

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

**In the Matter of the Transfer of Assets of)
Hillcrest Utilities Company from Blomeyer)
Investments, Inc. to Brandco Investments,) Case No. WM-2007-0261
LLC.)**

**In the Matter of the Transfer of Assets of)
Hillcrest Utilities Company from Blomeyer)
Investments, Inc. to Brandco Investments,) Case No. SM-2007-0262
LLC.)**

**STAFF RECOMMENDATION
REGARDING PROPOSED TRANSFER OF UTILITY ASSETS**

COMES NOW the Staff of the Missouri Public Service Commission and, for its Recommendation Regarding Proposed Transfer of Utility Assets ("Recommendation"), states the following to the Missouri Public Service Commission.

1. On January 5, 2007 (unless noted otherwise, all dates herein refer to the year 2007), Blomeyer Investments, Inc. ("Blomeyer") filed a set of documents identified as "Notification for Transfer of Assets of Hillcrest Utilities Company," seeking the Commission's authority for Hillcrest Utilities Company ("Hillcrest") to transfer its sewer and water utility assets to Brandco Investments, LLC ("Brandco"). Upon the filing of the subject set of documents the instant cases were opened.

2. On January 22, the Commission issued a **Notice of Deficiency** regarding the January 5 filing, to which Blomeyer responded on February 21.

3. On March 1, the Commission issued its **Order Directing Notice and Joining Brandco Investments, LLC and Hillcrest Utilities Company as Parties**, in each of the subject

cases, in which, among other things, it set March 21 as the deadline for applications to intervene. No applications to intervene were filed by the March 21 deadline, nor have any been filed since.

4. As a result of a series of orders and motions issued/filed between March 23 and June 4, the Staff's recommendation regarding the subject cases is due for filing on June 11.

5. On June 6, Brandco filed an affidavit in the subject cases verifying that if the Commission approves the proposed asset transfer, Brandco will own and operate the sewer and water utility assets.

6. The transfer of utility assets is governed by Section 393.190, RSMo, and applications to the Commission for approval of sewer and water utility asset transfers are governed by Commission Rules 4 CSR 240-2.060, 4 CSR 240-3.310 and 4 CSR 240-3.605. Relevant case law provides that the Commission may approve an asset transfer if it is "not detrimental to the public interest." See *State ex. Rel Fee Fee Trunk Sewer, Inc. v. Litz*, 596 S.W.2d 466, 468 (Mo. App. E.D. 1980).

7. Attached hereto as Appendix A is the Staff's *Official Case File Memorandum*, in which the Staff: summarizes its review of the "application" filed on January 5; states its conclusion that the proposed transfer of Hillcrest's sewer and water utility assets to Brandco is not detrimental to the public interest; and recommends that the Commission approve the proposed transfer of Hillcrest's sewer and water utility assets to Brandco, subject to certain conditions.

WHEREFORE, the Staff respectfully submits its Recommendation regarding the subject cases for the Commission's consideration.

Respectfully Submitted,

/s/ **Keith R. Krueger**

Keith R. Krueger
Deputy General Counsel
Missouri Bar No. 23857

Attorney for the Staff of the
Missouri Public Service Commission

P.O. Box 360
Jefferson City, MO 65102
573-751-4140 (telephone)
573-751-9285 (facsimile)
keith.krueger@psc.mo.gov (e-mail)

CERTIFICATE OF SERVICE

I hereby certify that copies of this Recommendation have been mailed with first class postage, hand-delivered, transmitted by facsimile or transmitted via e-mail to all counsel and/or parties of record this 11th day of June 2007.

/s/ **Keith R. Krueger**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

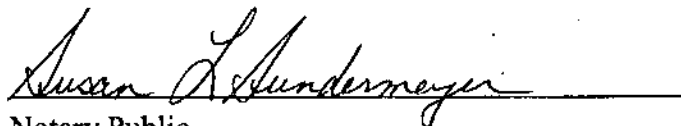
AFFIDAVIT OF DALE W. JOHANSEN

STATE OF MISSOURI)
) SS CASE NOS. WM-2007-0261 & SM-2007-0262
COUNTY OF COLE)

COMES NOW Dale W. Johansen, being of lawful age, and on his oath states the following: (1) that he is the Manager of the Missouri Public Service Commission's Water & Sewer Department; (2) that he participated in the preparation of the foregoing Recommendation Regarding Proposed Transfer of Utility Assets, (Recommendation) and the *Official Case File Memorandum* (Case File Memo) that is included in the following appendix; (3) that he has knowledge of the information presented in the Recommendation and the Case File Memo; and (4) that the information presented in the Recommendation and the Case File Memo is true and correct to the best of his knowledge, information and belief.


Dale W. Johansen

Subscribed and sworn to before me this 11th day of June 2007.


Notary Public



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06842086

My Commission Expires: 9-21-10

APPENDIX A

STAFF MEMORANDUM & ATTACHMENTS

CASE NOS. WM-2007-0261 AND SM-2007-0262

Note: To browse through this document by item, click on the "Bookmark" tab at the top of the menu bar to the left of the screen and then click on the item that you want to see.

