

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

In the Matter of Lake Region Water and)	
Sewer Co. for Authority to Borrow Up)	Case No. WF-2013-0118
to \$2,000,000 in Long-Term, Secured Debt)	

**LAKE REGION WATER & SEWER COMPANY'S
RESPONSE TO STAFF'S RECOMMENDATION**

Comes now Lake Region Water and Sewer Co. (Lake Region) and submits the following in response to the Staff Recommendation filed in this matter on January 15, 2013:

A. *John R. Summers' Rebuttal Testimony, Case No. WR-2010-0111*

1. On pages 5 through 6 of the its annexed memorandum, the Staff discusses a loan by which Lake Region's shareholders acquired their shares in the Company and how that loan was characterized in Case No. WR-2010-0111, Lake Region's most recent general rate proceeding(s). Staff claims:

Because Lake Region's owners acknowledged that this debt could just as easily been issued at Lake Region and the cost of debt was based on the risks associated with Lake Region's assets, Staff recommended and the Commission later approved, in Case No. WR-2010-0111, a rate making capital structure that classified the entire balance of acquisition debt issued on October 8, 2004 as Lake Region's long-term debt. *Not only did the Company not object to Staff's recommendation to include this acquisition debt, and its cost, in Lake Region's rate making capital structure, but it affirmed Staff's capital structure position. Company witness John R. Summers indicated the following in his Rebuttal Testimony, page 8, lines 22 through 23: "I believe the approach proposed by Staff most accurately reflects the costs of the capital employed in the Company's operation." Consequently, even though Lake Region did not directly issue this debt, the Company appropriately recognized that this was the actual capital supporting Lake Region's operations.* [emphasis added]

2. It is correct that Lake Region did not object to the capital structure proposed by the Staff in Case No. WR-2010-0111 but at no time did Mr. Summers or Lake Region recognize, endorse or affirm that Staff's recommended capital structure was the actual capital supporting

Lake Region's operations. Staff has isolated a portion of his testimony and quoted it out of context. When the quotation above is put beside the balance of his statements on the issue, it becomes clear that Staff has mischaracterized Mr. Summers' testimony in that proceeding.

3. On the two recommended capital structures in Case No. WR-2010-0111 Mr. Summers testified in his written rebuttal testimony as follows:

Q. Have you reviewed the capital structure proposals from both Staff and Public Counsel?

A. Yes. Staff has recommended a capital structure consisting of 16.36% Common Stock and 83.64% Debt applied to the computed rate base of the Company. Public Counsel has recommended using the Company's actual capital structure and to disallow any acquisition premium or related debt service costs.

Q. Did the Company record any acquisition premium at the time the current shareholders purchased the stock of Lake Region?

A. No. There is no acquisition premium recorded on the Company's books.

Q. Does the Company have an opinion on which approach the Commission should adopt in this case?

A. I believe the approach proposed by Staff most accurately reflects the costs of the capital employed in Company's operation. However, I am authorized to state that the Company has no objection to Public Counsel's recommendation of using the actual capital structure recorded on Company's books.

4. In rebuttal, Mr. Summers rendered the opinion that between the two recommendations, Staff's proposal, although not based on the Company's actual capital structure, more accurately reflected the Company's cost of capital than the approach

recommended by the Office of Public Counsel. Even so, Public Counsel's recommendation to use the actual capital structure recorded on Lake Region's books was acceptable to the Company as well. In other words, both, not just Staff's proposal, found favor with the Company; a position which cannot be classified as a ringing affirmation or recognition of one approach over the other.

B. *Capital Structure*

5. On page 6 of its annexed memorandum, Staff writes, "In response to Staff Data Request No. 9, the Company provided Lake Region's 2011 calendar year-end financial statements and projected financial statements for 2013." To clarify, in response to the data request, Lake Region submitted 2011 calendar year-end financial statements and pro forma 2011 financial statements. No projected 2013 financial statements were submitted in response to the data request.

6. Also on page 6 of the memorandum, Staff continues with:

Currently, Lake Region's balance sheet implies 99.3 percent equity and 0.7 percent debt. Assuming Lake Region issues the entire \$2,000,000 of debt proposed in its Application, Lake Region's balance sheet should imply 24.6 percent equity and 76.6 percent debt.¹

Lake Region disputes that its balance sheet merely "implies" the Company capital structure. The balance sheet accurately reports **actual** numbers and nothing is left for inference or implication.

WHEREFORE, having responded to Staff's Recommendation, Lake Region Water and Sewer Co. respectfully requests that the Commission approve its Application.

¹ The Commission will observe that issuance of the entire \$2,000,000 obligation will reduce the debt component of the Company's capital structure, which was approved in Case No. WR-2010-0111 and Case No. SR-2010-0110, from 83.64% to 76.6 %.

Respectfully submitted

/s/ Mark W. Comley

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Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was sent via e-mail on this 25th day of January, 2013, to Rachel M. Lewis at rachel.lewis@psc.mo.gov; General Counsel's Office at gencounsel@psc.mo.gov; and Office of Public Counsel at opcservice@ded.mo.gov.

/s/ Mark W. Comley