

4 Q. Have you reviewed the testimony of Dana K. Eaves?

5 A. Yes.

6 Q. Do you have any comments on Mr. Eaves' recommendations?

7 A. Yes. Mr. Eaves by his own admission is a rookie. He has no experience in
8 any PSC water or sewer case or any real world experience with any water
9 or sewer utility company. He has unilaterally decided that the Manager
10 should receive only \$20,000 per year. This income is below the poverty
11 level. No supporting documentation is included or attached for the salary
12 adjustment, only the opinion of Mr. Eaves.

13 Q. Has OWC inquired as to the basis for Mr. Eave's opinions?

14 A. Yes. OWC tendered the following data request, and received the following
15 response from Mr. Eaves and Staff:

Please provide all records in your possession which you believe establish
or tend to establish the appropriate salary for the manager of a
small water and/or sewer company with pending suits filed by the
Missouri Public Service Commission establishment of a
receivership or that the salary of Debra J. Williams as manager for
Environmental Utilities, LLC is not appropriate for the duties she

performs.

1

2

Staff Response to Data Request OWC 002

3

4

Neither Mr. Eaves nor any other member of the Staff possesses any such

5

records.

6

7

Q. Does this indicate to you that Mr. Eaves has a factual basis for his opinion?

8

A. No. It indicates that his opinion is not supported by any meaningful factual information.

9

10

Q. As the president of OWC, are you concerned about the salary levels charged by Environmental Utilities to OWC under the management contract, and have you made any inquiries to determine whether those salaries are reasonable?

11

12

13

14

A. Yes, I certainly am concerned, and I have investigated to determine what salaries are paid in the water and sewer industry for comparable positions.

15

16

The Missouri Rural Water Association conducts an annual survey of its members, which consist largely of public water and sewer districts and

17

18

municipalities, regarding the salaries and wages they pay, their staffing levels, and fringe benefits provided. Those are tabulated by number of

19

20

connections to their system. The table summarizes the results of that survey for company managers for systems comparable in size to OWC,

21

22

given that it had 640 system connections at the end of the test year period

1 on June 30, 2003. Table is published as WPM Schedule A. What
2 conclusion have you drawn from this information?

3 A. First, at an annual salary of \$36,000, Debbie Williams is being compensated
4 slightly less than persons performing comparable work at similarly sized
5 water and sewer utilities. Second, that similarly sized utilities typically
6 have 2.75 office and field personnel working under the supervisor. OWC
7 currently has one, and proposes to add 1 full time office person, and a full
8 time field person. OWC's proposal would bring its operations closer into
9 line with comparable utilities.

10 Q. Do you have any information regarding the appropriate salaries and benefits
11 for field operators?

12 A. Yes, the same survey by MRWA provides the information attached as WPM
13 Schedule B.

14 Q. What conclusions have you drawn from this information?

15 A. Comparable positions with other water and sewer service providers pay
16 considerably better than the field supervisor for OWC's systems.

17 Q. Mr. Eaves suggests that Env. Util. field operator is compensated from
18 regulated revenues for activities outside of the regulated utility business,
19 and that therefore an adjustment to his compensation is necessary. Is this
20 correct?

21 A. While it is true that Mr. Smith does do outside work for Greg and Debbie
22 Williams and logs the same on his time sheets, it is not true that he is paid

1 for that work as part of his compensation from the utility business. Mr.
2 and Mrs. Williams pay him separately for that work in addition to his
3 wages for regulated utility work.

4 Q. Do you have any information regarding an appropriate level of
5 compensation for a billing clerk for OWC's systems?

6 A. Yes. The MRWA survey provides information attached as WPM Schedule
7 C regarding office staff compensation for comparably sized water and
8 sewer utilities:

9 Q. What is your conclusion based on this information?

10 A. A salary of approximately \$23,000 per year is appropriate for a billing clerk
11 for OWC.

12 Q. Do you have any information regarding appropriate fringe benefits to be
13 provided to regulated utility employees?

14 A. Yes. 73% of MRWA members provide health insurance for the employee,
15 30% provide health insurance for the employee's family. 31% provide
16 dental insurance. 51% provide a retirement plan, and 47% provide life
17 insurance. Based on this information, it is readily apparent that OWC
18 should provide health insurance and a retirement plan for its employees.

19 Q. Staff has also proposed to capitalize some of the expenses recorded on
20 OWC's books for repairs. Have you examined these expenses to determine
21 whether their proposal is reasonable?

1 A. Yes, and it is certainly not reasonable. OWC submitted the following data
2 request to Staff to determine their basis for the proposed capitalization of
3 expenses, and received the following response:

 Please provide all records in your possession which you believe
 establish or tend to establish that the expenses described in your
 testimony as adjustment number S-26 should be capitalized rather
 than expensed. Please provide the NARUC account to which you
 believe each such expenditure should be capitalized.

4
5 Staff Response to Data Request OWC 004

6
7 OWC does not currently have a policy to use in determining when an item
8 should be capitalized or expensed, nor has it consulted with the Staff
9 regarding the establishment of such a policy. Due to the apparent
10 inconsistent treatment by the Company regarding various kinds of items to
11 which such a policy would apply, the Staff capitalized are such items with a
12 cost of over \$100. The Staff is willing to work with the Company to
13 establish a policy for this area.

14 Q. Is it appropriate to capitalize all repair expenses over \$100, and what effect
15 would this have on operation of OWC's water and sewer systems?

16 A. No, it certainly is not. OWC books as "repairs" those expenses which
17 restore the plant/equipment to good working condition but do not
18 materially extend its useful life and/or create a new improvement. Staff's

1 approach would capitalize expenditures that fall within these categories
2 based solely on the amount of the expense. Staff proposed to capitalize
3 bills from electricians to re-wire/repair electrical systems damaged by
4 lightning. Staff has not provided any proposed methodology to distinguish
5 between repairs and capital improvements other than the "any thing over
6 \$100 method". This is clearly unreasonable, and would significantly
7 understate the actual cost of operation of OWC's systems.

8 Q. Is there a source of capital for these "capitalized repairs" which staff
9 proposes?

10 A. No, there is not. These repairs represent actual and necessary
11 disbursements to keep the water and sewer systems operational. If those
12 expenses are not recovered on an ongoing basis in rates, and are instead
13 capitalized, OWC will have to fund those expenses out of net income,
14 which would reduce the amount of income available to pay a return to
15 shareholders, which is already a serious issue between OWC and its current
16 investors. Reducing net income in order to capitalize ongoing repair
17 expenses will result in a continued inability of OWC to pay dividends to its
18 shareholders.

19 Q. Mr. Eaves also suggested eliminating as an expense overdraft charges
20 incurred by OWC with its bank. Is his proposal unreasonable?

21 A. No. The company's bank charges an overdraft charge when a customer's
22 check is returned for insufficient funds. OWC's tariff does not allow this
23 cost to be charged to the offending customer. The cost to OWC should

1 not be disallowed as an expense, but the tariff should be revised to allow
2 such charges to be charged back to the customer, so that there will be an
3 offsetting revenue to these expenses.

4 STAFF'S ACCOUNTING SCHEDULES

5 Q. Have you reviewed Staff's accounting schedules, and do you have any
6 comments regarding the same?

7 A. Yes, I have. The Staff's Accounting Schedules materially differ from
8 amounts set out in emails from Staff to OWC and with amounts in prior
9 rate cases. Below is my comments of each schedule in dispute:

10
11 Sewer

- 12
- 13 1. Account 352.200 – excludes legal fees and other costs and expenses
14 incurred to acquire certificates of convenience.
 - 15 2. Account 396.500 – capitalized equipment cost that was shown on
16 comparable schedules in the 1999 rate case is no longer shown resulting in
17 a \$5,173 unexplained reduction in rate base.
 - 18 3. Account 351.300 - \$30,000 shown in 1999 case has vaporized without
19 explanation.
- 20

21 Water

- 1 1. Account 302.100 – excludes legal fees and other costs and expenses
2 incurred to acquire certificates of convenience.
- 3 2. Account 325.200 – pumping equipment – only increased \$2,502 although
4 OWC completely renovated its Shoney's and Pizza Hut wells – amount is
5 way too low.
- 6 3. Account 343.400 – Trans & Dis. Mains – only increased 1,416.00 – if this
7 includes purportes to include the Harbor Bay work in 2000, it is way too
8 low.