Table of Contents

Official Case File Memorandum

Memo Attachment 1	Staff's Corrected Account Balances
Memo Attachment 2	Staff's Schedule of Sewer System Depreciation Rates
Memo Attachment 3	Staff's Schedule of Water System Depreciation Rates

Official Case File Memorandum

MEMORANDUM

TO: Missouri Public Service Commission Official Case Files
Case Nos. WM-2007-0261 and SM-2007-0262
Hillcrest Utilities Company, Blomeyer Investments, Inc. and
Brandco Investments, LLC

FROM: Dale W. Johansen – Manager
Water & Sewer Department
Jeremy Hagemeyer – Auditing Department
Guy Gilbert – Engineering & Management Services Department
Jim Merciel – Water & Sewer Department

/s/ Dale W. Johansen 06/11/07
Project Coordinator Date

/s/ Keith R. Krueger 06/11/07
General Counsel’s Office Date

SUBJECT: Recommendation Regarding the Proposed Transfer of the Sewer and Water
Utility Assets of Hillcrest Utilities Company to Brandco Investments, LLC

DATE: June 11, 2007

BACKGROUND

On January 5, 2007 (unless noted otherwise, all dates herein refer to the year 2007), Blomeyer Investments, Inc. ("Blomeyer") filed a set of documents with the Commission seeking the approval of the transfer of the sewer and water utility assets of Hillcrest Utilities Company ("Hillcrest") to Brandco Investments, LLC ("Brandco") and the subject cases were opened. Blomeyer made the January 5 filing because it is the sole shareholder of Hillcrest.

On January 22, the Commission issued a Notice of Deficiency regarding Blomeyer's January 5 filing, to which Blomeyer responded on February 21.

On March 1, the Commission issued an order in each of the subject cases through which it made Hillcrest, as the owner of the sewer and water utility assets, and Brandco, as the potential owner of the sewer and water utility assets, parties to the subject cases.

In its March 1 order, the Commission also directed that general public notice of the proposed transfer be issued and set March 21 as the deadline for the filing of applications to intervene in the subject cases. No applications to intervene were filed by the March 21 deadline, nor have any been filed since.

As a result of a series of orders and motions issued/filed between March 23 and June 4, the Staff's recommendation regarding the subject cases is due for filing on June 11.

On June 6, an affidavit was filed in the subject cases verifying that Brandco will be the corporate entity that will own and operate the sewer and water utility assets, if the proposed asset transfer is approved.

STAFF'S INVESTIGATION

As noted at the beginning of this Memorandum, Staff members from the Auditing Department, the Engineering & Management Services Department and the Water & Sewer Department participated in the Staff's investigation of the "application" that Blomeyer filed on January 5. All Staff participants and the assigned Staff attorney were afforded the opportunity to review and comment on this Memorandum prior to it being filed. Dale Johansen of the Water & Sewer Department created the initial draft of this Memorandum and comments received from the reviewers were incorporated therein for creation of this final version of the Memorandum.

Items reviewed during the Staff's investigation of the subject "application" included a review of all of the documents filed in the case to date, a review of Hillcrest's books and records regarding its net plant-in-service (rate base) balances, and a review of Hillcrest's existing depreciation rates. The review of the net plant-in-service balances was conducted to determine whether the proposed transfer involves an acquisition premium. The review of the depreciation rates was conducted to determine if the current rates continue to be appropriate. Additionally, the Staff reviewed its inspection records and available information from the Department of Natural Resources ("DNR") regarding Hillcrest's operations. Lastly, the Staff reviewed Commission records pertaining to Hillcrest's status with regard to the submission of its Commission annual reports and the payment of its Commission assessments.

STAFF'S FINDINGS AND CONCLUSIONS

Based on its investigation of the "application" that Blomeyer filed on January 5, the Staff has not discovered anything that indicates the proposed transfer of Hillcrest's sewer and water utility assets to Brandco would be detrimental to the public interest, and has thus concluded that the proposed transfer should be approved.

Regarding the matter of the certificates of convenience and necessity for the subject sewer and water systems, the Staff believes that Hillcrest's certificates should be canceled and that "new" certificates should be issued to Brandco, which is consistent with how this matter is normally addressed in asset transfer cases where the new owner will continue to be regulated by the Commission.

Regarding Brandco's future operation of Hillcrest's sewer and water systems, Brandco will need to adopt Hillcrest's existing sewer and water tariffs, but should also be authorized to provide service under those tariffs until such time as the tariff adoption notices can be filed and approved.

Regarding the matter of whether an acquisition premium exists as a result of the proposed asset transfer, the Staff notes that the purchase price being paid by Brandco is less than the net book value of the sewer and water assets that will be transferred to it. However, the Staff also notes that its review of Hillcrest's net plant-in-service balances has resulted in a conclusion that certain information included in Hillcrest's recent annual reports is incorrect. As a result, the Staff has also concluded that the account balances shown in Attachment 1 to this Memorandum should be the account balances used by Brandco from the date of the transfer forward.

