

Exhibit No.:
Issue(s): Acquisition Premium
Witness: Ashley Sarver
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: WA-2020-0397
Date Testimony Prepared: July 26, 2021

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

ASHLEY SARVER

**LIBERTY UTILITIES (MISSOURI WATER) LLC,
d/b/a LIBERTY UTILITIES**

CASE NO. WA-2020-0397

*Jefferson City, Missouri
July 2021*

**** Denotes Confidential Information ****

1 **ACQUISITION PREMIUM**

2 Q. In Jill Schwartz's Direct Testimony on page 3, she states "the Company seeks
3 to establish the ratemaking rate base associated with the Bolivar water and wastewater assets
4 based on the fair market or appraised value of the systems." Does Staff agree the Bolivar assets
5 should be based on the fair market or appraised value of the system for ratemaking purposes?

6 A. Not in this instance. Because the City of Bolivar maintained sufficient records,
7 Staff was able to accurately calculate the net book value of Bolivar's water and sewer assets.
8 The appropriate method to use to establish the rate base for the City of Bolivar's net assets is
9 to use the actual net rate base valued at original cost.

10 Q. What is an acquisition premium?

11 A. For ratemaking purposes Staff considers an acquisition premium when the
12 purchase price (in this case the appraisal value) of assets is greater than net book value of the
13 assets or the original cost of the system.

14 Q. What is original cost?

15 A. The term "original cost," as defined in the National Association of Regulatory
16 Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for water utilities is:

17 "Original cost," as applied to utility plant, means the cost of
18 such property to the person first devoting it to public service.

19 The deduction of depreciation, amortization, and Contributions in Aid of Construction
20 from the original cost results in a net original cost recorded on the seller's books and records.
21 Thus, any property acquired is valued on the books and records of the purchaser at the same
22 value that the seller placed on it. This principle is referred to as the "original cost/first devoted
23 to public service" concept.

Rebuttal Testimony of
Ashley Sarver

1 Q. On pages 6 and 7 of Jill Schwartz's direct testimony she asserts that Liberty is
2 not seeking an acquisition premium in this case. Is this correct?

3 A. No, as this assertion is based upon a different definition of "acquisition
4 premium" than used earlier in my testimony. Liberty's purchase price for the systems is more
5 than the appraised value of the systems and Liberty is not trying to recover the difference
6 between the purchase price and the appraisal value. However, the appraised value of the
7 systems is significantly higher than Staff's calculation of net book value; it is Staff's position
8 that effectively, an acquisition premium would be recovered in rates under Liberty's proposal
9 because the net original cost rate base is less than the appraised value.

10 Q. What is the purchase price for the Bolivar assets?

11 A. According to the Asset Purchase Agreement, Liberty will pay
12 ** [REDACTED] ** for the water and sewer system for Bolivar.

13 Q. What is the appraised value for the Bolivar assets?

14 A. The appraised value of the Bolivar water and wastewater system is
15 \$20,000,000.¹

16 Q. Will Liberty pay the purchase price or appraised value for the Bolivar assets?

17 A. Liberty will pay Bolivar the price listed on the Asset Purchase Agreement;
18 however, if the Commission determines that Liberty is a "Large Water Public Utility," and
19 approves its Application, as Liberty has elected to use the "appraisal process" outlined in
20 Section 393.320, RSMo, the appraisal value, along with reasonable and prudent transaction,
21 closing, and transition costs, would constitute the systems' rate base, since the appraised value
22 is lower than the purchase price.

¹ Application, Ex. H, pg. 2.

Rebuttal Testimony of
Ashley Sarver

1 Q. What is the Staff's calculated rate base for Bolivar?

2 A. According to Angela Niemeier's Rebuttal Testimony, Staff's calculated rate
3 base for Bolivar is \$13,018,615.

4 Q. What is Staff recommending regarding the rate base value of the City of
5 Bolivar's assets?

6 A. If the Commission determines that Liberty meets the definition of a
7 "Large Water Public Utility," per Section 393.320, RSMo, Staff recommends the
8 Commission reject Liberty's Application on the basis that use of the \$20,000,000 appraised
9 valuation of the system as rate base would effectively result in an acquisition premium of
10 approximately \$7,000,000.

11 Q. How is the acquisition premium of \$7,000,000 calculated?

12 A. Market value of \$20,000,000 minus rate base \$13,018,615 equals roughly
13 \$7,000,000.

14 Q. Was Staff able to calculate the net book value (original cost) of the water and
15 sewer assets for the city of Bolivar systems?

