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**THIRD STAFF REPORT
CASE NO. WO-2002-163
OSAGE WATER COMPANY**

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Recent Procedural History

On September 18, 2002,¹ the Commission issued its Order Directing Third Staff Report (Filing Order) in the above-referenced case. In its Filing Order, the Commission directed the Staff to file a report regarding the following matters: (a) a description of each of the Company's service areas, including the type and number of customers in each area; (b) a description of the Company's facilities, including where they are located and what areas they serve; and (c) a description of the Company's organizational structure, including the names and basic job duties of all officers, managers and employees.

In addition to the information required by the Commission, the Staff is also including information in this report regarding the following matters: (1) ownership of certain of the Company's facilities and the real estate upon which those facilities are located; (2) the Company's directors; (3) the Company's stockholders; and (4) the Company's current corporate status.

Staff's Investigation

For the purpose of preparing this report, the Staff first reviewed the information in its files regarding Osage Water Company (OWC or Company), which has been obtained during the Staff's inspections of the Company's facilities and during other case activities involving the Company. On September 27, the Staff also sent a letter to OWC representatives asking

¹ Unless otherwise indicated, all dates herein refer to the year 2002.

that they verify certain information regarding the matters to be covered in this report. That letter was sent to William P. (Pat) Mitchell as President of OWC via facsimile and certified mail, to Gregory D. Williams as Registered Agent of OWC via e-mail and certified mail and to Debra J. Williams as Manager of OWC via facsimile and certified mail. Mr. Williams responded to the Staff's letter via e-mail on September 30, but neither Mr. Mitchell nor Ms. Williams responded to the Staff's letter. The Staff did receive return receipts from the US Postal Service showing that the three letters were delivered, and also has a log sheet from its facsimile machine showing that the transmissions to Mr. Mitchell and Ms. Williams were successful.

Staff members involved in gathering the information for this report, and in the preparation of the report, were Dale Johansen, Jim Merciel and Martin Hummel of the Water & Sewer Department, and Keith Krueger and Victoria Kizito of the General Counsel's Office.

**Information Regarding Service Areas, Customers Served, Facilities
Used to Provide Service, Facility Ownership and Real Estate Ownership**²

Osage Beach South Service Area

Water service area includes that portion of the City of Osage Beach located North of Highway 54 and East of State Road KK to the Lake of the Ozarks. Specific systems located within this general service area include a system that serves the Broadwater Bay subdivision and some surrounding area, a system that serves an area near the Super 8 Motel, and a system that serves an area in the vicinity of the Ledges subdivision and Blue Harbor Marina.

² Regarding the information in this report pertaining to facility and real estate ownership, the Staff notes that this information is based upon the Staff's knowledge of OWC's operations and readily available information, including information contained in Mr. Williams' response to the Staff's September 27 letter. The Staff has NOT conducted any title searches to confirm or refute the information presented.

Customers served in the Broadwater Bay area are 24 single-family residential customers plus the homeowners' association swimming pool. Two commercial customers and an apartment complex have recently disconnected from this system. The only customer currently served in the Super 8 area is the Super 8 Motel. No customers are currently served in the Ledges/Blue Harbor area.

Facilities serving the Broadwater Bay area are one deep well with submersible pump, one small hydropneumatic tank located at the well, distribution piping and customer meters. OWC owns the well, pump and tank, as well as the real estate upon which these facilities are located. OWC also owns the distribution piping and customer meters.

Facilities serving the Super 8 Motel area are one deep well with submersible pump, one 3,700-gallon hydropneumatic tank located at the well, distribution piping and customer meters. OWC owns the well, pump and tank, as well as the real estate upon which these facilities are located. OWC also owns the distribution piping and the customer meters.

Facilities at the Ledges/Blue Harbor area are one well and submersible pump in the Ledges subdivision and an 8" main located along Blue Harbor Drive. OWC owns the well and pump, and the real estate upon which the well is located, as well as the 8" main. Based upon current information, the Staff does not know whether OWC owns a second well that is located in this area, which has historically been referred to as the "Blue Harbor" well.

Osage Beach North Service Area

Water service area includes the High Pointe shopping center and some surrounding area.

Customers served are 28 commercial customers.

Facilities in the High Pointe area are two deep wells with submersible pumps and hydropneumatic tanks (one small tank and one 8,000-gallon tank), distribution piping and customer meters. OWC owns the wells, pumps and tanks, as well as the real estate upon

which those facilities are located. OWC also owns the distribution piping and customer meters.

Sunrise Beach North Service Area

Water service area with no customers and no facilities owned or operated by OWC.