9 General

- 10 1. Salaries – increased by \$22,961 over 1999 figures, but still below salaries
11 paid by comparably sized municipalities and public water districts. Also
12 does not provide for billing clerk needed to allow manager to spend time
13 on anything other than billing and repairs. Does not allow for Officers or
14 Directors to be compensated.
- 15 2. Legal Expenses – actual payments of \$33,801 excluded without
16 explanation, OWC incurred costs in excess of amounts paid. Primary
17 source of cost is litigation initiated by PSC Staff. It certainly is not fair for
18 Staff to instigate litigation which requires OWC to retain an attorney to
19 defend, and then “disallow” the resulting legal expenses.
- 20 3. Equipment Rental – annual cost of \$68 shown for year. OWC incurred
21 equipment rental costs in excess of \$6000 during the test year, and
22 provided staff with the records pertaining to those costs.

23

REBUTTAL TO TESTIMONY OF JANIS FISCHER

1
2 Q. Have you reviewed the testimony of Janis E. Fischer?

3 A. Yes.

4 Q. Do you have any comments on Ms. Fischer's recommendations?

5 Q. Yes, Ms. Fischer states the Depreciation Reserve and Cash Working
6 Capital Schedules 7 & 8 are not included because they "are not
7 applicable". This is simply not correct. DNR requires a Depreciation
8 Reserve. Cash Working Capital accounts are necessary to provide working
9 capital with which to operate on a daily basis. Ms Fischer also adjusted the
10 customer count to reflect periods outside of the test year but did not adjust
11 any of the expenses to reflect the cost of the increased customer base. Ms.
12 Fischer reduced the KK purchased water expense to reflect metered
13 customers but did not include the costs to install the meters. She did not
14 determine where the capital would come from or how the company would
15 or even if it could acquire the capital that should have been provided by the
16 builder of the home who illegally tapped OWC lines. Chapter 393 allows
17 the Commission to order improvements to facilities as suggested by Janis
18 Fischer and Martin Hummel, so long as the Commission orders rates
19 sufficient to provide a return on the required capital. Staff needs to
20 establish the amount of capital required, and its impact on rates, in order to
21 request that the Commission order improvements. There is no statutory
22 authority for the Commission to order improvements with out the rates
23 necessary to pay for the same.

1

2

OWC requested the following data requests:

Please provide all records in your possession which you believe establish or tend to establish the cost of installing additional meters within Eagle Woods subdivision and the anticipated cost of the capital required.

3

4

Staff Response to Data Request OWC 006

5

Neither Ms. Fischer nor any other member of the Staff reviewed any documents prior to the filing of Staff's direct testimony regarding the cost of installing additional meters within Eagle Woods subdivision, or the cost of capital required to finance such installations.

6

7

8

9

Please provide all records in your possession which you believe establish or tend to establish cost of improvements to the condition of Osage Water Company's plant facilities to restore the same to good operating condition. Please identify all sources of capital available to fund the cost of such improvements, and identify all costs to Osage Water Company of acquiring such capital.

10

11

Staff Response to Data Request OWC 007

12

1 Neither Mr. Hummel nor any other member of the Staff has performed any
2 studies regarding the costs of improvements needed to OWC's facilities,
3 nor has the Staff performed any studies regarding the sources of capital
4 available or the cost of capital for funding such improvements.
5

6 ***REBUTTAL TO THE TESTIMONY OF GREGORY E. MACIAS***

7 Q. Have you reviewed the testimony of Gregory E. Macias?

8 A. Yes. OWC has detailed records in NARUC account format as required by
9 prior Orders of the PSC. A Fixed Asset Schedule prepared by OWC's
10 CPA for the calendar year ending December 31, 1998 is attached as WPM
11 Schedule D. Mr. Macias has ignored OWC's records and proposed
12 generic depreciation based upon "expertise of the MoPSC Water & Sewer
13 Department Staff." Mr. Macias is by his testimony a rookie and the
14 balance of the Staff is comprised of engineers with no expertise regarding
15 sand filter sewer systems, or the actual operation of a water and sewer
16 utility company.

17 Q. Were depreciation rates established in the 1999 case, and if so, how do Mr.
18 Macias's proped rates differ from the existing rates?

19 A. Yes, they were. A review of the changes since 1999 by account:

20 a. Account 372 - class life of transportation equipment increased from 7
21 years to 8 years. 5 years is maximum economic life, per IRS. OWC utilizes
22 minipickup and minivan vehicles which do not last as long or cost as much
23 to own or repair or consume as much fuel or tires as utility standard one

1 ton pickups. The higher non cash depreciation and consequent cash tax
2 savings are more than offset by double gas mileage, 1/2 price tires, and
3 cheaper insurance, all current cash costs.

4 a. Account 351 – Structures & improvements life increased from 33 years to
5 40 years with no explanation.

6 b. Account 372 – treatment & disposal facilities – class life is 20 years All of
7 equipment at Chelsea Rose was replaced in 10 years or less. Most
8 equipment is obsolete in 10 years and repair parts are not available.

9 c. Account 373 – Plant Sewers – proposes increasing class life from 22 years
10 (1999 study) to 40 years with out explanation.

11 d. Account 391.1 – Office Computer Equipment – proposes a class life of 7
12 years. Seven years ago I had a \$2000 state of the art 486 computer that ran
13 DOS programs with 8 megabytes of memory and a clock speed of 80 mega
14 hertz. My general office computers had only 1 or 2 megabytes of memory
15 and a clock speed of 12 megahertz. Today I use a \$1000, 3 year old
16 computer with 256 megabytes of ram at 400 megahertz. This computer is
17 functionally obsolete. The chassis design is no longer made, and it will not
18 upgrade to Windows XP. Replacement motherboards are no longer
19 available for this chassis. Within one year I will not be able to upgrade
20 accounting software as it will not run on the machine. Moore's law is
21 computing speed doubles every year. A new \$500 computer is 64 times
22 faster than a \$2000 seven year old computer. The software costs more than
23 the equipment in a new computer. Security concerns require constant

1 upgrading of software. 4 years of service life is maximum for a general
2 office computer that contains vitally important data.

3
4 ***REBUTTAL TO THE TESTIMONY OF DAVID MURRAY***

5 Q. Have you reviewed the testimony of David Murray?

6 A. Yes, Mr. Murray gives a thorough discussion of the current economic
7 climate in the United States, the Supreme Court cases defining the PSC
8 duty in setting rates and a textbook economic analysis of some utility
9 company, not OWC. The first premise is in error. OWC originally
10 purchased its assets from a functionally bankrupt utility company -
11 Mariners Cove. Since the purchase in 1987, OWC has not received income
12 from rates sufficient to pay costs of operation nor any return on capital.
13 The return of costs is specifically included as a minimum in all of the court
14 cases cited. In an ideal company when the actual rate of return is zero, the
15 price of the stock is essentially zero and the mathematical models will
16 return infinity as the proper or expected cost of capital. When the
17 stockholders refused to provide more capital to the Company or guarantee
18 loans to the Company the PSC Staff responded by suing the Company
19 claiming it is insolvent and cannot "pay its current bills". In light of the
20 existing economic climate of OWC's local environment, the discount cash
21 flow valuation model is inappropriate. Mr. Murray states: "The discounted
22 cash flow method is a continuous stock valuation model. The DCF theory
23 is based on the following assumptions:

- 1 1. Market equilibrium;
- 2 2. Perpetual life of the company;
- 3 3. Constant payout ratio;
- 4 4. Payout of less than 100% earnings;
- 5 5. Constant price/earnings ratio;
- 6 6. Constant growth in cash dividends;
- 7 7. Stability in interest rates over time;
- 8 8. Stability in required rates of return over time; and
- 9 9. Stability in earned returns over time."

10 Q. Do these circumstances exist in the case of OWC? IF not, what are the actual
11 circumstances?

12 A. No, these circumstances do not exist.

13 1. OWC has not operated as a monopoly without competition since 1994. In
14 1994, Ozark Shores Water Company attempted to acquire an overlapping
15 certificate of convenience, and created the Miller County Water Authority
16 to actually provide water utility service within OWC's certificate areas.
17 Ozark Shores then "sold" those competing assets to the Osage Beach Fire
18 Protection District, which provide water utility service within OWC's
19 certificated areas. When OWC threatened litigation against OBFPD, it
20 transferred its assets to the City of Osage Beach, which has continually
21 overbuilt OWC's water systems, and threatened and coerced OWC
22 customers to transfer to the City as their water service provider.

