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JUL 3 2008

COMPANY/STAFF AGREEMENT REGARDING DISPOSITION
OF SMALL WATER COMPANY REVENUE INCREASE REQUEST

Missouri Public
Service Commission

AQUA MISSOURI, INC (C/U)

MO PSC CASE NO. WR-2008-0266

BACKGROUND

Aqua Missouri, Inc. (C/U) (Company) initiated the small company revenue increase request (Request) for water service that is the subject of the above-referenced Missouri Public Service Commission (Commission) tracking file by submitting a letter to the Secretary of the Commission in accordance with the provisions of Commission Rule 4 CSR 240-3.635, Water Utility Small Company Rate Increase Procedure (Small Company Procedure). In its request letter, which was received at the Commission's offices on December 7, 2007, the Company set forth its request for an increase of \$63,331 in its total annual water service operating revenues for the affected service areas.

In its request letter, the Company also acknowledged that the design of its customer rates, its service charges, its customer service practices, its general business practices and its general tariff provisions would be reviewed during the Commission Staff's (Staff) review of the revenue increase request, and could thus be the subject of Staff recommendations. The Company provides service to approximately 445 customers in the affected service areas, the vast majority of which are residential customers.

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

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

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

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

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

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

(12) That the Company will initiate a task force to address timely meter reading within the 26 to 35 day window per Missouri regulations. The Company will provide quarterly reports on the number of reads outside the 26 to 35 day window for the next 18 months with the goal of reducing estimated reads and the pro-ration of bills.

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

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

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

(16) That the Company will record plant retirements at the time the replacement plant items are put into service and confirm that the retirement corresponds to the actual item being placed in service.

- (17) That the Company will maintain all of its financial records in accordance with the Commissions Uniform System of Accounts.
- (18) That the Company will maintain detailed time records for the skid loader that at a minimum includes hours spent using the loader, the project worked on, the district location and all supporting documentation.
- (19) That the Company will develop formal written procedures for all capital construction work orders that at a minimum include all individual's responsibilities in the process, establish procedures for authorization of purchases, identify procedures for proper tracking of all purchases, including district separation, and ensure that all projects are closed in a timely manner.
- (20) That the Company maintain by district a log of elder valves and water meters that includes when each item was purchased, when it is removed from inventory, where it was installed and identify the type of use (new, replacement of defective part or part of a meter replacement program).
- (21) That the Company will develop written procedures to process accounts payable that will eliminate duplicate payments and late fees. Copies of these procedures will be provided to Staff by November 30, 2008.
- (22) That the Company will develop and provide to Staff for Staff's review written procedures for the processing of the credit card purchases made by employees. Copies of these written procedures will be provided to Staff by November 30, 2008.
- (23) That the Company will develop written procedures to ensure the proper assignment of costs to each of its districts. Copies of these procedures will be provided to Staff by November 30, 2008.
- (24) That the Company will keep a tank painting log which will include information on each tank, the date of inspection, date last painted, who painted, warranty, and an estimate when the tank will need to be painted again.
- (25) That the Company will maintain a record of its meters pursuant to 4 CSR 240-10.030 section 2. This record will be developed by December 31, 2008.
- (26) That the Company's employees will investigate to determine the cause of lost water and take prudent and cost effective steps to correct the problems identified at Riverside, Lake Carmel and Ozark Mountain water systems by April 30, 2009.
- (27) That the Company will implement the recommendations contained in the Engineering & Management Services Department ("EMSD") Report attached hereto as Attachment G no later than November 30, 2008.
- (28) The Company will mail its customers a written notice of the rates and charges included in its proposed tariff revisions within 15 days of entry of the Commission approved Order. The notice will include a summary of the impact of the proposed rates on an average residential customer's bill. When the Company mails the notice

to its customers, it will also send a copy to the Staff and the Staff will file a copy in the subject case file.

(29) That the Company acknowledges that the Staff will, and the OPC may, conduct follow-up reviews of the Company's operations to ensure that the Company has complied with the provisions of this Disposition Agreement.

(30) That the Company acknowledges that the Staff or the OPC may file a formal complaint against it, if the Company does not comply with the provisions of this Disposition Agreement.

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

ADDITIONAL MATTERS

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

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

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

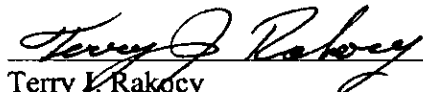
Natural Resources has issued to the Company; and (h) the status of the Company's corporate standing with the Secretary of State.

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

EFFECTIVE DATE AND SIGNATURES

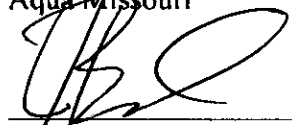
This Disposition Agreement shall be considered effective as of the date that the Company files the proposed tariff revisions required herein with the Commission.

Agreement Signed and Dated:



Terry L. Rakocy
President
Aqua Missouri

JULY 3, 2008
Date



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

7/3/2008
Date

List of Attachments

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