

Exhibit No.: _____

Issues: Public Interest

Witness: Glen Justis

Sponsoring Party: Lake Perry Lot Owners Association

Type of Exhibit: Rebuttal Testimony

Case Nos.: WA-2019-0299

Date Testimony Prepared: April 28, 2020

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

In the Matter of the Application of Confluence)	
Rivers Utility Operating Company, Inc.)	
For Authority to Acquire Certain Water and)	Case No. WA-2019-0299
Sewer Assets and for a Certificate of Convenience)	Case No. SA-2019-0300
And Necessity)	

**REBUTTAL TESTIMONY OF
GLEN JUSTIS
ON BEHALF OF THE
LAKE PERRY LOT OWNERS ASSOCIATION
APRIL 28, 2020**

**Rebuttal Testimony of
GLEN JUSTIS
on Behalf of the
Lake Perry Lot Owners Association**

1 **Q. What is your name?**

2 A. My full legal name is Paul Glenden Justis, Jr. I am commonly known by the name Glen
3 Justis.

4 **Q. On behalf of what party in this case are you testifying?**

5 A. I am testifying on behalf of Lake Perry Lot Owner's Association (LPLOA).

6 **Q. What is your education, experience, and expertise?**

7 A. My education, experience, and expertise are as stated in my Rebuttal Testimony previously
8 filed in this case.

9 **Q: Do you have concerns regarding the stipulated total Net Book Value (NBV) for Port
10 Perry Service Company of \$?**

11 A: Yes. This situation worsens my concern that the transaction is detrimental to the public
12 interest. My concern relates to the merger premium Confluence will be paying to the
13 current owners of PPSC. While it is common for utility company acquisitions to involve
14 modest premiums, the premium in this case is extremely high. It places the current
15 customers of Port Perry at risk of unnecessarily high rates and/or service degradation.

16 **Q: What is the magnitude of the acquisition premium?**

1 A: My understanding is that Confluence holds an option of purchasing Port Perry's assets for
2 \$. Assuming the transaction is consummated at this price, the premium is \$
3 - \$ = \$. On a percentage basis, this equates to a % acquisition premium.

4 **Q: Why is this a problem?**

5 A: It is a problem in the context of what it implies for Confluence's investors and the actions
6 that Confluence might take to keep its investors whole. For illustration, let us assume a
7 / debt-to-equity ratio and a % return on equity. Nominally, investors will be
8 contributing % * \$ = \$ of equity capital. To achieve the % target
9 return on equity, Confluence must produce a minimum of % * \$ = \$ of
10 annual profit. Assuming the Commission abides by its ruling that Confluence will be
11 prohibited from recovering any of the acquisition premium, Confluence will have to take
12 actions to achieve this return on the existing NBV of \$. The necessary return on
13 existing NBV is \$ / \$ = %. This is a much higher percentage return on
14 assets than what is typical for water utilities. One way or another, Confluence will have to
15 produce excessive profits to make the excessive purchase price work. The Commission
16 would be well-advised to require Confluence to clarify its future operating and capital
17 investments plans for Lake Perry, and how it intends to make this math work, prior to
18 approving the sale of the assets.

19 **Q: What actions might Confluence take to improve the profitability of the deal for the**
20 **benefit of its investors?**

21 A: In my professional view, based on experience working with public utilities as well as
22 commonly-accepted financial principles, I see five main scenarios, as follows:

- 1 1. Confluence uses excessive leverage (debt) to drive up the return on invested equity.
2 Using the above example, Confluence would need a leverage level of
3 approximately % debt to achieve a % return on invested equity.
- 4 2. Confluence drives down operating expenses to unsustainable levels, thereby
5 jeopardizing service quality and system maintenance.
- 6 3. Confluence engages in self-dealing to create hidden gains to compensate its
7 investors for the excessive acquisition premium.
- 8 4. Confluence pursues unnecessary and/or gold-plated capital projects at Lake Perry
9 using alternative forms of financing that are obscured from the Commission, and
10 then attempts to obtain a return on these investments in later rate cases at a distorted
11 (inaccurately high) claimed cost of capital.
- 12 5. Confluence attempts to socialize the acquisition premium across both Lake Perry
13 and other service areas, unfairly driving up rates for other customers.
- 14 6. A combination of the above.

15 **Q: Does this conclude your testimony?**

16 A: Yes, it does.

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AFFIDAVIT OF PAUL GLENDEN JUSTIS, JR.

STATE OF MISSOURI)	
)	ss.
COUNTY OF ST. LOUIS)	

COMES NOW Paul Glenden Justis, Jr. and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to the best of his knowledge and belief, under the penalty of perjury.

Further the Affiant sayeth not.

/s/ Paul Glenden Justis, Jr.
Paul Glenden Justis, Jr.