- 1 2. As a result of the financial pressures caused by regulation as a theoretical
2 monopoly in a competitive market place, OWC has never had any certainty
3 of its future existence. Recently, the PSC Staff initiated a receivership
4 proceeding which seeks to terminate OWC's existence. While OWC
5 continues to exist, its future remains dark and uncertain.
- 6 3. OWC has yet to payout a single penny of dividend to its preferred and common
7 shareholders. A payout ratio of 0 cents on the dollar may be a constant,
8 but it certainly will not attract additional capital, and has resulted in a
9 negative capital growth as current investors seek to withdraw existing
10 capital, such as the suit by Mr. Hancock to liquidate his investment in
11 OWC.
- 12 4. OWC has no net earnings, and has no payout of those earnings.
- 13 5. Since there is no recognized market for OWC stock there is no means to
14 establish an actual price/earnings ratio. Further, in light of the zero
15 earnings of OWC, the ratio cannot be calculated, because when you divide
16 price by zero earnings the answer is meaningless.
- 17 6. Not only is there no growth in cash dividends, there are no cash dividends.
- 18 7. OWC's interest rates are not stable. OWC is unable to borrow additional funds
19 from any source at any interest rate because it has no earnings from which
20 to repay the funds it has already borrowed to invest in water and sewer
21 facilities.

1 8. The rate of return required to attract additional capital is not stable. Rather it
2 increases continually as OWC continues to accrue dividends on its
3 preferred stock and fails to pay creditors for current operation expenses..

4 9. There is no stability in earned rates of return over time, because there is no
5 return on any investment in OWC.

6 Q. What impact do these actual market factors have on the discounted cash flow
7 analysis performed by Mr. Murray?

8 A. Mr. Murray's analysis is based on a set of assumptions that simply do not exist.
9 As a result, his analysis is not meaningful when applied to OWC. Mr. Murray has
10 compound his errors by ignoring the existing capital structure of the Company,
11 contractual obligations, and PSC orders. The CAPM model used does not include
12 risks of companies not able to access the public financial markets. In schedule 8,
13 Mr. Murray has 6 columns of criteria for each company listed. Those with a yes in
14 each column were determined to be comparable companies. The companies are
15 only comparable with each other. No line exists for OWC. Five of the six criteria
16 would have to be answered no for OWC. No comparable companies exist in the
17 public market in the size of OWC. The small size of the company vastly increases
18 the beta and small economic changes have a vastly greater effect on small
19 companies than large companies. By comparison all of the "comparable companies"
20 are huge vs. OWC. In reality the beta function does not represent investment risk
21 directly. The beta of a company is actually a measure of the stock price volatility
22 on public market compared to the market as a whole. Many factors can affect
23 volatility, some risk related, some due to liquidity in the market for the stock.

1 OWC stock is highly illiquid and requires a very high Beta.. Value line does not
2 contain risk ratings from companies as small as OWC

3 Q. What rate of return do you believe is required in order to provide a fair return to
4 investors and to allow OWC to attract additional capital?

5 A. The Commission must consider the actual risks faced by investors in OWC in order
6 to come up with a "fair return" on an investment in OWC. The primary factor is
7 whether the investment will in fact ever be returned to the investor. Where actual
8 costs are not "recognized" in rate base, where competitive markets exist such that
9 stable cash flows cannot be assured, and where existing debt and increased future
10 expenses will arise unexpectedly, significantly higher rates of return are required to
11 provide any incentive to retain or obtain investment in OWC. In other words, if
12 you can never get your investment back, the return on the investment becomes
13 irrelevant, because you should never make that investment. If the period for a
14 return of investment is going to be some 50 years as is proposed for a majority of
15 OWC's assets, which is the position Staff has taken in its proposed depreciation
16 rates, then there has to either be a stable environment which allows that
17 investment to be recovered and returned to investors over that 50 year period, or a
18 "vulture capital" rate of return which provides a substantially higher rate of return
19 to investors to compensate for the high probability that the actual investment will
20 never be recovered. As I testified in my direct testimony, a return in excess of
21 15% per annum, at a minimum, will be required in order for OWC to retain its
22 existing capital, and a higher return, perhaps as high as 25 % per annum will be

1 required if OWC is expected to raise additional capital as Staff has suggested the
2 Commission should order for system improvements.

3 ***REBUTTAL TO THE TESTIMONY OF MARTIN HUMMEL***

4 Q. Have you reviewed the testimony of Martin Hummel?

5 A. Yes, Mr. Hummel gives his opinion but no facts. He has not inspected
6 OWC facilities in over 6 months and refers to testimony given 14 months
7 ago in Case No. WC-2003-0134 which is based on inspections
8 approximately 2 years old. He lists "incomplete construction, defective
9 components, and unresolved complaint issues" then acknowledges that "It
10 is possible that OWC has addressed some of these". He does not know
11 what plant (property) OWC owns but participated in the Commission order
12 (WO-2002-165) directing Staff to inventory all OWC plant. Mr. Hummel
13 does opine that any rate increase should be interim until rate base has been
14 established as the Commission stipulated in Camden County Circuit Court
15 in Case No. CV102-965CC. Staff was to have completed that rate base
16 analysis in October of 2003 so that OWC could negotiate the sale of its
17 assets to Missouri American Water Company, and has failed to this date to
18 do so.

19 Q. Has OWC attempted to obtain a determination of its rate base by Staff?

20 A. Yes, in addition to numerous informal requests since entering into the Circuit
21 Court Stipulation in September of 2003, OWC sent the following data requests to
22 Staff in an attempt to obtain a formal answer in this case:

Data Request OWC 008 Please provide all records in your possession
which you believe establish or tend to establish Osage Water
Company's rate base as referred to on page 3 of your testimony.

1

2

Staff Response to Data Request OWC 008

3

4 The reference in Mr. Hummel's testimony regarding the need for rate base to be
5 established is only that this needs to be done. Greg Meyer and Dale
6 Johansen of the Staff are responsible for the activities related to the
7 determination of all rate base amounts.

8 Q. Did Staff's response enable OWC to determine what amounts Staff believes should be
9 included in its rate base?

10 A. No.

11 Q. Was OWC able to determine what deficiencies Mr. Hummel believes exist in OWC's
12 operational records?

13 A. No. In order to obtain the factual basis for his testimony, OWC submitted the
14 following data request to Staff:

Please provide all records in your possession which you believe establish
or tend to establish that there are deficiencies in Osage Water
Company's operational records.

15

16

Staff Response to Data Request OWC 009

17

1 An example of OWC's lack of sufficient operational records is the outage that
2 occurred at the Broadwater Bay subdivision and the circumstances
3 surrounding that outage. OWC clearly did not have even basic records
4 regarding the amount of water being pumped vs. the amount of water being
5 sold, which had they been available most likely would have shown the
6 Company that a serious problem existed in the system. In turn, correction
7 of the problem may have resulted in outage not occurring at all.

8 Q. Did this allow OWC to identify any deficiencies in its operational records?

9 A. No. Staff was requested to produce "all records" regarding "deficiencies in Osage
10 Water Company's operational records." The response cites an example of a
11 situation which Mr. Hummel apparently believes existed at one point in time, but
12 which is directly contrary to the testimony of OWC's field operator Jeff Smith in
13 the receivership hearing before the Commission in 2002, where he testified that he
14 had identified the existence of a leak in the Broadwater Bay water system and was
15 attempting to repair the same when the well pump failed. Staff apparently has no
16 records which would document the existence of deficiencies in OWC's operational
17 records.

18 ***REBUTTAL TO THE TESTIMONY OF GREG R. MEYER***

19 Q. Have you reviewed the direct testimony of Greg R. Meyer?

20 A. Yes. Mr. Meyer repeatedly refers to a so called agreement between the
21 Staff and the Company concerning the 1999 rate case. In fact after over
22 one year after filing the small company rate case, the Company only agreed
23 to the dollar amount of the increase proposed by the Staff at a time when

1 the Company was in imminent danger of defaulting on several loans and
2 leases. There was no agreement between OWC and Staff regarding OWC's
3 rate base, the amount of revenue to be included with respect to the capital
4 OWC acquired from Mr. Hancock, the amount of legal fees which OWC
5 incurred in certificate cases, or the recovery of those legal fees at the rate
6 of \$1 per customer per month. In fact, the written agreement Mr. Meyer
7 refers to expressly states that OWC did not agree to any of these matters.
8 There is not now and never has been an agreement between OWC and
9 Staff on these matters.