Sunrise Beach South Service Area

Water service area with no customers and no facilities owned or operated by OWC.

Chelsea Rose Service Area

Water and sewer service area includes the Chelsea Rose development.

Customers served are 28 single-family residential customers.

Water facilities are one new deep well with a submersible pump and a 5,000-gallon hydropneumatic tank located at the well, an older "grand-fathered"³ well with a submersible pump and a small hydropneumatic tank located at the well, distribution piping and customer meters. OWC owns the grand-fathered well, pump and tank; however, Hurricane Deck Holding Company (a company owned by Greg & Debra Williams) owns the real estate upon which these facilities are located. Hurricane Deck Holding Company also owns the new deep well, pump and tank, and the real estate upon which those facilities are located. OWC is, however, purchasing those facilities by making installment payments on the mortgage taken out by Hurricane Deck Holding Company to pay for the construction of the facilities. Based upon current information, the Staff believes that OWC owns the customer meters in this system, but does not know whether the developers of the subdivision (Greg & Debra Williams) have transferred ownership of the distribution piping to OWC.

³ A grand-fathered well is a well that was constructed before applicable Department of Natural Resources (DNR) construction standards were in effect, but that the DNR does allow to be used as a source of supply so long as the well is used only for its original purpose and produces safe drinking water.

Sewer facilities are one extended air treatment facility and collecting sewers. OWC owns the treatment facility; however, Hurricane Deck Title Company owns the real estate upon which the treatment facility is located. Based upon current information, the Staff does not know whether the developers of the subdivision (Greg & Debra Williams) have transferred ownership of the collecting sewers to OWC.

Shawnee Bend Service Area

Water service area with no customers and no facilities owned or operated by OWC.

Cimmaron Bay Service Area

Water and sewer service area includes the Cimmaron Bay condominium development, the Harbor Bay condominium development and some surrounding areas.

Customers served are 14 single-family residential customers and 49 condominium-unit residential customers.

Water facilities are one deep well with submersible pump, one 36,000-gallon hydropneumatic tank located at the well, distribution piping and customer meters. OWC owns the well, pump and tank, as well as the real estate upon which these facilities are located. Based upon current information, the Staff believes that OWC owns the customer meters in this system, but does not know whether the developers have transferred ownership of the distribution piping to OWC.

Sewer facilities are one re-circulating sand filter treatment facility and collecting sewers. OWC owns the treatment facility and the real estate upon which the treatment facility is located. According to OWC, an expansion of the treatment facility is nearly complete; however, the Staff notes that this expansion has been under construction for approximately two years and that significant work still remains before the expansion will be usable. Based

upon current information, the Staff does not know whether the developers have transferred ownership of the collecting sewers to OWC.

Cedar Glen Service Area

Water and sewer service area consists of the Cedar Glen condominium development.

Customers served are 140 condominium-unit residential customers.

Water facilities are one deep well with submersible pump, six bladder tanks located at the well, a 36,000-gallon hydropneumatic tank located on property adjacent to the well, distribution piping and customer meters. OWC owns the well, pump and tanks, as well as the real estate upon which the well and bladder tanks are located. OWC does not own the real estate upon which the 36,000-gallon tank is located, but neither OWC nor the Staff currently knows if the project developer or the original landowner owns this real estate. Based upon current information, the Staff believes that OWC owns the customer meters in this system, but does not know whether the developer has transferred ownership of the distribution piping to OWC.

Sewer facilities are one re-circulating sand filter treatment plant and collecting sewers. OWC owns the treatment facility; however, Union Electric Company (AmerenUE) owns the real estate upon which the treatment facility is located. The developer of the condominium project has recently constructed an expansion to the treatment facility and is currently resolving some construction issues related to that expansion. Based upon current information, the Staff does not know whether the developer has transferred ownership of the collecting sewers to OWC.

Parkview Bay Service Area

Water service area includes the Parkview Bay condominium development and the Sunswept subdivision. OWC is not, however, currently providing service to the customers

in this service area. Instead, the City of Osage Beach is currently providing service to the customers, and OWC's facilities in the area, which include a well, a submersible pump and a 5,000-gallon storage tank, are inactive. Operational rights in this service area have been in dispute for quite some time and have been the subject of civil litigation initiated by OWC against the City.

State Route KK Service Area

Water service area includes the Eagle Woods subdivision plats. Customers currently served are approximately 25 single-family residential customers, but the plats of the subdivision include a total of 53 lots.

