

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

In the Matter of the Tariff Filing of)	
Algonquin Water Resources of Missouri,)	
LLC, to Implement a General Rate Increase)	<u>Case No. WR-2006-0425</u>
for Water and Sewer Customers in its)	
Missouri Service Areas.)	
)	

STAFF'S STATEMENT OF POSITIONS

COMES NOW the Staff of the Missouri Public Service Commission and, for its Statement of Positions, states to the Missouri Public Service Commission as follows.

A. PLANT.

1. What amount, if any, should be reflected as plant-in-service for pre-1993 property?

Staff's Position: The only amount of pre-1993 plant to be included is that which is already included in the Staff's calculation of the Company's rate base, as is discussed in the Surrebuttal Testimony of Staff witness Graham A. Vesely beginning on line 20 of page 9 and continuing through line 16 of page 10.

2. What is the appropriate level of post-1992 plant that should be included as plant-in-service?

Staff's Position: Staff's total plant-in-service levels, consisting of both pre-1993 and post-1992 plant, are those included in the reconciliation Staff filed on January 17, 2007. Staff's post-1992 recommended plant levels are identifiable by removing pre-1993 plant described in item 1 above from total plant.

B. EXCESS CAPACITY. Do Algonquin's facilities include plant held for future use, which should not be included in plant in service, because they include excess capacity? If so, what is the value of the facilities that should not be included as plant-in-service?

Staff's Position: Yes. Algonquin's Ozark Mountain water facilities include plant held for future use, in the amount of \$12,296, as shown in Schedule GAV 2B-1 to the Direct Testimony of Graham A. Vesely, and Algonquin's Timber Creek water facilities include plant held for future use, in the amount of \$260,522, as shown in Schedule GAV 2D-1 to the Direct Testimony of Graham A. Vesely. In addition, Algonquin's Holiday Hills water facilities include plant held for future use. This amount was initially determined to be \$201,889, as shown in Schedule GAV 2A-1 to the Direct Testimony of Graham A. Vesely. However this amount will need to be reduced by an as yet undetermined amount, based upon the Surrebuttal Testimony of James A. Merciel, Jr.

C. CONSTRUCTION COST OVERRUN. Were some of the costs of constructing the facilities imprudently incurred? If so, how much should the plant-in-service accounts be reduced?

Staff's Position: Yes. \$186,373.

D. CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC). What is the amount of contributions in aid of construction that should be used to reduce Algonquin's plant-in-service accounts?

Staff's Position: Unamortized CIAC plant should be valued at \$1,202,125 for Algonquin's water systems, and at \$353,771 for Algonquin's sewer systems.

E. DEPRECIATION RATES. What depreciation rates should be applied to the various elements of Algonquin's plant in service?

Staff's Position: The depreciation rates for Algonquin's water facilities should be as set forth in Schedule 2-1 attached to the Direct Testimony of Staff witness Rosella L. Schad. The depreciation rates for Algonquin's sewer facilities should be as set forth in Schedule 2-2 attached to the Direct Testimony of Staff witness Rosella L. Schad.

F. CAPITAL STRUCTURE. What capital structure should the Commission apply to Algonquin's investment in determining the proper rate of return on Algonquin's rate base?

Staff's Position: The Commission should apply a hypothetical capital structure consisting of 47.88 percent common stock equity and 52.12 percent long-term debt.

G. RETURN ON EQUITY. What return on equity should the Commission apply to Algonquin's investment in determining the proper rate of return on Algonquin's rate base?

Staff's Position: The Commission should apply a return on equity in the range of 8.06 percent to 9.06 percent.

H. PAYROLL EXPENSE. What is the appropriate level of payroll expense that Algonquin should be allowed to recover in its rates?

Staff's Position: Algonquin should be permitted to include the sum of \$177,128, for all payroll and related expenses and benefits, which was arrived at as described in the direct testimony of Graham A. Vesely.

I. RATE CASE EXPENSE. Should the Commission allow Algonquin to recover in its rates any allowance for the rate case expenses that it incurred in presenting this case to the Commission? If so, how much rate case expense did Algonquin prudently incur, and over how many years should the rate case expense be amortized?

Staff's Position: No, Algonquin should not be permitted to recover in its rates any allowance for rate case expenses that it incurred in presenting this case. If the Commission believes that some amount of rate case expense is appropriate, the Staff recommends that the amount should not exceed \$5,000.

J. RATE DESIGN. Should the Commission's order establish separate rates for each of Algonquin's three service territories, or should the Commission's order establish a unified rate for water service to Algonquin's service to the Ozark Mountain and Holiday Hill service territories?

Staff's Position: Yes, the Commission should establish separate rates for each of Algonquin's three service territories, so the customers in each service territory pay for the cost of the service they receive.

K. RATE MITIGATION. Should any increase in rates be phased in, or be otherwise mitigated? If so, how?

Staff's Position: No, the rate increase should not be phased in, or otherwise mitigated.

WHEREFORE, the Staff submits its Statement of Positions for the Commission's information and consideration.

Respectfully submitted,

/s/ Keith R. Krueger

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronic mail to all counsel and/or parties of record this 17th day of January 2007.

/s/ Keith R. Krueger