10 Q. Did the PSC Staff keep its agreement in the 1999 rate case?

11 A. No. OWC's purpose in entering into the agreement was to close out the informal rate
12 case, allow an increase in revenues which was long overdue and badly needed, and
13 to place OWC in a position where it could initiate a formal rate case. None of
14 these objectives were attained by OWC. The PSC Staff reneged on the agreement
15 and recommended that the Commission authorize a lower increase in revenue than
16 that provided in the agreement. Public Counsel requested a formal evidentiary
17 hearing with respect to the agreement, so the rate increase was not approved by
18 the Commission for some 8 month after the agreement was signed, at which point
19 it was simply too little and too late. Mr. Hancock had filed litigation to extract his
20 capital from OWC over 6 months before the Company rate increase became
21 effective. Staff included only minimal amounts for rate base and Operation and
22 Maintenance in the rate evaluation forcing the Company to cannibalize

1 depreciation and shareholder returns to fund ongoing operations. See attached
2 WPM Schedule D 1998 OWC Audited Depreciation Expense.

3 Q. Does Staff propose to allow a fair rate of return on OWC's investment in its assets in
4 this case?

5 A. No, they have expressly stated that they do not consider their analysis to provide a fair
6 rate of return on OWC's capital investment. OWC submitted the following data
7 request to Staff, and received the following response:

Please provide all records in your possession which you believe establish
or tend to establish that \$1,000 per month is a fair return to Osage
Water Company on the capital provided to Osage Water
Company by Hancock Construction Company or that Hancock
Construction Company is obligated to accept said sum in payment
of Osage Water Company's obligations to him. Please state the
present rate base value of the assets acquired by Osage Water
Company for the capital provided by Hancock Construction
Company, the NARUC account for each such asset, and the
accumulated depreciation reserve attributable to each such asset.

8

9 Staff Response to Data Request OWC 012

10

11 The \$1,000 per month included in the Staff's cost-of-service for the
12 Hancock debenture is not intended to represent a "fair return . . . for the

1 capital provided . . . by Hancock", but instead represents the agreed-upon
2 monthly payment on the debenture as established in the settlement of
3 Hancock's Camden County civil lawsuit. Assuming the facilities in
4 question were placed in service on or about January 1, 1996 and at a cost
5 basis of \$240,000, the rate base value of the facilities would now be
6 approximately \$201,600 and the related depreciation reserve balance would
7 be approximately \$38,400. The Staff has not, however, identified the
8 NARUC account to which the subject facilities would be booked.

9

10 Q. Does Staff's position on this issue comply with Missouri Law?

11 A. No. Rates are required by law to provide a fair return on the value of assets devoted
12 to the public use. The assets OWC acquired with the capital it obtained from Mr.
13 Hancock are devoted to the public use, and are used and useful today. The cost of
14 those assets is in excess of \$240,000. Mr. Hancock is entitled to 9% interest under
15 the Circuit Court Judgment he obtained against OWC. A "return" of \$1,000 per
16 month will not even compensate OWC for the interest it is accruing on its debt to
17 Mr. Hancock, much less provide any return to OWC for the use of the assets it
18 acquired.

19 Q. Did you attempt to determine the Staff's position on the inclusion of the
20 considerable legal expenses incurred by OWC to acquire assets, MDNR permits,
21 and certificates of convenience and necessity into OWC's rate base?

22 A. Yes, OWC tendered the following Data Request:

Please provide all records in your possession which you believe establish or tend to establish the amount of legal expenses of Osage Water Company that should be capitalized and included in Osage Water Company's rate base. Please state the amount of any amortization or depreciation reserve attributable to such costs.

1

2

Staff Response to Data Request OWC-015

3

4

The Staff is still working on establishing the amount of legal fees pertaining to the

5

KK service area certificate case that should be capitalized as organization

6

fees, and the Staff's work papers regarding this matter will be forwarded to

7

the Company when the work is completed. As previously presented to the

8

Company, the Staff is willing to recognize an amount of \$80,110 of legal

9

fees pertaining to "non-KK" service area organization fees. However,

10

absent an agreement with this amount by the Company, the Staff is not

11

proposing to include this amount in rate base at this time. In lieu of such

12

amounts being included in OWC's rate base at this time, the Staff is

13

proposing that the \$1.00/month/customer fee, which has been in place for

14

several years, continue to be included in the Company's monthly minimum

15

charges as an offset to the legal fee amounts that may eventually be

16

included. If such organization fees are eventually recognized, there would

1 be no depreciation reserve associated with them as such accounts are not
2 depreciated. Likewise, there would not be an amortization amount unless
3 an agreement regarding an amortization period is reached.

4
5 Q. Did this answer the question asked?

6 A. No, it did not. Staff has refused since 1999 to state a dollar amount of the legal fees
7 OWC incurred, some of which have been paid in cash, some through the issuance
8 of debt, and some of which remain outstanding on account, which Staff believes
9 should be included in rate base. Detailed itemizations of these fees have been
10 provided to Staff, along with summaries, and OWC's position on this matter.
11 Rates are required by law to be based on Fair Value of assets, and the cost of
12 franchises and consents are among the assets which NARUC accounting states are
13 to be included in Account 302. Staff has had 3 months since the Company filed
14 testimony and over 3 years prior to that since the last rate case to analyze the data
15 provided and state its position. Staff acknowledges that there are amounts that
16 should have been included in not only this rate analysis but the 1999 rate analysis.
17 Staff is/has deprived OWC of sufficient return on capital enjoyed by OWC
18 customers to pay creditors and operation and maintenance by systematically
19 understating rate base.

20 Q. What is OWC's position on the amount of legal fees which should be included in rate
21 base?

22 A. The sum of \$287,530 should be included in rate base for the cost of asset acquisition,
23 franchises, and consents for assets which are currently in service. An additional

1 sum of \$23,470 was incurred in the last rate case, and should be included in rate
2 base and amortized over a 3 year period. The additional sum of \$128,246.94 was
3 incurred in connection with OWC's Parkview Bay Service area, and should not be
4 included in rates at this time, but should be if service is restored in that area in the
5 future.

6 Q. Did you try to ascertain the amounts of Engineering fees included in the Staff's rate
7 base analysis?

8 A. Yes. OWC tendered the following Data Request:

9

Please provide all records in your possession which you
believe establish or tend to establish the amount of
Engineering expenses of Osage Water Company that
should be capitalized and included in Osage Water
Company's rate base. Please state the amount of any
amortization or depreciation reserve attributable to such
costs.

10

11 Staff Response to Data Request OWC-016

12

13 Other than the engineering fees included in the Staff's rate base analysis for
14 the 1999 rate case, which has previously been provided to the Company,
15 the Staff does not believe at this time that any additional engineering fees
16 should be capitalized and recognized in the Company's rate base.

1 However, the Staff is reviewing additional information that OWC recently
2 provided to the Staff to determine if any additional such fees exist. Once
3 this review is completed, the Staff will provide the Company with its work
4 papers regarding this matter. The depreciation reserves associated with
5 any capitalized engineering fees that have been or will be included in
6 OWC's rate base are determined by the depreciation rates associated with
7 the plant accounts to which the engineering fees were or will be booked.
8 As a result, the depreciation reserves associated with the fees currently
9 included in the Company's rate base cannot be separately identified.

10 Q. What information did OWC provide the Staff regarding the appropriate amount of
11 engineering fees to include in rate base?

12 A. The additional information provided by OWC to Staff was copy of 1999 Staff
13 spreadsheet by Amanda McMullen and copies of 5 Jackson Engineering invoices
14 for 1999-2000. The Staff has consistently lost data from previous cases to reduce
15 Company plant balances.

16 Q. What amount does OWC believe should be included in rate base for engineering
17 expenses it has incurred?

18 A. \$218,335.75

19 Q. Mr. Meyer refers to some "miscellaneous revenues" in his testimony. Were you
20 able to determine how this amount was determined by him?

21 A. Yes. OWC tendered the following data request:

 Please provide all records in your possession which you believe establish

or tend to establish the miscellaneous revenues referred to in your direct testimony.

1

2

Staff Response to Data Request OWC 011

3

4

Specific records regarding these amounts do not exist. The amounts used were based on a review of OWC's tariffed charges, discussions with Staff members Janis Fischer and Randy Hubbs and a review of the amounts determined in the Company's last rate case.

7

8

Q. Were you able to determine from this information where he came up with this "miscellaneous revenue" amount?

9

10

A. Apparently he made it up. The staff did not check OWC's billing records for the test year to determine the amount of fees received. All billing reports were provided to the Staff in a timely fashion. All Staff and Public Counsel auditor requests for data for the test year were provided with all data that exists. No miscellaneous revenues are reflected on the billing records. This is a phantom dollar amount with no factual basis to support it.

