

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

*Exh. 16*

In the Matter of Osage Water Company's )  
Request for a Rate Increase for Water )  
Service Pursuant to the Public Service )  
Commission's Small Company Rate )  
Increase Procedure )

Case No. WR-2000-557

**STAFF'S SECOND REPORT  
REGARDING COMPANY COMPLIANCE  
WITH PROVISIONS OF RATE CASE DISPOSITION AGREEMENT**

COMES NOW the Staff of the Missouri Public Service Commission and, for its Second Report Regarding Company Compliance with Provisions of Rate Case Disposition Agreement, states to the Missouri Public Service Commission as follows:

1. On March 29, 2001, the Commission issued its Report and Order in the instant case, wherein it granted an interim rate increase and directed Osage Water Company to comply with certain provisions of the "Disposition Agreement" in this case. The Commission also directed the Staff to file a verified pleading in response to the Company's filing.

2. On September 28, 2001, the Company filed its Report of Completion of Requirements of Disposition Agreement, as ordered by the Commission. The Staff filed its response to that Report on October 9, 2001, reporting that the Company had not fully complied with all of the provisions of the Disposition Agreement.

3. On April 22, 2002, the Commission issued its Order Directing Staff Report, ordering the Staff to file, by May 17, 2002, a report on Osage's progress in meeting the conditions in the Disposition Agreement.

**Exhibit No.** 16  
**Case No(s)** WR-2003-034  
**Date** 10-25-02 **Rptr** XX

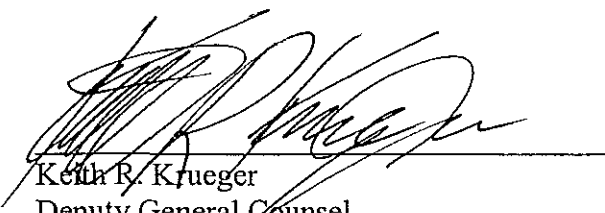
4. Attached hereto as Appendix A is the verified Second Staff Report Regarding Company Compliance with Provisions of Rate Case Disposition Agreement, which is submitted in compliance with the Commission's April 22 Order Directing Staff Report.

5. The Staff has concluded that the Company now complies with all provisions of the Disposition Agreement. The Staff therefore recommends that the Commission allow the Company to remove the "condition statements" from its rate tariff sheet, thereby making permanent the interim rate increase that the Commission approved on March 29, 2001.

**WHEREFORE**, the Staff respectfully requests that the Commission accept the attached Staff report, and that it authorize Osage Water Company to remove the "condition statements" from its rate tariff sheet.

Respectfully submitted,

DANA K. JOYCE  
General Counsel

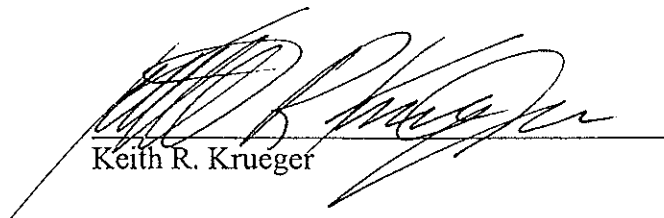


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## Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 17th day of May 2002.



Keith R. Krueger

**Service List for**  
**Case No. WR-2000-557**  
**Verified: May 15, 2002 (lb)**

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SECOND STAFF REPORT REGARDING COMPANY COMPLIANCE  
WITH PROVISIONS OF RATE CASE DISPOSITION AGREEMENT

CASE NO. WR-2000-557

OSAGE WATER COMPANY

Prepared By:  
Dale W. Johansen  
Utility Operations Division  
Water & Sewer Department

Background

On March 29, 2001, the Missouri Public Service Commission (Commission) issued its Report and Order (03/29/01 Rate Order) in Case No. WR-2000-557, wherein it granted Osage Water Company (Company) an interim increase in its annual water service operating revenues. The Commission subsequently approved the customer rates resulting from this increase in the Company's operating revenues, with the revised tariff sheet containing those rates also containing conditions providing that the continuation of the new rates was subject to the Company's compliance with certain conditions contained in the "Disposition Agreement" for this case.