16 A. Yes. Please refer to Staff witness Angela Niemeier's Rebuttal Testimony for
17 the details concerning Staff's calculation of net rate base for these assets.

18 Q. Is a \$7,000,000 acquisition premium reasonable for this acquisition?

19 A. No. \$7,000,000 is approximately one-half of the net book value for both the
20 water and sewer systems combined, and inclusion of this amount would significantly inflate the
21 amount of rate base for which customers must pay a return.

Rebuttal Testimony of
Ashley Sarver

1 Q. If the Commission were to allow utilities to use the purchase price or the
2 appraisal value as the rate base value for acquired properties, then what happens when the
3 purchase price or appraisal value is lower than the original net book value?

4 A. This is called an “acquisition discount.” An acquisition discount is the opposite
5 of the acquisition premium in that the purchase price was less than net book value of the assets.

6 Q. What is Staff’s position on inclusion of acquisition premiums or acquisition
7 discounts in utility rate base?

8 A. Generally speaking, when information to calculate net book value is available,
9 net book value should be used to determine net original cost rate base for all acquisitions of
10 existing systems, regardless of the utilities involved in the transaction, and regardless of
11 whether the transaction is entered into with an acquisition premium or discount.

12 Q. Is it Staff’s position that the appraisal method should be used in this case?

13 A. No. Due to the quality of records maintained by the City of Bolivar, Staff was
14 able to accurately determine a net book value of the assets for the water and sewer systems.

15 Q. With that in mind, if the Commission finds that Liberty is a “large water public
16 utility” pursuant to Section 393.320, RSMo, should Liberty’s Application be approved?

17 A. No. As outlined in Staff’s Recommendation filed with the Commission on
18 April 16, 2021,² the Commission traditionally uses the Tartan Criteria when determining
19 whether or not to issue a certificate of convenience and necessity (“CCN”). While Staff has
20 determined that Liberty has met four of the Tartan Criteria, it has not met the fifth: whether a
21 CCN would promote the public interest. It is Staff’s position that an acquisition premium of
22 approximately \$7,000,000 created by the difference between the appraised value of the systems

² And attached to the Direct Testimony of Staff witness Curt B. Gateley, filed July 16, 2021.

1 and Staff's calculation of net book value of the water and sewer assets is an unreasonably high
2 price for customers to pay. This is especially true considering that Liberty will be required to
3 incur significant construction costs to address compliance issues with the Bolivar sewer system.
4 An additional \$7,000,000 included in utility rate base on top of those construction costs is not
5 in the public interest. Therefore, should the Commission determine that Liberty meets the
6 statutory definition of a "Large Water Public Utility," Liberty's Application should be denied.

7 Q. Would Staff's recommendation change if the Commission determined that
8 Liberty does not meet the statutory definition of a "Large Water Public Utility"?

9 A. Yes. If the Commission determines that Liberty does not meet the statutory
10 definition of a "Large Water Public Utility," and is unable to use the "appraisal process"
11 outlined in Section 393.320, RSMo, Staff recommends the Commission approve Liberty's
12 request for a CCN, subject to the conditions listed in Staff's April 16th, 2021 Recommendation.
13 The net book value is significantly lower than the \$20,000,000 appraised value of the assets,
14 and it is Staff's position that relying on the appraised value to determine rate base would
15 effectively constitute a significant acquisition premium. Recovery of that acquisition premium
16 through rates would increase costs to the customers; therefore, the acquisition premium is a
17 detriment, and would not be in the public interest. Put another way, customers of the Bolivar
18 systems would effectively be paying an additional amount for assets through rates that they may
19 have already paid for in entirety.

20 Q. Does this conclude your rebuttal testimony?

21 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Liberty)
Utilities (Missouri Water) LLC d/b/a Liberty)
Utilities for Certificates of Convenience and)
Necessity Authorizing it to Install, Own,)
Acquire, Construct, Operate, Control, Manage,)
and Maintain a Water System and Sewer)
System in Bolivar, Polk County, Missouri)

CASE NO. WA-2020-0397

AFFIDAVIT OF ASHLEY SARVER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW ASHLEY SARVER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Ashley Sarver*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



ASHLEY SARVER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 23rd day of July 2021.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public

Ashley Sarver

Educational, Employment Background and Credentials

I am currently a Senior Utility Regulatory Auditor (former title Utility Regulatory Auditor IV) in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission (Commission). I transferred to the position January 2017. I promoted to a Utility Regulatory Auditor IV in August 2016 in the Energy Resources Department, Commission Staff Division for the Commission. I accepted the position of the Utility Regulatory Auditor I/II/III in July 2013 with the Auditing Department.