11

12

13

14

15

16

17

REBUTTAL TO THE TESTIMONY OF DALE JOHANSEN

18

Q. Have you reviewed the testimony of Dale Johansen?

19

A. Yes, Mr. Johansen purports to analyze rates and show that the Company has more than enough money to operate and pay a fair rate of return on the

20

1 fair value of the Company. Mr. Johansen did not identify miscellaneous
2 amounts and did not include supervision and secretary salaries, telephones,
3 water testing, office supplies, postage, DNR fees or fuel expense. The
4 Company tendered the following data requests to clarify Mr. Johansens
5 rate analysis:

6
7 Please provide all records in your possession which you believe establish or
8 tend to establish the rate base value of Osage Water Company's water and
9 sewer systems in its Cedar Glen Service Area. Please state the amount of
10 any amortization or depreciation reserve attributable to such costs.

11 Staff Response to Data Request OWC-017

12
13 Information regarding the Staff's position on the current and possible future
14 rate base value of the Cedar Glen sewer and water systems have previously
15 been provided to the Company in the context of the discussions regarding
16 the "agreed-upon rate base" determination related to the possible sale of
17 OWC's utility assets to Missouri-American Water Company, which in turn
18 is related to the Commission's pending receivership action against OWC in
19 Camden County Circuit Court. Further information regarding this matter,
20 and the related depreciation reserves, will be provided to the Company as it
21 becomes available. However, regardless of any Staff determination of the
22 rate base "value" of the Cedar Glen systems, no amounts related to these
23 systems will be included by the Staff in its ratemaking rate base until such

time that all contract disputes between the Company and the developer of the Cedar Glen condominium project are resolved and proof of such resolution is provided to the Staff.

Q. Does OWC have any investment in the water and sewer systems serving the Cedar Glen Service Area?

A. Yes, it does. It has invested \$81,799.33 as shown on WPM Schedule E attached hereto. Rates are required by law to be based on Fair Value of assets. Staff does not follow law. Staff has had 3 months since the Company filed testimony and over 3 years since the last rate case to prepare the above data.

Q. What additional information did you obtain regarding Mr. Johansen's testimony?

A. OWC submitted the following data request, and received the following response from Mr. Johansens:

Please provide all records in your possession which you believe establish or tend to establish the amount of Osage Water Company's current rate base investment. Please state the amount of any amortization or depreciation reserve attributable to such costs.

Staff Response to Data Request OWC-018

Please see the response to DR OWC 010 and the Staff's accounting schedules regarding the ratemaking rate base included in the Staff's filed

1 cost-of-service. Please also see the responses to DRs OWC-012, OWC-
2 015, OWC-016 and OWC-017 regarding possible future additions to
3 OWC's rate base.
4

5 Q. Were you able to determine from this response a comprehensive staff position
6 regarding OWC's allowable rate base?

7 A. No. This information was due in the Camden County Circuit Court Case in
8 October of 2003. Staff has had 3 months since the Company filed testimony and
9 over 3 years since the last rate case to prepare the above data. Staff does not
10 presently have a comprehensive position regarding OWC's rate base.

11 Q. What other information did you request from Staff with respect to OWC's rate
12 base?

13 A. OWC participated in a rate case in 1988-89, and Staff did not include any of the
14 rate baes determined in that case in its analys in this case. OWC submitted the
15 following data request to Staff:

16 Please state the amount of Osage Water Company's rate base established in Case
17 WR-89-170. Please state the amount of any amortization or depreciation reserve
18 attributable to such costs.
19

20 Staff Response to Data Request OWC-019
21

22 The case file related to the referenced case is not readily available, but to the extent
23 records exist in that file regarding the rate base established in that case they will be

1 provided to the Company no later than the start of the prehearing conference
2 scheduled for the subject pending cases. Rate base amounts established in that
3 case will be reviewed and considered for inclusion in the Staff's current ratemaking
4 rate base, if not already included therein. Additionally, the Staff is currently
5 reviewing information that OWC recently provided to the Staff regarding this
6 matter, and will present the results of that review to the Company no later than the
7 start of the prehearing conference scheduled for the subject pending cases.

8 OWC also obtained authority from the PSC in Case WF-89-188 to capitalize its
9 management fees, but Staff did not include any capitalized management fees in its
10 rate base analysis. OWC submitted the following data request to Staff, and
11 received the following response:

Please state the amount of capitalized management fees
approved by the Missouri Public Service Commission for
Osage Water Company in case WF-89-188. Please state
the amount of capitalized management fees included in
your rate base analysis in response to data request OWC-
018. If no management fees have been included in rate
base subsequent to Case WF-89-188, please explain why
such fees have been excluded from your rate base
analysis.

Staff Response to Data Request OWC-020

The case file related to the referenced case is not readily available, but to the extent records exist in that file regarding the capitalized management fees recognized in that case they will be provided to the Company no later than the start of the prehearing conference scheduled for the subject pending cases. Any capitalized management fees recognized in that case will be reviewed and considered for inclusion in the Staff's current ratemaking rate case, depending upon the specifics of the circumstances of that case and of the Commission's order issued in that case. Additionally, the Staff is currently reviewing information that OWC recently provided to the Staff regarding this matter, and will present the results of that review to the Company no later than the start of the prehearing conference scheduled for the subject pending cases. Also, so far as has been determined to date, there are no capitalized management fees included in the Staff's current ratemaking rate base analysis. Lastly, the Staff will provide its position regarding the exclusion/inclusion of management fees incurred since the referenced case in rate base, no later than the start of the prehearing conference scheduled for the subject pending cases.

Q. What is OWC position regarding its rate base from WR-89-170 that should be included in the rate base analysis in this case?

A. \$5,000 in initial capital was injected into OWC and recognized by the Commission in that case.

1 Q. What is OWC's position regarding the capitalized management fees that should be
2 included in the rate base analysis in this case?

3 A. The Commission recognized \$7,000 in WF-89-188, and subsequently recognized
4 the total investment in OWC in 1992 to be \$75,000, including the \$5,000 original
5 investment and capitalized management fees through the date of the application in
6 Case WA-92-141. Since 1992 OWC has incurred the additional sum of
7 \$249,847.90 in capitalized management fees.

8 Mr. Johansen admits that the rate base used in his analysis is incomplete (low). See
9 WPM Schedule F, email from Dale Johansen dated 11/26/03 titled Analysis
10 of Agreed-upon Rate Base.

11
12 *Conclusions on Staff Direct Testimony*

13 Q. Do you have any conclusions about Staff direct testimony?

14 A. Yes.

15 1. The staff opines about OWC record keeping, but can't find its own records
16 - especially when it shows a monetary amount in the Companies benefit.

17 2. No one testifying on behalf of Staff in this case has any direct work
18 experience for any regulated utility company. Many have little or no
19 experience with utility regulation.

20 3. Consistently skewed/flawed analysis with no factual basis for the opinions
21 stated.

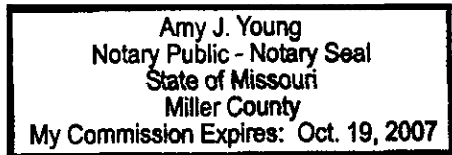
22 4. Blatant disregard for existing laws and regulations.


1 that he has knowledge of the matters set forth in such answers; and that such matters are
2 true to the best of his knowledge and belief.

3
4 

5 William P. Mitchell

6
7 Subscribed and sworn to before me this 9th day of January 2004.