Water facilities: This area is currently supplied water via a connection to the water system located in the adjacent Golden Glade subdivision, a system that is currently owned and operated by Greg & Debra Williams as the developers of Golden Glade. Prior to this connection, water was supplied on an interim basis by two multi-family wells and tanks that the developer of the Eagle Woods subdivision constructed within the confines of the subdivision. The developer of the subdivision has transferred ownership of one multi-family well and tank, an easement to the real estate upon which those facilities are located and the distribution system in the subdivision to OWC. The developer of the subdivision has reportedly not yet transferred ownership of the second multi-family well and tank in the subdivision to OWC. As a result, one multi-family well and tank is available immediately for OWC's use, but the Company's use of the second multi-family well and tank is uncertain. Water meters are currently installed for some, but not all, of the customers in the subdivision. Additionally, responsibility for the correction of certain construction defects in the distribution system is currently in dispute.

Greg & Debra Williams, as the developers of the Golden Glade subdivision, own what is referred to as the "Golden Glade" well, pump and tank, and the distribution system in the Golden Glade subdivision. Mr. & Mrs. Williams also own the real estate upon which the

well, pump and tank are located. This real estate is not located within OWC's State Route KK water service area.

OWC had previously represented to the Commission (in Case No. WA-99-437) that it would someday request expansion of its Eagle Woods service area to include the Golden Glade subdivision. As a part of that planned expansion, OWC indicated that a well that was to be constructed in Golden Glade would be the water supply source for both Eagle Woods and Golden Glade. However, instead of OWC requesting such an expansion of its service area, Environmental Utilities, LLC (EU), a second utility company owned by Greg & Debra Williams, filed an application for a certificate of convenience and necessity (Case No. WA-2002-65) seeking authority to provide water service to retail customers in Golden Glade and also to provide wholesale water supply service to OWC for its Eagle Woods system.

Final Commission approval of EU's certificate is, however, now in question due to recent activities in Case No. WA-2002-65. As a result, the transfer of the Golden Glade well, pump, tank and distribution system to EU may not occur. Because of this, Mr. Williams has indicated that the connection between the Golden Glade system and the Eagle Woods system will be removed, and that OWC will thus need to provide water to Eagle Woods from the multi-family wells and tanks located in that subdivision, at least as a short-term solution. It should, however, be noted that the Eagle Woods multi-family wells were not constructed to meet the public drinking water standards of the DNR. As a result, OWC will need to either obtain DNR's approval to use these wells, or construct a new DNR-approved well or arrange for an alternative wholesale water supply.

Sewer service area includes the Eagle Woods subdivision and the Golden Glade subdivision.

Sewer facilities are one re-circulating sand filter treatment facility, which is located in the Golden Glade subdivision, three small lift stations, all of which are located in the Eagle Woods subdivision, and collecting sewers for both subdivisions. OWC constructed the first

phase of the treatment facility, with a significant portion of the funds provided by the developer of Eagle Woods; however, Greg & Debra Williams, as the developers of Golden Glade, constructed the second phase of the treatment facility and own the real estate upon which the treatment facility is located. The developer of the Eagle Woods subdivision has transferred ownership of the lift stations in the subdivision, the real estate upon which the lift stations are located, and the collecting sewers in the subdivision to OWC. Responsibility for the correction of certain construction defects in this collection system is, however, currently in dispute. Based upon current information, the Staff does not know if ownership of the collection system in the Golden Glade subdivision has been transferred to OWC.

It should also be noted that the use of available sewage treatment plant capacity via the connection of new customers located in the Golden Glade and Eagle Woods subdivisions, and expansion of the capacity of the treatment plant, are presently issues involving OWC, the developer of the Eagle Woods subdivision, Greg & Debra Williams as the developers of the Golden Glade subdivision, the Department of Natural Resources and the Staff.

Information Regarding the Company's Organizational Structure, Officers, Managers, Employees, Directors, Shareholders and Corporate Status

William P. (Pat) Mitchell is the President of OWC, and was elected to that position in January of 2001. Mr. Mitchell has recently signed various documents on behalf of OWC, upon which he was identified as President of the Company, including two temporary water supply agreements with the City of Osage Beach pertaining to service to the Broadwater Bay subdivision and the wholesale supply agreement between OWC and EU pertaining to service to the Eagle Woods subdivision. (Mr. Mitchell also previously served as OWC's president from 1991 to 1996.) In addition to serving as OWC's President at various times, Mr. Mitchell has historically handled OWC's day-to-day field operations, along with employees of another of his businesses (Water Laboratory Company), as well as OWC's general business management including supervision of employees, customer service, customer billing and collections, record keeping, etc. However, Mr. Mitchell apparently

"resigned" from these operational and management functions in July of 2001 when he left boxes containing OWC's records on the front porch of Mr. Williams' business office along with a letter stating that "I am tired and broke. . . You want all of the assets you get all of the headaches. . ."

