

## **MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
Case No. WO-2011-0015  
Missouri-American Water Company and Loma Linda Water Company

FROM: Jim Merciel – Water & Sewer Department  
Steve Rackers – Auditing Department

<u>/s/ Jim Busch</u>	<u>10/13/2010</u>
Water and Sewer Department	Date
 <u>/s/ Rachel Lewis</u>	 <u>10/13/2010</u>
General Counsel's Office	Date

SUBJECT: Staff Recommendation Regarding Sale of Utility Assets

DATE: October 13, 2010

### **BACKGROUND**

On July 15, 2010, Missouri-American Water Company (MAWC or Company) and Loma Linda Water Company (LLWC), collectively referred to herein as the “Applicants,” filed a *Joint Application* seeking to sell and transfer LLWC’s water system assets to MAWC. On July 20, 2010 the Commission issued its Order Directing Notice Setting Intervention Deadline in which, among other things, it prescribed August 9, 2010 as the date by which interested parties should seek to intervene in this case. On August 16, 2010 the Commission issued its Order Directing Staff to File a Status Update in which it required the Staff to file a pleading by August 26, 2010 informing the Commission a date by which it will file a recommendation in this case. On August 25, 2010 the Staff filed its *Staff’s Status Update on Date Staff’s Recommendation May be Filed*, in which it stated that a recommendation may be filed by October 13, 2010, and also requested the Commission order notification to customers of LLWC with respect to the proposed sale. On September 9, 2010 the Commission issued its Order Directing Loma Linda to Send Notice of This Pending Sale to Its Customers in which it required LLWC to send notice to its customers and submit a copy of the notice into the case record. On September 15, 2010 the Applicants filed an *Amendment by Interlineation of Joint Application*, in which MAWC stated its intention to apply existing rates that are in effect for LLWC instead of applying existing rates in effect for its Joplin Division as was requested in the *Joint Application*. On October 12, 2010 LLWC filed a copy of the customer notice in compliance with the Commission’s Order of September 9, 2010, stating that the customer notice had been sent. The date of the notice was September 16, 2010. The Commission’s Electronic Filing and Information System (EFIS) reflects no requests by any party to intervene. Also, the Staff has received no responses to customer notice regarding the proposed sale.

LLWC was certificated by the Commission in Case No. WA-92-187. It has approximately 334 customers and its service area is Loma Linda subdivision near Joplin, Missouri. The water system utilizes two deep wells, high service pumps to maintain system pressure, a standpipe type storage facility, and meters for all customers. The service area is adjacent to MAWC's water system serving its Joplin, Missouri service area which serves approximately 24,000 customers utilizing a 22 million gallon per day surface water treatment plant and a series of deep wells. MAWC has stated to the Staff that it intends to interconnect the Loma Linda area to the Joplin system immediately after acquisition is complete.

### **STAFF'S INVESTIGATION**

MAWC has agreed to initially adopt the rates that are currently approved for LLWC, however since the involved customers will actually become customers of MAWC's Joplin division in every respect, it is likely that at some point in the future the Commission will be requested to approve MAWC's Joplin rates be applicable to customers in the Loma Linda area. LLWC's current approved rates for residential water service became effective on November 1, 1996. The monthly rates are \$5.48 as a customer charge, plus \$2.47 per 1,000 gallons usage, and a monthly water bill for a residential LLWC customer using 5,000 gallons would be \$17.83. MAWC's current approved rates for residential water service in its Joplin division are \$16.84 as a customer charge, plus \$3.8017 per 1,000 gallons usage. A MAWC residential customer using 5,000 gallons would be \$35.85.

There are no compliance issues with respect to water quality for either LLWC or MAWC.

Staff agrees that MAWC's proposed [REDACTED] purchase price is the appropriate amount to reflect on its books and records as of December 31, 2009 for the value of Loma Linda's plant in service, less accumulated depreciation and net contributions in aid of construction (CIAC). However, based on its review of plant records, the Staff recommends the following changes to the property list used to determine the net plant value:

- The July 2009 plant addition of [REDACTED] and associated accumulated depreciation reserve amount of [REDACTED], which were previously recorded as standpipes and reservoirs, should be eliminated. These amounts represent tank painting which should have been recorded as maintenance expense rather than plant in service.
- A plant amount of [REDACTED] and an associated accumulated depreciation reserve amount of [REDACTED], previously omitted from the property list, should be included in the buildings account.
- A plant amount of [REDACTED], also previously omitted from the property list, should be included in the land account.

- Staff recommends a depreciation rate of 1.8% for the additional building, until changed by the Commission in a subsequent rate proceeding, if deemed appropriate.

### **STAFF'S FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

The Staff believes, based on its knowledge of LLWC's water system, MAWC's water system, financial information it has studied for both of these companies, and on information filed in the *Joint Application* that MAWC will be capable of merging operation of the Loma Linda water system into its Joplin operations. Although LLWC customers are not experiencing service problems, the Staff believes that acquisition of this system by MAWC and interconnection with MAWC's Joplin system will result in better service for customers in the Loma Linda area, by virtue of operational reliability of a large municipal system as compared to those of small subdivision-size system, as well as utilization of MAWC's staff of professional water treatment plant and distribution system operations personnel. Thus, approval of this transfer of assets as requested is not detrimental to the public interest.