11 

12 Notary Public

13 My Commission Expires: 10-19-2007

WPM SCHEDULE A

1/9/2004

System Supervisor		500-700 Connections			
# Connections	County	Wage Rate	# Full Time Employees	# Part Time Employees	Total Employees
500	Audrain	20	2	0	2
533	Texas	11.25	1	0	1
600	Cass	25	2	2	4
690	Cass	16	1	3	4
Average		18.06	1.5	1.25	2.75
Annual		37,570.00			

WPM SCHEDULE B

1/9/2004

System Superintendent

# Connections	County	Wage Rate
500	Audrain	14
512	McDonald	12.25
515	Morgan	11.45
525	Taney	12.5
525	Linn	12.62
560	Greene	13
600	Cass	16
603	Wright	15.14
605	Platte	17.02
630	Holt	16.63
675	Greene	15.64
690	Cass	12.84
700	Webster	12.5
	Average	13.97
	Annual	29,054.40

WPM SHCEDULE C

1/9/2004

Office Manager

#	Connecti County	Wage Rate
500	Christian	8.75
512	McDonal	8.33
515	Morgan	9.62
525	Taney	11
525	Linn	12.62
560	Greene	12
600	Cass	14.2

Date: 08/27/99

Page: 1

Osage Water Company
DEPRECIATION EXPENSE
For: Financial Book
Period Ending: December 31, 1998

Select: All Sub-Total By: Department

Asset ID	Description	In Serv:	Method	Life	Cost	Adjustments	Period Depr	YTD Depr	Accum. Depr	Code
8	Chelsea Rose Se	09/02/92	SLFM	40.0	23,079.00	0.00	48.08	576.98	3,654.21	
9	Chelsea Rose Co	09/02/92	SLFM	40.0	19,294.90	0.00	40.20	482.37	3,055.01	
11	Hancock Sewer S	09/02/92	SLFM	40.0	23,000.00	0.00	0.00	0.00	2,108.34	d
33	Sewer Certifica	12/31/97	NOOPR	7.0	1,037.50	0.00	0.00	0.00	0.00	
34	Cimarron Sewer	06/01/96	SLFM	40.0	35,000.00	0.00	875.00	875.00	2,260.42	
76	Cimarron Sewer	06/01/97	NOOPR	5.0	6,820.00	0.00	0.00	0.00	0.00	
75	Chelsea Rose Se	06/01/97	SLFM	40.0	8,268.93	0.00	206.72	206.72	327.31	
77	Misc. Additions	03/31/98	SLFM	5.0	2,758.20	0.00	45.97	459.70	459.70	
79	Addition to Che	04/30/98	SLFM	5.0	2,339.82	0.00	39.00	350.97	350.97	
82	Additions to Co	05/31/98	SLFM	5.0	407.39	0.00	6.79	54.32	54.32	
80	Additions to La	04/30/98	SLFM	5.0	832.19	0.00	13.87	124.83	124.83	
85	Add. to Chelsea	07/31/98	SLFM	5.0	276.22	0.00	4.60	27.62	27.62	
91	Add. to Chelsea	10/31/98	SLFM	5.0	1,000.00	0.00	16.67	50.00	50.00	
93	Add. to Chelsea	11/30/98	SLFM	5.0	4,647.53	0.00	77.46	154.92	154.92	
95	Add to Coll Sew	12/31/98	SLFM	5.0	138.11	0.00	2.30	2.30	2.30	
83	Additions to Ch	06/30/99	SLFM	5.0	5,915.87	0.00	0.00	0.00	0.00	
113	1998 Capitalize	12/31/98	SLFM	7.0	12,652.12	0.00	150.62	150.62	150.62	
114	Capitalize 1998	12/31/98	SLFM	7.0	3,919.92	0.00	46.67	46.67	46.67	
132	1998 Bobcat Cha	12/31/98	SLFM	5.0	3,749.23	0.00	62.49	62.49	62.49	
133	1998 Bobcat Cha	12/31/98	SLFM	5.0	650.71	0.00	10.85	10.85	10.85	

Sub Totals For Sewer 155,787.64 0.00 1,647.29 3,636.36 12,900.58
Assets: 20

Section 179 : 0.00
ITC Adjustment: 0.00
Salvage Value : 0.00

Less Disposals: 23,000.00 2,108.34
Assets: 1

Book Value: 121,995.40 132,787.64 0.00 1,647.29 3,636.36 10,792.24

2	Shoney's Well	06/01/92	SLFM	40.0	31,741.27	0.00	66.13	793.53	5,224.07	
3	Shoney's Pump	06/01/92	SLFM	7.0	7,214.37	0.00	85.88	1,030.62	6,784.92	
4	Shoney's Water	06/01/92	SLFM	7.0	21,629.11	0.00	257.49	3,089.87	20,341.65	
5	PSC Debt Approv	06/01/92	SLFM	5.0	2,000.00	0.00	0.00	0.00	2,000.00	f
6	Chelsea Rose Wa	09/04/92	SLFM	40.0	7,626.10	0.00	15.89	190.65	1,207.45	
7	Chelsea Rose Wa	09/04/92	SLFM	40.0	1,000.00	0.00	2.08	25.00	158.33	
10	Hancock Water S	09/02/92	SLFM	40.0	7,000.00	0.00	0.00	0.00	641.66	d
12	Cavern View Wat	02/04/92	SLFM	40.0	21.00	0.00	0.04	0.53	3.66	
13	Chlorinators	01/01/91	SLFM	7.0	751.00	0.00	0.00	0.00	751.00	
14	Meters	06/01/93	SLFM	7.0	7,154.17	0.00	85.17	1,022.02	5,706.28	
15	High Point Wate	06/01/93	SLFM	40.0	19,000.00	0.00	39.58	475.00	2,652.08	
16	1992 Certificate	09/02/94	NODPR	0.0	10,509.08	0.00	0.00	0.00	0.00	
17	Tres Hombres Ma	02/17/95	SLFM	40.0	70,997.56	0.00	147.91	1,774.94	6,951.85	
18	Cimarron Bay We	06/01/96	SLFM	10.0	25,000.00	0.00	2,500.00	2,500.00	6,458.33	
19	Ranada Main Ext	06/01/94	SLFM	40.0	4,592.71	0.00	9.57	114.82	526.26	
20	Adventure Zone	06/01/94	SLFM	40.0	99,647.92	0.00	207.60	2,491.20	11,418.00	
21	1996 Franchise/	12/31/96	NODPR	0.0	41,026.38	0.00	0.00	0.00	0.00	
22	Lot 99A Shawnee	06/01/96	NODPR	0.0	10,000.00	0.00	0.00	0.00	0.00	
23	Ledges Subdivis	05/22/96	SLFM	40.0	2,817.16	0.00	5.87	70.43	187.81	
24	Super 8 Water W	09/30/96	SLFM	40.0	45,254.00	0.00	1,131.35	1,131.35	2,639.82	
25	Makalu Water We	11/01/96	SLFM	40.0	6,351.71	0.00	13.23	158.79	344.06	
26	Parkview Bay Wa	10/14/96	SLFM	40.0	5,000.00	0.00	10.42	125.00	281.25	
27	Blue Harbor 199	12/31/96	SLFM	40.0	825.00	0.00	1.72	20.63	42.98	
29	Broadwater Main	09/18/96	SLFM	40.0	1,650.77	0.00	3.44	41.27	96.30	
30	Chelsea Rose Ma	06/30/96	SLFM	40.0	3,509.42	0.00	7.31	87.74	226.66	
31	Misc. 1996 Main	06/08/96	SLFM	40.0	108.00	0.00	0.23	2.70	6.98	
32	Meters - 1996	06/01/96	SLFM	7.0	3,138.77	0.00	448.40	448.40	1,158.36	
35	1995 Certificat	12/31/95	NODPR	40.0	65,419.31	0.00	0.00	0.00	0.00	
36	1995 Water Mete	06/01/95	SLFM	7.0	1,092.50	0.00	13.01	156.07	559.25	
38	1994 Certificat	09/28/94	NODPR	40.0	174,240.30	0.00	0.00	0.00	0.00	
39	1994 Meters	12/31/94	SLFM	7.0	579.21	0.00	6.90	82.74	337.86	
40	Chelsea Rose Pu	12/31/94	SLFM	7.0	1,433.28	0.00	17.06	204.75	836.06	
41	Adv. Zone - Dis	06/01/94	SLFM	40.0	24,349.26	0.00	50.73	608.73	2,790.01	
42	Tres Hombres -	02/17/95	SLFM	40.0	51,840.07	0.00	108.00	1,296.00	5,076.00	
43	Well Lot at Par	04/20/97	NODPR	0.0	10,000.00	0.00	0.00	0.00	0.00	
44	Legal Work for	12/31/97	NODPR	0.0	12,712.50	0.00	0.00	0.00	0.00	
45	Legal Work on S	12/31/97	NODPR	0.0	7,432.01	0.00	0.00	0.00	0.00	
46	Super 8 Surveyi	12/31/97	NODPR	0.0	224.00	0.00	0.00	0.00	0.00	
48	Water Line Valv	02/06/97	SLFM	40.0	980.00	0.00	2.04	24.50	46.96	
49	Booster Pump Sy	07/01/97	SLFM	7.0	5,674.15	0.00	67.55	810.59	1,215.89	
50	Parkview Bay We	07/01/97	SLFM	40.0	68,369.77	0.00	142.44	1,709.24	2,563.86	
51	Parkview Bay We	07/01/97	SLFM	7.0	7,758.94	0.00	92.37	1,108.42	1,662.63	
52	Blue Harbor Wel	06/18/97	SLFM	40.0	92,080.50	0.00	191.83	2,302.01	3,644.85	