As a part of its Rate Order, the Commission directed the Company to file a verified pleading in the case stating it had complied with certain conditions of the above-referenced Disposition Agreement, once it had complied with those conditions. The Commission also directed the Staff to file a response to the Company's pleading, within ten days after the Company filed its pleading, or to file a report on the Company's progress if the Company did not file a pleading by September 28, 2001.

On September 28, 2001, the Company filed its Report of Completion of Requirements of Disposition Agreement (Compliance Report), wherein it reported upon its compliance with the applicable provisions of the above-referenced Disposition Agreement. On October 9, 2001, the Staff submitted its Report Regarding Company Compliance with Provisions of Rate Case Disposition Agreement (First Report) in compliance with the Commission's Rate Order and in response to the Company's Compliance Report. On October 11, 2001 and October 15, 2001, respectively, the Office of the Public Counsel (OPC) and the Company filed responses to the Staff's First Report.

On April 22, 2002, the Commission issued its Order Directing Staff Report (04/22/02 Order), wherein it ordered the Staff to ". . . file, no later than May 17, 2002, a report on Osage Water Company's progress in meeting the conditions in the Disposition Agreement." The Staff is submitting this Second Staff Report Regarding Company Compliance with Provisions of Rate Case Disposition Agreement (Second Report) in compliance with the Commission's 04/22/02 Order.

### **Summary of Staff's First Report**

In its First Report, the Staff set out the seven statements included in the Company's Compliance Report and provided the Staff's response to each of those statements. The Staff also noted that those seven items adequately addressed all of the "compliance provisions" set out in the rate case Disposition Agreement, those specifically being the provisions of Paragraphs (3), (4), (5), (10), (14), (16) and (17) of the agreement.

In its First Report, the Staff also stated its conclusion that the Company had substantially complied with most of the subject provisions of the rate case Disposition Agreement, but also noted it was clear that the Company had not yet totally complied with all of the subject provisions. Specifically, the Staff's First Report established that the Staff believed the Company was in compliance with the provisions of Paragraphs (4), (16) and (17) of the Disposition Agreement, but was not yet in full compliance with Paragraphs (3), (5), (10) and (14) of the agreement.

### **Staff's Follow-Up Investigation**

The Staff's follow-up investigation in this matter included reviews of the Company's Compliance Report, the Staff's First Report and the Company's response to the Staff's First Report, as well as discussions with Company personnel and other appropriate persons. The Staff personnel primarily involved in these activities were Martin Hummel and Dale Johansen of the Water & Sewer Department. Additionally, input for this report was sought from Staff members Bill Meyer and Dana Eaves of the Accounting Department, due to their familiarity with the Company's record-keeping activities. Mr. Johansen created the initial draft of this report and circulated that draft to Mr. Hummel, Mr. Meyer and Mr. Eaves, those persons' direct up-line supervisors and the Staff attorney assigned to this case for review and comment. Comments received from those reviewers were then incorporated into the initial draft for the preparation of this final version of the report.

### **Staff's Follow-Up Findings & Conclusions**

Set out below are the provisions of the Disposition Agreement for which the Staff did not believe the Company had yet achieved compliance at the time of the writing of the Staff's First Report, a summary of the Staff's follow-up investigation findings and the Staff's conclusions regarding the Company's current compliance status. For reference purposes, the applicable statements from the Company's Compliance Report, as identified in the Staff's First Report, are shown in brackets following each provision from the Disposition Agreement.

*Disposition Agreement Paragraph (3): The Company will maintain its books and records in a manner whereby all revenues, expenses and plant balances will be properly assigned to each of the Company's separate certificated service areas. [Company Statement #1]*

*Disposition Agreement Paragraph (10): The Company will remove the plant balances referenced in paragraph (9) above from its regular plant accounts and will set the same aside in a separate special plant account on the Company's books until such time as the disagreement regarding the ratemaking treatment to be accorded those balances is resolved in a future rate increase proceeding. [Company Statement #4]*

Staff's Findings & Conclusions: During its review of the Company's recently filed 1999 Annual Report to the Commission and a review of the Company's records in another recent Commission case, the Staff found that the Company's records are much improved and that its accounts have been segregated by certificated service area via the establishment of various sub-accounts. Additionally, the Staff found that the plant balances referenced in Paragraph (9) of the Disposition Agreement have been identified in a separate account. The Staff also found that information pertaining to non-regulated systems to which the Company previously provided service has been removed from the Company's records.