The Staff recommends that the Commission approve the transfer as proposed, that the Applicants notify the Commission of the closing of the transfer of assets within five (5) business days after the activity occurs. After the closing of the transfer of assets, MAWC will need to amend the tariff for its Joplin division by including a map and description of the Loma Linda service area, and rates as applicable to customers in the Loma Linda service area. Additionally, at that time the Commission will be able to cancel the Certificate of Convenience and Necessity held by LLWC, and cancel the Schedule of Rates, Rules and Regulations (EFIS tariff No. JW-2002-0034) on file for LLWC.

MAWC informally notified the Staff that negotiations are taking place between the owners of LLWC and other parties who have interest in the golf course at Loma Linda over an easement for a water main. MAWC does not intend to close on the assets until the easement issue is resolved. It is unknown at this time how long this will take. Therefore, since a closing date is uncertain, the Staff recommends that if closing does not occur within thirty (30) days after the effective date of an order from the Commission approving the transfer, then MAWC and LLWC should file status reports with the Commission at that time, and at the end of each subsequent thirty (30) day period stating the status of easement negotiations, until closing and the transfer of assets is complete. Alternately, If negotiations over the easement fail, and closing is not expected to take place, then the Applicants should file a pleading with the Commission stating that the sale will not take place, in which case the Commission may void its approval of the sale and transfer. It is also possible that utility property, specifically a storage shed, could be traded for other property in the context of negotiations for the easement. There could be a small difference in property value, however MAWC stated to the Staff that this trade would likely take place after the sale, and will not directly impact the purchase price.

Neither MAWC nor LLWC have deficiencies with regard to filing of annual reports and payment of annual assessments. Both MAWC and LLWC have filed annual reports, as shown on the Commission's EFIS records for the calendar years 2002 through 2009, MAWC is current on annual

assessment amounts from fiscal year 2006 through the first quarter of fiscal year 2011, and LLWC is current on annual assessment amounts from fiscal year 2006 through the second quarter of fiscal year 2011, as posted by the Commission's Administration Division on its intranet site.

Approval of this transfer of assets will have no impact upon any other matter pending before the Commission.

### **SUMMARY**

The Staff recommends the Commission issue an order that:

1. Approves the Applicants' request to sell and to transfer LLWC's water utility assets to MAWC;
2. Requires the Applicants to notify the Commission within five (5) business days after the assets have been transferred from LLWC to MAWC;
3. Requires the Applicants, if closing on the assets has not occurred within thirty (30) days after the effective date of an order from the Commission approving this transfer of assets, to file a status reports with the Commission thirty (30) days after the effective date of the order, and at the end of each subsequent thirty (30) day period, stating the status of easement negotiations, until closing and the transfer of assets is complete; and, alternatively if the transfer is not expected to be completed requires the Applicants to file a pleading with the Commission stating such;
4. Requires MAWC, after the assets have been transferred, to amend its Joplin tariff as described herein, and;
5. After receipt of the notice in No. 2 above, cancels the Certificate of Convenience and Necessity and tariff on file for LLWC, EFIS tariff No. JW-2002-0034.
6. Requires MAWC to record a value of [REDACTED] as the amount of Loma Linda plant in service, net of accumulated depreciation and CIAC, at December 31, 2009, based on the adjusted property list, as discussed above.
7. Requires MAWC to use a depreciation rate of 1.8% for the building acquired from Loma Linda, until and unless otherwise ordered by the Commission.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

AFFIDAVIT OF JAMES A. MERCIEL, JR.

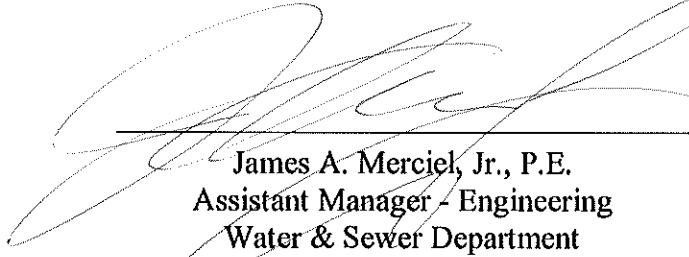
STATE OF MISSOURI )

) ss


Case No. WO-2011-0015

COUNTY OF COLE )

James A. Merciel, Jr., of lawful age, on his oath states: (1) that he is the Assistant Manager – Engineering in the Water and Sewer Department of the Missouri Public Service Commission; (2) that he participated in the preparation of the foregoing *Memorandum*; (3) that he has knowledge of the matters set forth in the foregoing *Memorandum*; and (4) that the matters set forth in the foregoing *Memorandum*; are true and correct to the best of his knowledge, information and belief.

  
James A. Merciel, Jr., P.E.  
Assistant Manager - Engineering  
Water & Sewer Department  
Utility Operations Division

Subscribed and sworn to before me this 13<sup>th</sup> day of October 2010.

  
Notary Public