Date: 08/31/99

Page: 2

WPM SCHEDULE D

Osage Water Company
DEPRECIATION EXPENSEFor: Financial Book
Period Ending: December 31, 1998

Select: All Sub-Total By: Department

Asset ID	Description	In Serv	Method	Life	Cost	Adjustments	Period Depr	YTD Depr	Accum. Depr	Code
53	Blue Harbor UV	06/18/97	SLFM	7.0	9,755.75	0.00	116.14	1,393.68	2,206.66	
54	Blue Harbor Acq	06/18/97	SLFM	40.0	2,240.00	0.00	4.67	56.00	88.67	
55	Shoney's Well E	12/31/97	SLFM	7.0	562.50	0.00	6.70	80.36	87.06	
56	Cedar Glen Acq.	12/31/97	SLFM	15.0	3,293.50	0.00	219.57	219.57	237.87	
57	Lakeview Beach	08/04/97	SLFM	40.0	7,097.78	0.00	14.79	177.44	251.38	
58	KK Water Sytem	12/31/97	NODPR	0.0	37.50	0.00	0.00	0.00	0.00	
59	Sun Swept East	12/31/97	SLFM	7.0	142.50	0.00	1.70	20.36	22.06	
60	Times Square Wa	12/31/97	SLFM	7.0	120.00	0.00	1.43	17.14	18.57	
62	High Point Well	12/31/97	SLFM	7.0	937.50	0.00	11.16	133.93	145.09	
63	Cimmaron Well	12/31/97	SLFM	40.0	4,936.00	0.00	123.40	123.40	133.68	
64	Rizzo's Main Ex	05/23/97	SLFM	40.0	11,531.45	0.00	24.02	288.29	480.48	
65	Chelsea Rose Wa	11/15/98	SLFM	40.0	6,314.80	0.00	13.16	26.31	26.31	
66	Blue Harbor Wat	06/18/97	SLFM	40.0	46,500.28	0.00	96.88	1,162.51	1,840.64	
67	Blue Harbor Mai	12/16/97	SLFM	40.0	2,360.35	0.00	4.92	59.01	63.93	
68	Broadwater Main	10/01/97	SLFM	40.0	1,189.46	0.00	2.48	29.74	37.17	
69	Makalu Meters	07/01/97	SLFM	7.0	9,515.68	0.00	113.28	1,359.38	2,039.07	
70	Parkview Bay Me	06/01/98	SLFM	7.0	12,152.97	0.00	144.68	1,012.75	1,012.75	
71	Cedar Glen Mete	09/01/97	SLFM	7.0	1,849.21	0.00	22.01	264.17	352.23	
72	Sycamore Inn Me	04/18/97	SLFM	7.0	454.62	0.00	5.41	64.95	113.66	
73	Blue Harbor Met	06/18/97	SLFM	7.0	3,102.04	0.00	36.93	443.15	701.65	
74	Westside Bay Me	12/01/97	SLFM	7.0	924.65	0.00	11.01	132.09	143.10	
78	Additions to La	04/30/98	SLFM	5.0	1,739.04	0.00	28.98	260.86	260.86	
81	Additions to Ch	05/31/98	SLFM	5.0	3,885.92	0.00	64.77	518.12	518.12	
103	Osage Beach N.	12/31/98	SLFM	5.0	10,000.00	0.00	166.67	166.67	166.67	
105	Meters - 1996	12/31/98	SLFM	7.0	1,000.00	0.00	11.90	11.90	11.90	
106	Meters - 1996	12/31/98	SLFM	7.0	2,000.00	0.00	23.81	23.81	23.81	
107	Meters	12/31/98	SLFM	7.0	1,013.82	0.00	12.07	12.07	12.07	
108	Meters	12/31/98	SLFM	7.0	1,010.89	0.00	12.02	12.02	12.02	
109	Meter Wire	12/31/98	SLFM	7.0	28.04	0.00	0.33	0.33	0.33	
1	Pizza Hut Water	01/01/88	NODPR	0.0	5,000.00	0.00	0.00	0.00	0.00	
37	Steel Plate - R	06/01/95	SLFM	7.0	2,680.02	0.00	31.91	382.86	1,371.92	
47	Well Pump	01/24/97	SLFM	7.0	947.95	0.00	11.29	135.42	270.84	
61	Pizza Hut Well	12/31/97	SLFM	7.0	345.00	0.00	4.11	49.29	53.40	
84	Add. to Utility	07/31/98	SLFM	5.0	1,314.63	0.00	21.91	131.46	131.46	
86	Add. to Utility	09/30/98	SLFM	5.0	2,914.44	0.00	48.58	194.30	194.30	
87	Add. to Cedar G	09/30/98	SLFM	5.0	5,000.00	0.00	83.33	333.33	333.33	
88	Add to Utility	10/31/98	SLFM	5.0	2,044.94	0.00	34.08	102.25	102.25	
89	Add to Utility	10/31/98	SLFM	5.0	614.10	0.00	10.24	30.71	30.71	
94	Add to Cedar Gl	12/31/98	SLFM	5.0	1,270.29	0.00	21.17	21.17	21.17	
97	1998 Additions	12/31/98	SLFM	5.0	6,628.13	0.00	110.47	110.47	110.47	
98	1997 Additions	12/31/98	SLFM	5.0	1,730.05	0.00	28.83	28.83	28.83	
99	1997 Addition -	12/31/98	SLFM	5.0	475.00	0.00	7.92	7.92	7.92	
100	1998 Addition -	12/31/98	SLFM	5.0	94.29	0.00	1.57	1.57	1.57	
101	Pre 1997 Chelse	12/31/98	SLFM	5.0	14,560.00	0.00	242.67	242.67	242.67	
102	1998 Additions	12/31/98	SLFM	5.0	2,332.75	0.00	38.88	38.88	38.88	
104	DNR to Dogwood	12/31/98	SLFM	5.0	1,500.00	0.00	25.00	25.00	25.00	
111	Capitalized 199	12/31/98	SLFM	7.0	35,719.26	0.00	425.23	425.23	425.23	
115	Jackson Eng. -	12/31/98	SLFM	7.0	23,000.00	0.00	273.81	273.81	273.81	
116	Jackson Eng. -	12/31/98	SLFM	7.0	1,500.00	0.00	17.86	17.86	17.86	
117	Jackson Eng. -	12/31/98	SLFM	7.0	10,000.00	0.00	119.05	119.05	119.05	
118	Jackson Eng. -	12/31/98	SLFM	7.0	10,000.00	0.00	119.05	119.05	119.05	
119	FY 1998 Legal F	12/31/98	SLFM	7.0	3,162.50	0.00	37.65	37.65	37.65	
120	FY 1998 Legal F	12/31/98	SLFM	7.0	1,212.50	0.00	14.43	14.43	14.43	
121	FY 1998 Legal F	12/31/98	NODPR	0.0	6,687.50	0.00	0.00	0.00	0.00	
122	FY 1998 Legal F	12/31/98	SLFM	7.0	4,932.50	0.00	58.72	58.72	58.72	
123	FY 1998 Legal F	12/31/98	SLFM	7.0	1,037.50	0.00	12.35	12.35	12.35	
124	FY 1998 Legal F	12/31/98	SLFM	7.0	2,608.04	0.00	31.05	31.05	31.05	
125	1998 Bobcat Cha	12/31/98	SLFM	5.0	5,739.63	0.00	95.66	95.66	95.66	
126	1998 Bobcat Cha	12/31/98	SLFM	5.0	921.65	0.00	15.36	15.36	15.36	
127	1998 Bobcat Cha	12/31/98	SLFM	5.0	219.32	0.00	3.66	3.66	3.66	
128	1998 Bobcat Cha	12/31/98	SLFM	5.0	501.98	0.00	8.37	8.37	8.37	
129	1998 Bobcat Cha	12/31/98	SLFM	5.0	294.20	0.00	4.90	4.90	4.90	
130	1998 Bobcat Cha	12/31/98	SLFM	5.0	1,883.26	0.00	31.39	31.39	31.39	
131	1998 Bobcat Cha	12/31/98	SLFM	5.0	1,261.18	0.00	21.02	21.02	21.02	
Sub Totals For Water					1,265,579.36	0.00	9,037.65	35,093.24	109,805.22	
Assets: 107										
Section 179 :						0.00				
ITC Adjustment:						0.00				
Salvage Value :						0.00				
Less Disposals:					7,000.00				641.66	
Assets: 1										

January 9, 2004

Mr. Greg Meyer
Mr. Dana Eaves
Accounting Department
Missouri Public Service Commission

FAX: 573-751-1847

Re: Cedar Glen Service Area – Rate Base Analysis

Gentlemen:

Attached are the documents I was able to locate in the OWC files setting out OWC's analysis of the current and possible rate base for the water and sewer systems at Cedar Glen Condominium. As we discussed, OWC has a written agreement with Cedar Glen Construction, Inc. under the terms of which Cedar Glen was to build and contribute to OWC the completed water and sewer facilities for the project, and OWC was to pay \$500 per water customer in excess of the first 32 customers, and \$500 per sewer customer in excess of the first 64 customers back to Cedar Glen.