I earned a Bachelor of Science degree in Accounting from Missouri State University in Springfield, MO in July 2009. In earning this degree I completed numerous core Accounting and business classes. Prior to joining the Commission, I was employed by the State of Missouri - Department of Corrections from 2009 to 2013 as an Auditor.

Case Participation

Company Name	Case Number(s)	Testimony/Issues
Carl Richard Mills	WR-2021-0177	Revenue and Expenses
Missouri-American Water Company	WR-2020-0344	Revenues, Chemical Expense, Power Expense, Purchased Water Expense, Water Loss Adjustment
Empire District Electric Company	ER-2019-0374	FAS 106 OPEBs, FAS 87 & 88 Costs, SERP, Fuel and Purchased Power, Operation and Maintenance (non-labor) Normalization, Riverton 12 O&M Tracker, Software Maintenance Expense
Elm Hills Utility Operating Company, Inc.	WR-2020-0275	Lead Staff
	SR-2020-0274	
Confluence Rivers Utility Operating Company, Inc.	WR-2020-0053	Lead Staff
	SR-2020-0054	

Cont'd Ashley Sarver

Company Name	Case Number(s)	Testimony/Issues
Carl Richard Mills (Water)	WA-2018-0370	Certificate of Convenience and Necessity
Branson Cedars Resort Utility Company LLC-(Sewer & Water)	WR-2018-0356	Lead Staff
Elm Hills Utility Operating Company, Inc., to Acquire Rainbow Acres and Twin Oakes or The Preserve	SA-2018-0313	Certificate of Convenience and Necessity
Missouri-American Water Company	WR-2017-0285	Uncollectible Expense, Chemical Expense, Fuel and Power Expense, Purchased Water Expense, Tank Painting Expense/Tracker, Water Loss, Revenues
	SR-2017-0286	
Environmental Utilities, LLC	WR-2018-0001	Lead Staff
Indian Hills Utility Operating Company, Inc.	WR-2017-0259	Revenue and Expenses
Elm Hills Utility Operating Company, Inc. to Acquire Missouri Utilities Company	SM-2017-0150	Certificate of Convenience and Necessity
	WM-2017-0151	
KCP&L Greater Missouri Operations Company	ER-2017-0189	Semi-Annual Fuel Adjustment Clause True-up
Empire District Electric Company	EO-2017-0065	Sixth Prudence Review of Fuel Adjustment Clause
Kansas City Power & Light Company	ER-2016-0285	Fuel Adjustment Clause Base Factor
KCP&L Greater Missouri Operations Company	ER-2016-0156	Miscellaneous Revenues and Customer Growth
Hillcrest Utility Operating Company, Inc.	WR-2016-0064	Revenue, Expenses, and Rate Base
	SR-2016-0065	
The Empire District Electric Company	ER-2016-0023	Property Tax Expense, Rate Case Expense, Injuries and Damages, Workman's Compensation, Bad Debt Expense, Amortization of Stock Issuance Expense Amortization, Lease Expense, DSM/PRE-MEEIA, Solar Rebate, Revenue, Customer Growth

Cont'd Ashley Sarver

Company Name	Case Number(s)	Testimony/Issues
Indian Hills Utility Operating Company, Inc. to Acquire I.H. Utilities, Inc.	WO-2016-0045	Acquisition Case: Rate Base determination
The Empire District Electric Company	ER-2014-0351	Revenue, Customer Growth, Common Stock Issuance Expense Amortization, Uncollectible Accounts, Cash Working Capital, Injuries and Damages, Workman's Compensation, Insurance Expense, Lease Expense, Property Tax Expense, Regulatory Commission Expense
Summit Natural Gas of Missouri, Inc.	GR-2014-0086	Plant in Service, Depreciation Reserve, Gas Stored Inventory, Prepayments and Materials and Supplies Inventory, Customer Advances, Customer Deposits, Payroll, Payroll Taxes, 401(k), and Other Employee Benefit Costs, Incentive Compensation and Bonuses, Customer Deposit Interest Expense, Maintenance Normalization Adjustments, Advertising Expense, Regulatory Expenses, Dues, Rent Expense
Lake Region Water and Sewer	WR-2013-0461	Plant in Service, Depreciation Reserve, Materials and Supplies Inventory, Customer Advances, Contributions in Aid of Construction, Purchase Power, Chemicals, Testing Expense, Supplies and Materials, Tools and Shop Supplies, Insurance, Office Supplies, Telephone, License and Permits, Property Tax
	SR-2013-0459	