Regarding the matter of the depreciation rates to be used for the sewer and water systems, the Staff believes that the schedules of depreciation rates set out in Attachment 2 and Attachment 3 to this Memorandum should be prescribed by the Commission and used by Brandco from the date of the transfer forward.

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission issue an order that:

- * Approves the transfer of Hillcrest's sewer and water utility assets to Brandco;
- * Cancels Hillcrest's certificates of convenience and necessity for providing sewer and water service and grants certificates of convenience and necessity for providing sewer and water service to Brandco;
- * Directs Brandco to submit tariff adoption notices for Hillcrest's existing sewer and water tariffs within 30 days after the date the Commission issues its order approving the subject asset transfer, with those adoption notices to bear an effective date that is at least 30 days from the date they are submitted to the Commission;
- * Authorizes Brandco to provide service under the provisions of Hillcrest's existing sewer and water tariffs until such time that the necessary adoption notices are filed and approved;
- * Directs Brandco to utilize the account balances shown in Attachment 1 hereto for all future regulatory purposes; and
- * Approves the schedules of depreciation rates included in Attachment 2 and Attachment 3 hereto and directs Brandco to utilize those schedules for all future regulatory purposes;

The Staff will file a further recommendation regarding approval of the tariff adoption notices that Brandco will be submitting in accordance with the Commission's order authorizing the requested transfer of assets.

List of Attachments

Attachment 1 – Staff's Corrected Account Balances

Attachment 2 – Staff's Schedule of Sewer System Depreciation Rates

Attachment 3 – Staff's Schedule of Water System Depreciation Rates

Memo Attachment 1

Staff's Corrected Account Balances

HILLCREST UTILITIES - STAFF'S CORRECTED ACCOUNT BALANCES

WATER SYSTEM

<u>Account</u>		<u>Total Plant</u>	<u>CIAC</u>	<u>Depreciation Reserve</u>	<u>CIAC Reserve</u>
311	Structures & Improvements	19,228	-	11,223	-
314	Wells & Springs	9,450	-	6,943	-
316	Supply Mains	1,162	-	906	-
325	Electronic Pumping Equipment	1,536	-	1,198	-
342	Distribution Reservoirs and Standpipes	35,958	-	24,654	-
343	Transmission & Distribution Mains	73,593	10,575	34,177	4,121
345	Services	1,335	-	879	-
346	Meters	26,260	709	17,255	276
347	Meter Installations	500	-	293	-
348	Hydrants	13,420	9,100	3,491	3,546
	TOTALS	182,443	20,384	101,020	7,943

SEWER SYSTEM

<u>Account</u>		<u>Total Plant</u>	<u>CIAC</u>	<u>Depreciation Reserve</u>	<u>CIAC Reserve</u>
352.1	Collection Sewers - Force	57,096	43,060	42,920	24,905
352.2	Collection Sewers - Gravity	70,833	49,759	23,401	28,780
354	Services to Customers	6,700	-	4,442	-
372	Oxidation Lagoon	74,204	13,605	38,033	7,869
373	Treatment & Disposal Equipment	10,411	-	7,769	-
393	Other General Equipment	700	-	441	-
	TOTALS	219,943	106,424	117,005	61,554

NET INVESTMENTS

	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Total Plant	182,443	219,943	402,386
Depreciation Reserve	101,020	117,005	218,025
Net CIAC	12,441	44,870	57,311
Net Investment	68,982	58,068	127,049

Memo Attachment 2

Staff's Schedule of Sewer System Depreciation Rates

**HILLCREST UTILITIES COMPANY
DEPRECIATION RATES
SEWER SYSTEM
Case No. SM-2007-0262**

<u>Account Number</u>	<u>Account Description</u>	<u>Depreciation Rate</u>	<u>Average Service Life (Years)</u>	<u>Net Salvage</u>
352.1	Collection Sewers (Force)	2.0%	50	
352.2	Collection Sewers (Gravity)	2.0%	50	
354	Services	2.0%	50	
362	Receiving Wells	4.0%	25	
363	Electric Pumping Equipment	10.0%	10	
372	Oxidation Lagon	4.0%	25	
373	Treatment & Disposal Facilities	5.0%	20	
376	Other Treatment and Disposal Plant	5.0%	20	
393	Other General Equipment	10.0%	10	

Memo Attachment 3

Staff's Schedule of Water System Depreciation Rates

**HILLCREST UTILITIES COMPANY
DEPRECIATION RATES
WATER SYSTEM
Case No. WM-2007-0261**

<u>Account Number</u>	<u>Account Description</u>	<u>Depreciation Rate</u>	<u>Average Service Life (Years)</u>	<u>Net Salvage</u>
311	Structures & Improvements	2.5%	40	
314	Wells & Springs	2.0%	50	
316	Supply Mains	2.0%	50	
325	Electric Pumping Equipment	10.0%	10	
342	Distribution Reservoirs & Standpipes	2.5%	40	
343	Transmission & Distribution Mains	2.0%	50	
345	Services	2.5%	40	
346	Meters	10.0%	10	
347	Meter Installations	2.5%	40	
348	Hydrants	2.0%	50	