Based upon the above, the Staff has concluded that the Company is now in compliance with the provisions of Paragraphs (3) and (10) of the Disposition Agreement. (The Staff will carry out additional monitoring of these matters upon the filing of the Company's 2000 and 2001 Commission annual reports, which as noted in the final section of this report have not yet been filed.)

*Disposition Agreement Paragraph (5): The Company will either seek certificates of convenience and necessity for those areas that it is not currently certificated but where it is providing service under the provisions of its Commission-approved tariff or will dispose of the systems and terminate its service to such non-certificated areas. Whichever option the Company chooses, the necessary actions will be completed no later than June 30, 2001. [Company Statement #3]*

Staff's Findings & Conclusions: During its follow-up investigation, the Staff has found that the transfers of the referenced systems to the respective homeowner associations have now been completed, though this was not done in the time frame originally contemplated, for the reasons set out in the referenced Company statement from its Compliance Report and in the Staff's First Report.

Based upon the above, the Staff has concluded that the Company is now in compliance with the provisions of Paragraph (5) of the Disposition Agreement.

*Disposition Agreement Paragraph (14): The Company will require the installation of meters for all individual condominium units in the Cedar Glen and Harbor Bay condominium developments by the respective developers of said projects, as is required by the written agreements between the Company and said Developers. As an alternative, the Company will install said individual meters and charge the cost thereof to said respective developers. All necessary meter installations for individual condominium units at these developments will be completed no later than September 30, 2001. [Company Statement #5]*

Staff's Findings & Conclusions: During its follow-up investigation, the Staff found that meter installations for existing occupied units at the Cedar Glen condominium project have been completed and that installation of meters in new units is being done at the time of occupancy, as was reported by the Company in its response to the Staff's First Report.

Regarding the Harbor Bay development, the Staff has found that meters have been installed in all occupied units in "Building C" and are being installed in new units at the time of occupancy. There is, however, apparently still a dispute between the Company and the developer regarding the responsibility for the installation of meters in the units in a new building known as "Building A". However, as was properly noted by the Company in its response to the Staff's First Report, the Disposition Agreement's requirements regarding meter installations at the Harbor Bay development were excluded from the "conditions of compliance" approved by the Commission in its 03/29/01 Rate Order (see Ordered Paragraph 3 of that order).

Based on the above, the Staff has concluded that the Company is now in compliance with the provisions of Paragraph (14) of the Disposition Agreement, as modified by the provisions of the Commission's 03/29/01 Rate Order.

### **Staff's Recommendations**

As set out above, the Staff has concluded that the Company is now in compliance with all the subject provisions of the rate case Disposition Agreement. As a result, the Staff recommends that the Company be allowed to remove the "condition statements" from its rate tariff sheet, which are, in effect, what makes the Company's rate increase interim and subject to change.

### **Additional Information**

Consistent with recent directives from the Commission, the Staff is providing the information below on the filing of the Company's Annual Reports to the Commission, on the Company's payment of its Commission assessments and on other cases currently before the Commission that directly involve the Company. Additionally, the Staff notes that it is continuing to work with the Company and certain of its customers regarding a dispute over the application of service connection fees and other related charges, but that this matter is not yet formally before the Commission.

Annual Report Filings: The Company submitted its calendar year (CY) 1999 Annual Report, which was due on April 15, 2000, on November 18, 2001 (reference Case No. WE-2002-240). The Company has not yet submitted its CY2000 or CY2001 Annual Reports, which were due on April 15, 2001 and April 15, 2002, respectively.

Assessment Payments: Based on a review of the Administration Division's assessment ledgers for fiscal years (FY) 2001 and 2002, the Staff notes that the Company is delinquent on the payment of its FY2002 assessments. For FY2002, the Company made a payment equal to one-fourth of its total due on November 29, 2001, but has not made any other payments toward those assessments. (The total of the Company's FY2002 water and sewer assessments was \$3,146.72, of which \$433.27 was attributable to its water services and \$2,713.45 was attributable to its sewer services.)

Other Pending Cases: The Staff notes that there are currently three other cases pending before the Commission that directly involve the Company. Those cases are identified as follows: WO-2002-163; WE-2002-240; and WC-2002-1055. However, it is the Staff's opinion that Commission action consistent with the Staff's recommendation herein, will not directly affect the matters pending in those cases.