Debra J. Williams was the Manager of record for OWC from July 2001 until the first part of September. As Manager, Ms. Williams oversaw the day-to-day operational tasks including supervision of employees, customer service, customer billing and collection, record keeping and general business management. Ms. Williams began this role subsequent to Mr. Mitchell's "resignation" of these duties as described above.

During the first part of September, however, OWC reportedly entered into an operation and management agreement with EU for the day-to-day operational tasks related to the continuing operation of its systems. Debra J. Williams is the managing member of EU. (The Staff has requested, but not yet received, a copy of the referenced O & M agreement.)

Additionally, according to the minutes of OWC's January 8, shareholders' meeting Ms. Williams was "appointed as secretary of the meeting" and signed those minutes as the Secretary of OWC. The Staff has not, however, seen any other documents regarding Ms. Williams' status as the Secretary of OWC.

Gregory D. Williams is the last Secretary of record for OWC reported to the Missouri Secretary of State (SOS), in the Company's 2001 SOS annual report, and is also OWC's corporate Registered Agent of record with the SOS. As an attorney, Mr. Williams has done nearly all of the Company's legal work over the past several years; however, outside counsel has been retained by OWC for some legal matters, including certain regulatory matters before the Commission. On several recent occasions, including appearances before the Camden County Circuit Court, Mr. Williams has stated that he is no longer providing legal representation for OWC in any pending matters involving the Company. Additionally, in recent e-mail correspondence to Ruth O'Neill of the Office of the Public

Counsel Mr. Williams stated, "To my knowledge, OWC does not currently have corporate counsel." (Mr. Williams has not, however, requested Commission approval to withdraw from participation as OWC's legal counsel in this case.)

Jeff Smith is an employee of EU. Among other things, he does most of the physical plant operation work related to OWC's facilities, apparently under the provisions of the above-referenced O & M agreement with EU.

Kris Corum is an employee of EU who, as an assistant to Ms. Williams, handles customer inquiries and complaints, customer billing, record keeping, accounting and clerical work for OWC, apparently under the provisions of the above-referenced O & M agreement with EU.

Regarding OWC's directors, the Company's 2001 Annual Registration Report with the Secretary of State (SOS), and the minutes of its January 8, shareholders' meeting, show that Mr. Mitchell and Mr. & Mrs. Williams were OWC's directors. However, Mr. & Mrs. Williams sent a letter to Mr. Mitchell on September 3 of this year, on letterhead from Mr. Williams' law office, informing Mr. Mitchell that they were resigning their positions as OWC directors.

In the September 3 letter to Mr. Mitchell, Mr. Williams also advised Mr. Mitchell that he was resigning as OWC's Registered Agent with the Secretary of State (SOS), and Ms. Williams also advised Mr. Mitchell that she was resigning as OWC's Secretary. However, according to the Staff's research, the SOS has not yet received any filings regarding these "resignations". And, in fact, the SOS would not even be able to accept a filing to effectuate such resignations because of the Company's current corporate status, which is discussed further in the last section of this report.

Regarding OWC's shareholders, Mr. Mitchell and Mr. Williams own all of the outstanding voting shares in the Company. Until December 31, 2000, the voting shares held by Mr. Mitchell and Mr. Williams were held in a voting trust controlled solely by Mr. Williams. Currently, Mr. Mitchell and Mr. Williams each hold 50% of the voting stock of OWC and

individual voting rights to their stock. In addition to the "voting" stock held by Mr. Mitchell and Mr. Williams, David Hancock of Hancock Construction Company, Hurricane Deck Holding Company, Mr. Mitchell and Mr. Williams also own various numbers of shares of non-voting preferred stock in OWC.

Regarding OWC's corporate status, the current status listed in the SOS business entity database is: DF – Administratively Dissolved for Failure to File Annual Report. The SOS database shows that this status was effective as of September 4. The Staff verified with SOS by telephone on October 4, 2002 that an annual registration report still had not been submitted by OWC. OWC does, however, have until November 4, to rectify this situation and thus have its corporate status returned to good standing with the SOS.

Signed and Dated:

/s/ Dale W. Johansen

10/04/02

Dale W. Johansen – Manager
Water & Sewer Department
Utility Operations Division

Date