

OCT 19 1999

MEMORANDUM

TO: Missouri Public Service Commission Official Case No. SA-99-589; Warren County Sewer Co., Inc. Missouri Public Service Commission

FROM: Jim Merciel, Water and Sewer Department

Jm 10/15/99
2nd 10/15/99

Wes Henderson 10-15-99
Director, Utility Operations Division/Date

R.F. Schallerberg 10-18-99
Director, Utility Services Division/Date

[Signature] 10-19-99
General Counsel's Office/Date

NW/10/18/99

SUBJECT: Staff Recommendation to Grant a Certificate of Convenience and Necessity

DATE: October 15, 1999

BACKGROUND

On June 8, 1999, Warren County Sewer Co., Inc. (WCSC) applied for a Certificate of Convenience and Necessity (CCN) to provide sewer service in an unincorporated area of Warren County, in an area known as Oak Grove subdivision. On October 12, 1999, at the Staff's request, WCSC submitted a First Amended Application to clarify the description of the requested service area.

The subject sewer system has been in existence since sometime in the 1970's. It was originally owned and operated by the developer of the subdivision. There is a history of non-compliance with regulations of the Missouri Department of Natural Resources (DNR). The non-compliance is primarily due to a change in classification of the receiving stream, meaning the treatment plant discharge specifications as prescribed by DNR are more stringent than they were when the plant was designed and constructed. The stream classification changed sometime in the mid-1990's. Environmental Services, Inc., which is a contract operator owned by the owner of WCSC, has been operating the system for approximately ten (10) years. Although some improvements to the plant have been undertaken by the original owner, Environmental Services, Inc. must use careful operating techniques in order to meet effluent quality criteria.

WCSC recently acquired ownership of the system from the developer. WCSC will contract with Environmental Services, Inc. to continue to operate the system. There are presently 33 residential customers. All utility

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plant is considered to have been contributed, so there is no rate base, and no return on investment proposed to be included in rates in this case. However, WCSC may need to invest capital to improve or expand facilities in the future. If so, then rate base and capital structure would be considered in a future rate case. An additional treatment facility and additional sewers could become necessary if other existing residents of the area desire sewer service, however such new facilities could be constructed and paid for under an "extension rule" expected to be filed by WCSC in a tariff.

WCSC has requested a monthly flat rate of \$22.11 for a residential customer. This monthly rate would produce annual revenue of \$8,755.66. After auditing existing expenses incurred by Environmental Services, Inc. and studying expected expenses that will be incurred by WCSC, the Staff takes the position that this is a reasonable rate. Since this is a new company, it is recommended that rates be reviewed eighteen (18) months after the effective date of a CCN.

Although there is no depreciable utility plant in service at this time, the Staff is providing a schedule of proposed depreciation rates for Commission approval (see Attachment 1). As stated previously, WCSC may need to invest additional capital in the future and Commission approved depreciation rates are thus necessary.

As a new regulated sewer utility, WCSC will need to submit a complete tariff for sewer service. The Staff has provided WCSC a copy of the Water and Sewer Department's example tariff for sewer utilities, and will make itself available to assist in preparing a complete tariff for filing. The Staff recommends WCSC file its tariff as soon as possible after the Commission issues an order granting a CCN in this case, as the CCN should not become effective until the effective date of the tariff WCSC will be filing.

WCSC will also need to keep its books and records in accordance with the Uniform System of Accounts, as is required of regulated utilities in the Code of State Regulations. The Staff can assist WCSC, if desired, in properly setting up a bookkeeping system.

Staff members involved in the review of the subject Application were Jim Schwieterman and Jim Russo from the Accounting Department, Rosella Schad from the Depreciation Department and Jim Merciel and Arlie Smith from the Water & Sewer Department. Each of these Staff members, and all levels of their up-line management, have reviewed and approved this Memorandum prior to it being filed.

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission:

1. Issue an order granting a CCN to WCSC for the service area requested;
2. Approve monthly residential rates of \$22.11 per month per customer, to be reviewed eighteen (18) months after the effective date of a CCN;
3. Order WCSC to submit a complete new tariff for sewer service prior to charging the approved rate;
4. Approve the schedule of proposed depreciation rates shown on Attachment 1;
5. Order WCSC to keep its books and records in accordance with the Uniform System of Accounts; and
6. Make no finding that would preclude the right to consider the ratemaking treatment to be afforded any matters herein, or any future expenditure by WCSC, in any later proceeding.

The Water and Sewer Department will file a further recommendation regarding the tariff to be filed by WCSC.

Attachment 1 - Schedule of Proposed Depreciation Rates

Copies: Director - Utility Operations Division
 Director - Utility Services Division
 Director - Research and Public Affairs Division
 General Counsel's Office
 Manager - Water and Sewer Department
 Manager - Accounting Department
 Manager - Financial Analysis Department
 Depreciation Department
 Warren County Sewer Co., Inc.
 -- Timothy D. Flagg, President
 -- Dean L. Cooper, Counsel
 Office of the Public Counsel
 -- Shannon Cook

Warren County Sewer Co., Inc.
DEPRECIATION RATES

(SEWER)

Case No. SA-99-589

<u>Acct. No.</u>	<u>Description of Account</u>	<u>Annual Rate</u>
311	Structures & Improvements	3.0%
352.1	Collection Sewers (Force)	2.0%
352.2	Collection Sewers (Gravity)	2.0%
353	Other Collection Plant	4.0%
354	Services to Customers	2.0%
355	Flow Measurement Devices	3.3%
362	Receiving Wells & Pump Pits	5.0%
363	Pumping Equipment	10.0%
372	Oxidation Lagoons	4.0%
373	Treatment & Disposal Facilities	4.5%
374	Plant Sewers	4.5%
375	Outfall Sewers	2.0%
376	Other Treatment & Disposal Plant	5.0%
391	Office Furniture & Equipment	5.0%
391.1	Office Computer Equipment	20.0%
392	Transportation Equipment (7 yr ,+ 9% sal	13.0%
393	Other General Equipment	10.0%
394	Tools, Shop, Garage Equipment	5.0%
395	Laboratory Equipment	5.0%
396	Power Operated Equipment	6.7%
397	Communication Equipment	6.7%
398	Miscellaneous Equipment	5.0%