The contract called for 200 customers, and as of August 2003, there were 191 customers connected, and additional units built and closing on a monthly basis. In short, it appears that the 200 customer limit called for in the contract will be reached this fall. They may construct additional units, but there is no provision for payment with respect to additional units in excess of the 200 provided in the Contract. The provides a maximum reimbursement by OWC of \$152,000 to Cedar Glen.

Unfortunately, almost nothing went as planned on the project. The initial problems centered around the sewer plant, when Cedar Glen took the low bid, and their contractor failed to complete the sewer plant, and a considerable portion of the work on the original plant was defective and had to be rebuilt by OWC. The cost of this initial rebuilding was \$12,700, which was credited against the reimbursement due from OWC. In addition, OWC paid \$13,698.75 to pump and haul the wastewater in the treatment plant because Cedar Glen sold and conveyed units prior to completion of construction and reconstruction of the treatment plant. Pat Mitchell paid for this pumping for OWC. The pumping bills are in the OWC/Cedar Glen file at my office.

OWC also provided and paid for the first 64 water meters installed in the project, although that cost was to be paid by Cedar Glen. The cost of those meters was \$4,480.

OWC located, purchased, and delivered to the Cedar Glen project a 36,000 gallon hydro-pneumatic water tank, which has been installed by Cedar Glen. The cost of purchase, transportation, and fabrication of the steel supports for the tank paid for by OWC is \$15,000.

OWC has also made cash payments to Cedar Glen totaling \$13,000.

OWC also owes Jackson Engineering (Pat Mitchell) \$6,236.92 for the engineering work to obtain the Phase 2 sewer plant expansion permit from MDNR.

This brings OWC's total payments to Cedar Glen under the Contract to \$65,115.67, out of the \$152,000 maximum due to Cedar Glen.

Unfortunately, Cedar Glen built the sewer plant on real estate which it did not own. The fee title to the land is in Union Electric Company, but is subject to an easement which allows the owner of the land above the 665 contour to construct improvements between the 665 and the 660 contour. The plant is located on this easement. OWC's Contract with Cedar Glen called for delivery of ownership of the real estate on which the treatment plant is located to OWC. Cedar Glen has acquired title to some land between the 665 and the 660 from Union Electric for the purpose of building condominium buildings, but refused to obtain and convey to OWC the fee title to the land on which the treatment plant is built.

After months of negotiations to resolve this problem failed, OWC quit paying Cedar Glen cash payments in December of 2001. Cedar Glen did complete the expansion to the sewer plant and the addition of the water storage tank after December of 2001, but placed a portion of the water tank on land which has not been conveyed to OWC. OWC does have fee title to the original well house and some land around it, but the water tank encroaches over the property line to the wellhouse that OWC owns.

If Cedar Glen were to convey the fee title to the sewer plant site, and the land under the water tank, then it would be entitled to payment of the \$152,000 provided in the original Contract. Therefore, I would consider this amount of money to be "rate-baseable". However, OWC has actually only paid \$45,180, and therefore this is the amount which should be included in OWC's rate base at this time.

As of the last rate case, Staff had included \$22,723.28 in rate base for the Cedar Glen water and sewer systems. The additional sum of \$42,392.39 should be added to rate base to bring the total to the \$65,115.67 which OWC has paid and/or incurred under the Contract with Cedar Glen. The additional sum of \$86,884.33 should be shown as "rate baseable" as it represents the additional sums to which Cedar Glen will be entitled if it satisfies the requirement of the contract that it provide the fee title to the land for the water tank and sewer plant sites.

I think that this is a comprehensive analysis. The supporting documentation is in the OWC/Cedar Glen file which was provided to you last week, and which is available at my office for further review should you so desire.

Sincerely yours,

Gregory D. Williams

cc: Pat Mitchell

William P. (Pat) Mitchell

From: dale.johansen@psc.mo.gov
Sent: Wednesday, November 26, 2003 3:32 PM
To: gregwms@charterinternet.com; patm@h2olab.com
Cc: keith.krueger@psc.mo.gov; greg.meyer@psc.mo.gov
Subject: Analysis of Agreed-Upon Rate Base



Receivership - Receivership - Plant
Summary of Agre... In Servic...

Attached to this message are the most up-to-date spreadsheets regarding the above subject. The first one is a new one that I just completed. The second one is one that I have previously sent to you, but I am including it with this message also as it is referenced in the new one.

Please note on the first page of the new spreadsheet that there are two numbers missing in the analysis. One being the Staff's number for capitalized legal fees for the KK certificate and the second being the Company's number for any additional capitalized engineering fees that are believed appropriate.

Greg Meyer from the Staff and Kim Bolin from the OPC have both been working on this also, but are both out today. I will get with them Monday and hopefully will have the missing Staff number by the end of the day on Monday. Please advise me of any changes to the Company's numbers as soon as possible.

Please accept my apologies for not getting this information to you sooner, but I basically have not been in my office for more than the equivalent of two or three days the last couple of weeks.

If you would like, you can correspond with me about this over the long weekend by using my home e-mail (dalewj@mchsi.com).

Dale Johansen - Manager
Water & Sewer Department

<<Receivership - Summary of Agreed Upon Rate Base - 11.26.03.xls>>
<<Receivership - Plant In Service & Rate Base - 10.31.03.xls>>

**Agreed-Upon Ratemaking Rate Base for Osage Water Company
Staff & Company Positions as of November 26, 2003**

General Description of "Issues"		Staff Amount	Company Amount	Difference (staff - company)
Current Ratemaking Rate Base *				
1	Ratemaking Rate Base - Sewer	124,895	124,895	0
2	Ratemaking Rate Base - Water	234,155	234,155	0
3	Ratemaking Rate Base - Total	359,050	359,050	0
4	* updated from last rate case - see next sheet for details			
Additions to Ratemaking Rate Base for Sale				
1	Hancock Osage Beach Water Plant	201,600	240,000	(38,400)
2	(see next sheet for details)			
3	Cedar Glen Sewer & Water Systems			
4	Cedar Glen Sewer System Current	36,905	36,905	0
5	Cedar Glen Sewer System Future	28,865	28,865	0
6	Cedar Glen Sewer System Total	65,770	65,770	0
7	Cedar Glen Water System Current	5,490	5,490	0
8	Cedar Glen Water System Future	58,020	58,020	0
9	Cedar Glen Water System Total	63,510	63,510	0
10	Cedar Glen Combined Current	42,395	42,395	
11	Cedar Glen Combined Future	86,885	86,885	
12	Cedar Glen Combined Total	129,280	129,280	0
13	(see next sheet for details)			
14				
15	Pre-2000 Capitalized Legal Fees	80,110	206,590	(126,480)
16	(does not include fees for KK certificate case - split 50/50			
17	between sewer and water for system calculations)			
18				
19	KK Certificate Case Capitalized Legal Fees	0	80,940	(80,940)
20	(split 50/50 between sewer and water for system calculations)			
21				
22	Rate Case Expense (1999/2000 case)	0	23,470	(23,470)
23				
24	"Unpaid Bills" 2002	6,825	11,955	(5,130)
25	(see next sheet for details)			
26				
27	KK Wastewater Treatment Plant	65,225	65,225	0
28	(investment by Greg & Debra Williams - to be included			
29	upon transfer of property & verification of amount)			
30				
31	Original Rate Base	3,000	5,000	(2,000)
32	(land from 1987 certificate case - split 50/50 between			
33	sewer and water for system calculations - see next sheet also)			
34				
35	Engineering Fees	0	0	0
36	(see next sheet for details)			
Ratemaking Rate Base Post Sale				
1	Sewer Systems	297,445	413,890	(116,445)
2	Water Systems	547,645	707,620	(159,975)
3	Total Combined	845,090	1,121,510	(276,420)

Note: List of "Issues" and Company Amounts Taken from a Spreadsheet
that Dale Johansen Received from Greg Williams on November 4, 2003.